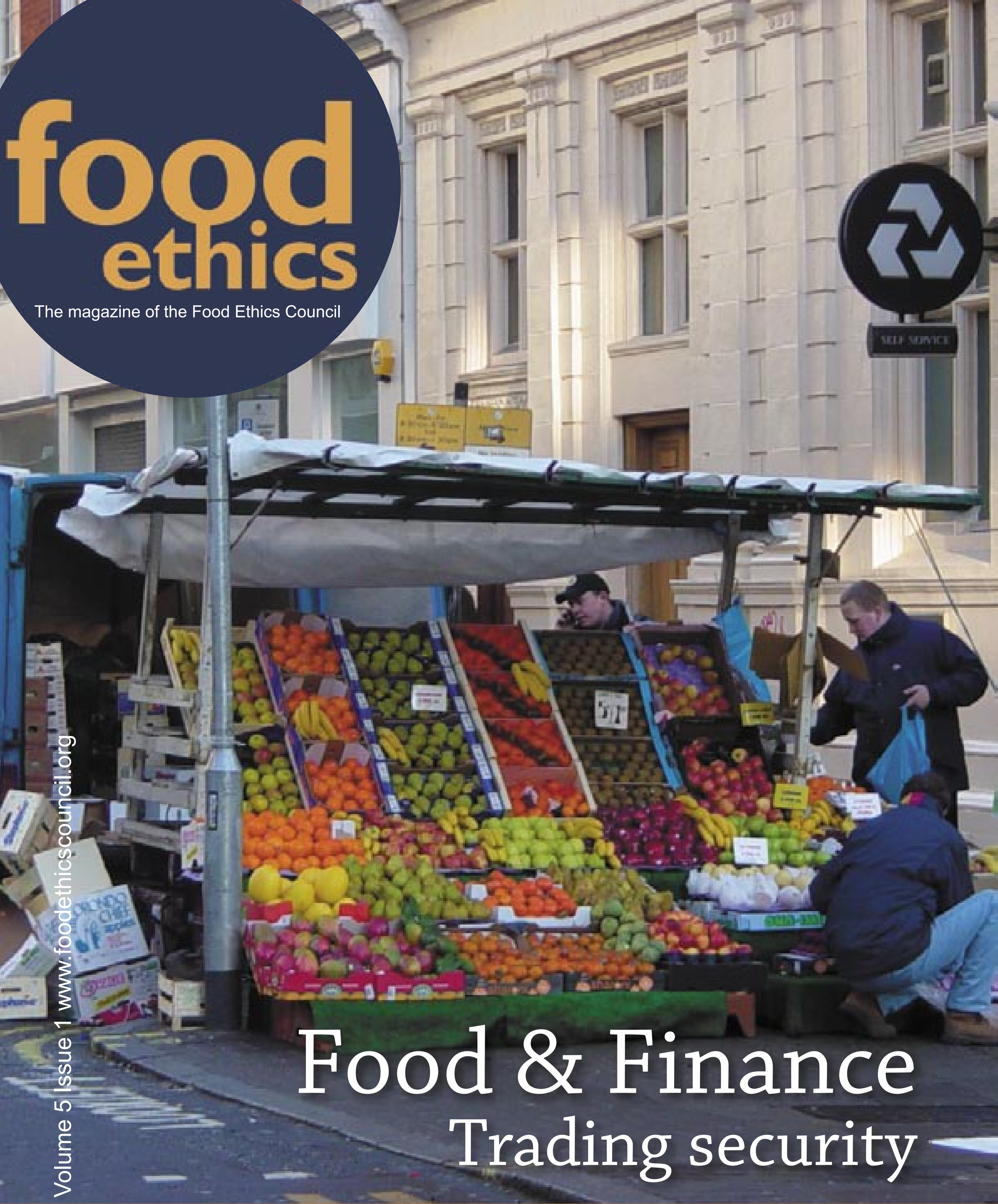
food ethics

The magazine of the Food Ethics Council



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Food & Finance

Trading security

Sophia Tickell | Alexa Clay | Julian Oram | Steve Suppan | David McNair | Bill Vorley |
Rob Cameron | Annie Shattuck | James Edwards | Anne MacCaig | Ian Price
Harriet Lamb | Guy Watson | Helen Browning | Charlie Thomas | Philippa Foster Back
Jane Fiona Cumming | Carl Atkin | Oliver Greenfield | Victoria Johnson

Contents

FOOD ETHICS COUNCIL

Food Ethics, the magazine of the Food Ethics Council, seeks to challenge accepted opinion and spark fruitful debate about key issues and developments in food and farming. Distributed quarterly to subscribers, each issue features independent news, comment and analysis.

The Food Ethics Council challenges government, business and public to tackle ethical issues in food and farming, providing research, analysis and tools to help. The views of contributors to this magazine are not necessarily those of the Food Ethics Council or its members.

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FROM THE EDITOR | Tom MacMillan

To finance our food supply we're forever walking a tightrope. Negotiating credit is a fact of life for farmers, and for the most part it is only they, their banks and investors who see the risks and balances involved. But when it gets up a wobble - as we've seen the past three years - the rest of us certainly know about it.

Of course, the reason farmers need credit is that nature has its own wobbles. The seasonal lag between investment and return puts a heavy strain on cash flow, the weather carries high risks and some of their living capital - such as orchards - doesn't bear fruit for years.

Yet the dependence is mutual, historically at least, with many financial instruments and institutions owing their existence to agriculture. Two millennia before the Chicago Board of Trade introduced forward contracts for corn, Aristotle wrote about futures in olive production. Indeed, the world's oldest surviving bank, Monti dei Paschi di Siena, was set up in 1472 to underwrite transhumant shepherds as they trekked out from the Tuscan city state.

So at the heart of the current unease about food and finance, prompted by their twin crises, is not the mere fact they are linked but the terms of their relationship. Financial practices have exacerbated the volatility endemic in agriculture instead of dampening it. Rather than dissipating risks, they have magnified them.

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 derivatives, 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 Rossman,[1] 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.22), 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 microfinance 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 Alexa 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 rainforest. 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.

1. Mathiason, N. (2007) Observer, 4th March.

Knaves 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. [1] 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 Assessment[2], a groundbreaking study of global ecosystems, argues that 60% 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 trillion[3], 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, soil and carbon sequestration, wildlife habitat and scenery) 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 loan pools. [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,

Farmer threshing grain in Gondar, Ethiopia. A. Davey

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,[5] while recent surveys in Honduras, Nicaragua, and Peru show that nearly 40%of agricultural producers are credit-constrained.[6] 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 uncorrelated to equities and bonds have led to a flood of investments into what are sometimes described as "real assets" - assets where value and return are directly linked to inflation. And one such asset is land.

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

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 sell vast tracts 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 urgent 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.[7]

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-ventures or shared 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 opportunities as external investors. Currently, at the same time that land is being purchased for export, local production is being squeezed by domestic liquidity challenges. This means that financial liquidity is favouring export-oriented markets, weakening the bargaining power of domestic producers.

A happy ending is not assured. First, there is a question of competence. Is our current financial model structured appropriately to deliver sustainable agriculture? The mainstream financial market – despite the spectacular collapse of a year ago – is still unable to think long-term. Conventional investors (who manage most of the money) still operate on the principle that the time value of money says that higher returns now – unburdened by the eventual cost of externalities – is worth more than the eventual value of a more sustainable approach – irrespective of its long-term value. The consequence of this is that the market must be tempered. 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.

Second, more practically, the experience of carbon markets shows how the lack of consensus price 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.

> Financial liquidity is favouring export-oriented markets

The financial community's recent forays into healthcare, microfinance and renewable energy shows 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.

1,2 National Biological Information Infrastructure - http://www.nbii.gov/portal/community/Communities/Ecological_Topics/
3,4 The Millennium Ecosystem Services Assessment - http://www.millenniumassessment.org/en/index.aspx
5 R. Costanza, et al., "The Value of the World's Ecosystem Services and Natural Capital," Nature (15 May 1997), pp. 253 – 260.
6 For example, an organization like the Katoomba Group could be evolved to play more of a strategic role in the investment space similar to Blue Orchard.
7 http://www.reuters.com/article/idUSSP4167420080320
8 http://web.worldbank.org/
9 Dean Nelson, "India Joins 'Neo-colonial' Rush for Africa's Land and Labour," The Daily Telegraph (June 2008).

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The great hunger casino

Why 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.[1,2] 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 uneven 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.

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.[3] Between 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 [3]. The food import bills of poor countries rose from $190bn in 2006 to $254bn in 2007. This anomaly can only be accounted for by a wholly different phenomenon: commodity speculation.

The commodity casino opens for business

Speculation over agricultural commodities has existed 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 standarised 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 bonanza 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 160% 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 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. Consider 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 savvy about this money making opportunity were raking in profits 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[5], "trading commodities is now easier than ever".[6] 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.

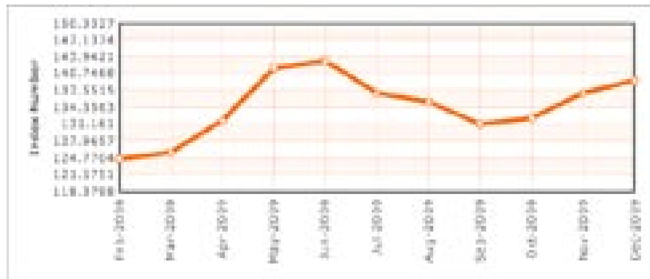


Chart: Commodity Food Price Index Jan 2000–Nov 2009, includes cereal, vegetable oils, meat, seafood, sugar, bananas, and oranges price indices.

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 curb 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 traders. Under this new registry, only traders who know 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 (AIFM) 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". [6]

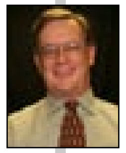
Continued inaction by the UK government would not only represent a massive failure to tackle an ongoing source of systemic risk to the global food system, but could also create a significant regulatory disjuncture between the US commodity markets and our own. At a time when the public is crying out for 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.

1 CBS News Online www.cbsnews.com/stories/008/10/23/world/main4542268shtml
2 ABC News Online www.abcnews.go.com/International/wireStory?id=6099092
3 www.iatp.org/iatp/press.cfm?refID+104415
4 Wahl, Peter. Jan 2009
5 Mikes, Brian March 2009 www.dynamicwealthreport.com/rewearchreports/commodity1.htm
6 ibid

Julian is the head of policy at the World Development Movement, a UK-based anti-poverty campaigning organisation.

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 net food import dependent developing countries in 2008 was extreme spikes in food and energy prices. A major driver of these price spikes was rather the overwhelming market domination of financial firms over traditional traders in commodity futures markets.

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. Futures contracts provide short term (generally 90 days for agricultural contracts) protection against abrupt prince increases for commodity users (such as bakeries or cereal manufacturers) and against abrupt price decreases for commodity producers (such as farmers). However, investment bank "weight of money" drove prices up and then down, as they "rolled out" of contracts 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.[2]

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"[3] 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.

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

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.[4] 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 fund traders 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.[5] 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. The 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 futures dominant 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 about 60% by mid-November 2008.[6]

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.[7] It almost goes without saying that proposals to regulate European markets are met with industry threats that trades will be executed in US markets.[8]

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 excessive 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."[9]

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."[10] 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.[11]

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 production and transportation costs, even if investors avoid index trading.[12]

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 OTC (off-exchange) commodity derivatives contracts is less than one% 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.[13] 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 called for their strict regulation.[14]

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."[15] Signatories to a Coalition of Derivatives End User letter in support of the exemption include agribusiness firms such as Bunge, Cargill and John Deere.[16] 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 in off-balance sheet financing vehicles. Déja vu - unless the US Senate closes the House loopholes.

The coming financial crisis and food security

The outlook for a sustainable and transparent financial system to underwrite trade dependent food security is not 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.[17] The Wall Street lobbying budget for defeating financial reform legislation is thus far $344 million, a tiny investment for protecting $35 billion revenue from derivatives trades.[18]

Given the thus far successful resistance of Wall Street and its revolving door of government allies to reform, Simone Johnson, former chief economic of the International Monetary Fund, predicts another financial crisis within twelve months. [19] 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 Baraclough wrote on how an unstable global monetary system intensified commodity price volatility to the detriment of food security.[20] Since then, new "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.

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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

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$50bn 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 Islands, for use of 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 at US$160bn 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

Ian Ransey

structures to minimise the tax they pay to developing country governments.

Everybody wants to talk about it

Until recently, it was rare for tax to have been considered a feature of corporate responsibility. Evasion was considered illegal; and avoidance was considered legal and therefore legitimate. But the ethics of taxation are becoming increasingly important. The complexity of company structures provides ample opportunities for companies to exploit loopholes and as a result, the lines between evasion and aggressive avoidance are becoming increasingly blurred.

In the face of huge public deficits, industrialised countries have sought to claw back some of the revenues they were losing to tax havens. But the stakes are much higher in developing countries where tax revenues could pay for basic education, life saving healthcare and the kinds of infrastructure that would promote investment and economic development.

Yet tax is more than simply extra money. It is a crucial part of the development process. When a government depends on its citizens for revenue, it's more likely to act in their interests as well as promote economic development. Tax payers are more likely to feel they're contributing to the democratic process. On the other hand, when a state relies on foreign aid or natural resource revenues, its accountability to the people is diminished.

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.

Keen to attract investment, developing countries often offer attractive tax incentives to corporations. Yet in many cases it's not necessary because the companies would invest regardless of the tax rate. This is particularly true for the oil, gas or gold mining companies.

In Africa for example, generous subsidies and mining companies pushing for tax breaks in secret mining contracts resulted in governments failing to benefit from the commodity price boom in 2008. Christian Aid estimates that during the 1990s, Ghana, South Africa and Tanzania lost up to US$68m, US$359m, US$30m per year respectively.

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 machinery to the new 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 £581bn was shifted from non-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, £413 on prepared vegetables and nuts, £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 is incredibly difficult to determine what an arm's length price really is, leaving the system open to abuse.

There's often an incentive to inflate or deflate the prices of their products

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 capitalization.

For example on a recent trip to Ghana, a senior tax official from a major accounting firm told me of a subsidiary company which he 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 easily. 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.

Dr David McNair is Senior Economic Justice Adviser at Christian Aid

Fairness and justice

Sustainability, business and the perfect storm

Certification and codification will become the new norm for mainstream food businesses, predicts **BILL VORLEY.** But will it have a positive impact on farmers on the ground, or just serve the food businesses' own interests?

Michael Newman

In September last year, the Global Food & Farming Futures Foresight initiative[1] turned its attention to the role of agrifood businesses in the supply chain, over the course of a two-day workshop. The Foresight process has been looking at the global food and farming system up to 2050, to consider how a future global population of around nine billion can all be fed healthily and sustainably. Its role is to help Government think systematically about the future so that it can develop robust policies for the 21st century. The review is set against a now widely held assumption that the world's food is heading towards a serious resource crunch over the coming 20-40 years – described by the Chief Scientist as a "perfect storm" of converging squeezes on resources.

Already by 2030, the "perfect storm" could be a requirement of 50% more food, 50% more energy, and 30% more usable water, against a backdrop of climate change, with less arable land and a degraded natural resource base, and chronic rural poverty and inequalities in food distribution.

The fact that many agricultural commodities have not returned to their historic declining price trend after the 2008 price spike, despite a global economic downturn, gives credence to commentators who believe that supply constraints will drive continued instability in the years ahead, especially if economic growth in emerging economies surges ahead and stocks remain low. Sugar is currently trading at record prices, cocoa is at a 32-year high, and coffee and cotton prices are also buoyant. The UK government's new Vision 2030 – a cross-departmental strategy for a "sustainable and secure food system", is an implicit recognition that trust in the ability of the global food system to deliver in times of shortage has been eroded.

Cocoa is at a 32-year high, and coffee and cotton prices are also buoyant

The intensified debate around future food security and sustainability means that food businesses – processors, manufacturers and retailers – will have to pay more rather than less attention to sustainability in the years ahead. Brands will be challenged repeatedly on their footprints – of water, of carbon, of hunger (via their imports of food from hungry countries), and of land, forests and fisheries. Sustainable agriculture is here to stay on the business agenda, rooted much deeper than superficial tokenism and boutique projects. Even the Financial Times on 27 January 2010 carried a special 8-page feature on "Business and Food Sustainability".

How do companies assure "sustainability" in their supply networks without adding costs and complexity, and without tearing up their current business models? Budgets are tight and competition in the marketplace is unrelenting. The tool that has now become quite familiar is codification and certification. Building on what was achieved with food safety, sustainability standards such as Rainforest Alliance, Utz Certified, and Wal-Mart's Sustainability Index will lose their "voluntary" nature become the new norms for mainstream trade. They will provide a

Jon Whitton

baseline of 'good practice', and will take a much larger share of the market than organic. The Wal-Mart system is currently being piloted with 65,000 suppliers has the potential to have a huge impact on supply chains. Certification also provides businesses with the comfort of a disciplined production system, and locks in suppliers into tighter relationships with their customers.

With sustainability standards as supplier requirements rather than consumer niche, we have been heading towards a food system in which 'sustainability' carries no price premiums. This is at first glance rather odd. If supplies are tight and prices are high, aren't producers in an unusually privileged position? Can they not use their new market power to demand premiums to cover the costs of "'ustainability' standards? Have companies locked themselves into relationships with suppliers around standards at a time when the political economy of agrifood is shifting?

In traditional open commodity markets, this would have been a major concern. Retailers and manufacturers would only be the masters of the universe in conditions of oversupply. But the narrowing of the food system for most commodities through bottlenecks of market concentration mean that gatekeeper firms have been able to continue to make unfunded demands on their suppliers.

That's not to say that food brands have not reached into their pockets. Where the manufacturers have been especially worried about the security of future supplies, self-interest has justified investments, with the Sustainable Tree Crops Programme and the Cadbury Cocoa Partnership as examples of significant outlays. And who would have guessed that Nestlé would make a u-turn on years of ideological opposition to Fairtrade? Donor funds have also played an important role. In some crops and regions, the improved productivity resulting from training, technology, producer organisation and access to credit will more than cover the costs of the standard. I have seen how this could work in cocoa, where the complete absence of field extension has left farmers in an information vacuum.

Such voluntary approaches can however get seriously over-hyped, to the extent that it becomes expedient for government to duck 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 have to concede that enlightened self-interest and 'sustainability' standards are not going to live up to their promises, without attention to two issues.

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 privatisation 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 if 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.

1 www.foresight.gov.uk/OurWork/ActiveProjects/FoodandFarmingFutures/FoodandfarmingProjectHome.asp

Bill Vorley is head of the Sustainable Markets Group at the International Institute for Environment and Development (IIED) in London.

Fairtrade and finance

Fairtrade has the potential to change the lives of millions of people of the better, by unlocking capital and market access, reports **ROB CAMERON**. But Fairtrade's job is by no means done yet.

It's November 2009. John, a tea farmer on the Makomboki Tea Estate in the highlands of Kenya has farmed the land there for many years – long enough to know when things are changing. His yields are falling and the rains are not. I ask him how the future looks. He pauses, looks to the ground, scans the sky as if looking for the right answer. And then, quietly but firmly, he simply says; "Not very promising."

The Makomboki Tea Estate is Fairtrade certified and John and his colleagues have enjoyed many benefits from Fairtrade certification. They have invested the Fairtrade Premium in infrastructure, educational equipment, a new health centre and clinic, reforestation programmes and water treatment facilities. All these benefits have helped improve conditions for John and his community. But life in Kenya continues to get tougher. Climate change is impacting on Kenya now. The oil crisis led to an increase in costs and although the price of oil has fallen, many other costs have not. Getting access to capital and credit has become even harder during the economic crisis. So, has Fairtrade made a positive difference to John and the 1.4 million farmers like him? Clearly it has. But is our work done? Clearly not.

Fairtrade was originally conceived as a response to the unfairness of global commodity markets. In particular it aimed to tackle the variability of prices paid to poor producers at the end of often long and complex supply chains. By guaranteeing a stable price and an additional Fairtrade Premium when selling on Fairtrade terms, Fairtrade offers producers enough for today and the hope of a better tomorrow.

This simple message struck a chord with consumers. The alternative trade movement pioneered Fairtrade and many of those special organisations continue to be the innovative driving force. Fairtrade has also been warmly embraced by global brands and retailers. Large corporations have been eager to express their values, and to respond to demands for greater corporate responsibility. But, above all, Fairtrade has been embraced by consumers who, in this global age have an increasing sense of justice and fairness. Both our research and the sales figures show that consumers care where products come from and they want producers to get a fair deal.

The result is that Fairtrade has grown beyond what many would have ever believed was possible. In 2008 Fairtrade sales grew by an impressive 22% in over 60 countries as consumers spent an estimated 2.9 billion Euros on Fairtrade products globally. Consumers really make the difference and support Fairtrade.[1]

> Fairtrade offers producers enough for today and the hope of a better tomorrow

There are now one million certified farmers and workers which means Fairtrade is directly benefitting some five million people. Fairtrade's rapid growth over the past ten years, both in terms of the quantity and range of products sold, is exciting – even more so are the direct benefits Fairtrade has delivered. For example, in 2008 over 500,000 farmers and workers in 103 producer organizations in the East Africa region alone invested €7 million of Fairtrade Premium money into community development projects: one third of this towards education and most of the remaining towards community infrastructure and business training/equipment.[2]

The benefits of Fairtrade now extend beyond a stable price and Premium. Producers report that Fairtrade certification leads to better market access to both Fairtrade and "conventional" buyers. Capital and credit are more readily available. Indeed, producers can receive "pre-financing" of up to 60% of contract value in advance of delivery. Fairtrade certification supports social organisation and democratic decision making, which helps make for stronger businesses and communities, and helps producers find their voice in global supply chains.

In January 2009 I was concerned that business, challenged by a gloomy prognosis and in the midst of the worst recession in 70 years, might be less inclined to support Fairtrade. And there was concern that with household budgets tightening, consumers would be less inclined to support Fairtrade. But it has been very satisfying to see that neither has been the case. Companies such as Starbucks and Cadbury, and brands such as Kit Kat, have embraced Fairtrade, while longstanding partners have deepened their commitment. Consumer support for Fairtrade has also remained remarkably strong. All our national organizations marketing Fairtrade reported continued growth in 2009. It seems that consumers recognise that however bad things are in the North, they are likely to be twice as bad in the South.

Looking ahead, the economic situation continues to pose a range of threats to producers, such as access to capital and credit, rising costs and the distinct possibility of history repeating itself with an increase in protectionism and trade tariffs. A question often asked is whether business will increase its commitment in such circumstances or will support from multinational brands wane? I believe there are three driving forces that will lead to increased growth in Fairtrade:

First, engaging with Fairtrade takes time, energy, money and commitment. No business enters into a relationship with Fairtrade lightly. With firm foundations in place at the outset, strong relationships are formed. Once the evidence of success begins to come through, the trend is towards increased commitment rather than less. So, as the number of multinationals converting brands to Fairtrade has increased, so too has the potential for still further growth. The recent announcement by Green & Blacks to go 100% Fairtrade, to be followed shortly by others, demonstrates this.

Second, business increasingly recognises the need for sustainable supply chains. Simply driving supply chain costs down is no longer a tenable long-term strategy. Take for example the cocoa industry. The average age of a Ghanaian cocoa farmer is over 50. Cocoa yields are around 40% of potential. This does not look like an industry with a long-term future. Yet Ghanaian cocoa is essential to the industry. Only by investing in cocoa farms can global business ensure sustainable high-quality supply. Fairtrade can be a key partner in business development. Long-term supply chain planning may not have been the initial aim of Fairtrade but it will be a strong driver for further Fairtrade growth which will be good for all, especially, and most importantly for producers.

Third, the sustainable development agenda is not going away; far from it. The failure of Copenhagen may suggest to some that a progressive sustainability agenda is on the wane. 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 challenges. My feeling is that there will be a redoubling of efforts by new coalitions of business and civil society. Multi-stakeholder standard setters such as Fairtrade will play a dual role as change agents. We will provide tools to ensure that producers can enjoy sustainable livelihoods. And, as the search for new sustainability solutions intensifies, we will be looked to, and seen as, a successful example of multi-stakeholder collaboration.

The need for Fairtrade is now greater and more urgent than ever before. We in Fairtrade must respond to this need by strengthening our system, 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.

1 Major growth was experienced across all main Fairtrade product categories. Global sales doubled for Fairtrade tea (112%) and for Fairtrade cotton products (94%). As the products with the highest sales volumes, Fairtrade coffee sales increased 14% to 66,000 metric tonnes (MT) and the market for Fairtrade bananas grew by 28% to 300,000 MT.

2 Additional benefits from Fairtrade include higher-than-average prices to cover costs of sustainable production, access to credit and long-term stable sales contracts. The Fairtrade standards also require respect for workers rights like health, safety and fair pay, and for environmental criteria.

Rob Cameron is CEO of Fairtrade Labeling Orgaizations International

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 mass market retailers and brands to make major commitments to it.

It began by getting mainstream retailers to sell independent Fairtrade 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 £33 million in 2000 to £713 million by the end of 2008.1

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.3

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%.4 So Fairtrade farmers supplying to retailers and brand name manufacturers that have undergone category conversions 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 place orders 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.5 Along with increasingly tough standards for product quality, safety and delivery, producers can be left struggling to access Fairtrade markets on terms that 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.

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The big question

How can finance best support sustainable food?

Annie Shattuck is a Policy Analyst at Food First and the Institute for Food and Development Policy in Oakland, California.

Despite their abysmal fresh produce selection and nearly 100% markup, 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 produce from local sustainable farms.

This story is playing out from New York to Detroit and Los Angeles. Small businesses 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.

Enter Fresh Food Finance, an innovative 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 one-sixth of the total fund.

Healthy sustainable food is not a luxury of the elite – it is an engine for local economic development. A jump start from Fresh Food Financing may be just what it needs.

James Edwards is the National Farmers Union economic advisor

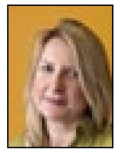
'Sustainability' is a word often associated with environmental concerns. Although significant, the environment is not the only subject that will make agriculture sustainable in the long term. Sustainability is a balance between businesses, the environment and consumers.

Farmers need to receive enough income 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 diversification 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. Acquiring 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 become globally sustainable it is important that UK competition is fair. Where double standards are applied to markets it is inevitable that capital will flow into farms with poorer welfare practices to the detriment of welfare, consumers, environment and UK agriculture.



Anne MacCaig is CEO of pioneering Fairtrade hot drinks company Cafédirect.

Small-scale agriculture can play a key role in addressing the world food shortage. However, small-scale farmers find it very difficult to raise finance and this has been magnified by the global economic crisis. For sustainable food production in developing countries there is a need for 'patient' finance, offering 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 and 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 and also seek 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%.

The big question

How can finance best support sustainable food?

Ian Price - Senior Manager of the Food, Farming and Trade team at Triodos Bank

I spent an interesting time on one of the UK high street bank's 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 financial solutions". This backs up my experience that most banks spend little time looking at the underlying sustainability of food, and much considering how they can profit from it. Perhaps it is unusual for a bank to think about its role in society and the environment - but it 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 as the public have so publicly supported their rescue. Surely it is fair to ensure they look beyond short term profit and towards the wider impact of their activities? The health of our soil and countryside is just one area where banks can use their leverage for good.

Harriet Lamb is Executive Director of the Fairtrade Foundation.

It's pay day on an Indian tea estate. As the workers line up to receive their pay, the expensive jeeps roll in as the moneylenders take their cut - often charging up to 60% in interest. Banks either don't exist in the villages or won't lend to smallholders. Access to credit and pre-financing repeatedly come top of producers' priorities.

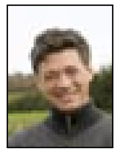
That is why pre-financing is part of the Fairtrade standards. Together with the Fairtrade price and premium, this helps farmers' cooperatives have credit - to pay farmers cash up front for their crops, or invest in increasing productivity. Many groups put the premium into revolving loan schemes so members can borrow at low interest rates. But if Fairtrade helps, it is not enough. A concerted push into financing smallholders is needed to support sustainable food.

Farmers need Fairtrade more than ever and the public want it - the finance sector must support it too. Proven companies wanting to invest in Africa, or Afghanistan, are stopped only by lack of credit. Instead, investors could back companies engaging in Fairtrade.

Companies believe the City approves of immediate profit margins over longer term investments in sustainable supply chains.

Finance must start flowing through the rural economies of developing countries. Farmers groups need pre-financing as a matter of normal trading practice, and easier access to finance at affordable rates.

Shareholder profit should be balanced by stakeholder power in financial decision making. Fairtrade companies such as CafeDirect have producers on their Boards, ensuring that financial decisions consider the most vulnerable. Producer groups supplying listed companies could hold shares in them. That would be a just share.



Guy Watson is the founder of Riverford Organic Vegetables, a Veg-box delivery company

Sustainability implies taking a long view; investing in worthwhile, long term 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 associated with predicting the future) and how financially secure you are feeling (what level of return is deemed acceptable). The most sustainable decisions will be made by those in a stable market with financial security. Sustainability is therefore best promoted by contributing to market stability and financial security, which is the diametric opposite to modern banking.

Until quite recently banks were viewed as the embodiment of security and stability, but over the last year 18 months they have massively undermined this perception. I am sure that I am not alone in making my number one financial priority to avoid dependence on any of our fickle and incompetent major banks. Staff profit shares and anaerobic digesters are on hold until the overdraft is paid off.

My ideal bank would provide a simple and trusted conduit for funds from lenders to borrowers with compatible ethical and financial objectives. Triodos Bank are a fine example which, I am glad to say, seem to be doing rather well.

All businesses must be prepared to change and improve but planning for the long term requires stability in ownership, scale and purpose. Food starts with farming and farming starts with the 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 which have displayed greed and a focus on the short term that is the antithesis of sustainability.

Helen Browning, Organic farmer, Food and Farming director, Soil Association

The best way for finance to help sustainable food would be 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 who innovate and maintain systems that society needs and wants. This is a pretty 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 the importance 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 practice tends 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 through funds and support which are tolerant of a slower development trajectory, allow the harnessing of ethical motivation with commercial acumen, and do not demand a five year maximum pay back, which usually results in the sale of the business. An ethical investors' fund which focuses on finance and support for the evolution of small businesses into models that can survive the founders' exit, but retain their independence, energy and motivations would be a great step forward.

Charlie Thomas is lead fund manager of both Jupiter Green Investment Trust and the Jupiter Ecology Fund.

Green investment has taken off in the last ten years, as people have begun to appreciate the need for sustainable food production to feed a growing world population and preserve the planet.

Although the global recession has led to a downturn in demand for organic foods as individuals tighten their belts, it has also caused people to question the whole culture of consumerism and credit-driven spending and its impact on the environment.

At Jupiter, we believe that the long term dynamics around green investing remain firmly in place. As the global economy begins to improve and emerging markets continue to develop at break-neck speed, we expect to see more of the growing demographic pressure on finite global resources (such as agricultural land, water and energy) that we saw before the crisis began. As a result of this pressure, we are likely to see far greater investment in new methods of sustainable food production at a local and global scale than in the past.

Concerns around how our food is produced and priced will also support companies able to demonstrate greater commitment to higher quality food production.

Our responsibility as green investors is to identify and invest in quality companies that can grow and produce a reasonable profit for our investors. In doing this we can encourage and reward sustainable practices through our allocation of capital. We are seeing an increasing number of investment opportunities arise, particularly around organic and high-welfare foods, but also around the role of emerging technologies in sustainable food production.

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Philippa Foster Back - Director of the Institute of Business Ethics (IBE)

Anecdotal evidence has shown that one of the major barriers to the growth of sustainable food production is the lack of affordable finance. Demand continues to outstrip supply; the Finance Alliance for Sustainable Trade (FAST) estimates that the $250-300 million that is available from socially-focused lending institutions "barely scratches the surface both in amounts and in type of financing."[1]

This presents an opportunity for large commercial lenders and corporations to fill the finance gap. Standard Chartered Bank's requirement for palm oil clients to become members of the Roundtable on Sustainable Palm Oil (RSPO) before making funds available is a good example of how a commercial lender can use finance to encourage sustainable food production. Similarly, international financial services provider Rabobank Group have recently announced that they are sponsoring the European Council of Young Farmers (CEJA). The funding will enable young farmers to forge relationships with business partners and encourage them to be entrepreneurial in the food production process.

Companies can also provide finance to further improve sustainable food production. For example, Marks and Spencer have recently funded the development of Marine Stewardship Council (MSC) assessments of small scale fisheries where the history of fish landings is lacking and therefore certification is difficult. This approach will hopefully increase the number of fisheries that can be MSC certified, and thereby encourage sustainable fish harvesting.

Clearly, for us to achieve sustainable food production there is a need for cooperation and dialogue between all parties involved, including banks.

The Institute of Business Ethics was established in 1986 to encourage high standards of business behaviour based on ethical values. www.ibe.org.uk

1 http://www.sustainablefoodlab.org/article/articleview/17173/1/2370

CSR and the impact of the recession

Major reversal or minor delay?

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 Liesbeth van den Boogaard 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, and benchmark them against best practice. Why did the supermarket care? Notwithstanding any privately-held ethical concerns they may have had, they knew that these things matter to customers, employees and other stakeholders.

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

Tea pickers in Eastern Nepal   Lecercle

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 actions 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.

UK agribusiness plc

Ups and downs in the global recession

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 at 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 continued to rise 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 sectors. Producers of staples like root vegetables were benefited 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 labels quite quickly. All this shows that widely held 'truths' do not substitute for quality data on consume 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.

Similarly movements in exchange rates have 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 typical 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 agribusiness 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 so than pressurising suppliers on price – and they require trust to get buy in and implementation. Experience also suggests that they need to be fostered and supported by the retailers. 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. ■

Carl Atkin is Partner and Head of Research at Bidwells Agribusiness responsible for analyzing the macro-economic market and policy drivers affecting different agricultural and food systems.

Valuing natural capital

Making the case for a new economic landscape

Ecological debt is spiralling 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 '10) 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 it is 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 we now exceed it by 30%.

If this ecological debt continues to deepen, there will also be severe economic consequences: resource limitations and ecosystem collapses would trigger massive stagflation with the value of investments plummeting, while energy costs skyrocket and the days of 'cheap' food become a distant memory.

And if ecosystems are in decline, then they are less able to provide the ecosystem services on which we depend. However, there's a dangerous assumption that companies can continue to rely on ecosystem services, especially when those ecosystems are in such rapid decline while simultaneously there is increasing demand on their services and assets; assets like biodiversity, forestry products and land.

Herein lies the next frontier of Corporate Responsibility: to reduce the risk posed to companies' operations they need to look beyond their current 'create less negative impact' activities; they need to look to the broader issue of the health of ecosystems and the continued provision of ecosystems' services on which they depend. To manage their environmental risk companies will need to be involved in ecosystem protection and governance, especially in geographies where ecosystem governance is weak.

'Systemic risk' is a term that's gaining traction in the financial world – seeing risk beyond the activities of individual companies at a whole system level. Sensible investors will increasingly be asking: 'What is your exposure to environmental risk and what are you doing to reduce that risk?'

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 rainfalls and agricultural behaviour of industries also insured by the same company. What's more, they wanted to know what insurance safeguards could have helped reduce risk across these industries.

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:

- screening 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 sustainability issues by providing capital to innovative companies and projects, 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 Organico to launch its 'Fish 4 Ever' brand that hopes to reduce the damage caused by conventional fishing.

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 increasingly aligned - or at least offer the possibility of greater alignment.

This is hardly surprising when you look at the facts: 38% of the world's ice-free land is farmed; 70% of the surface and groundwater abstracted is used for irrigation; and agriculture and fisheries provide the main income for about 40% of the world's population. The food-price spike of 2007/08 has helped move agriculture from a sideshow to the main event in poorer countries, with funds being ploughed in. After all, as Hui Liangyu, Vice Premier of the State Council of the People's Republic of China said at the World Food Summit back in November: "Food security is the basis for economic development and social stability."

However, our global food systems are currently far from sustainable. Many of our fisheries are in a rapid state of decline and we are undermining many of the ecosystem services that are fundamental to our own wellbeing and the sustainability of our global food systems. In fact, food production accounts for 23% of humanity's ecological footprint.

As such, the food system must be regarded as a major component of our efforts to reduce pressures on the natural world, and ensure a sustainable future, both environmentally and financially. According to the report we published with the Food Climate Research Network in January - How Low Can We Go? - the food we eat accounts for 30% of the UK's carbon footprint. Previous estimates put the figure closer to 20%, but ours was the first to take account of the way land is used overseas in the production of our food.

Land-use change - mostly replacing forests with crops or animal pasture - is a major source of climate changing emissions. Each year, worldwide, an area of forest equivalent to half of England is lost. This must be addressed – urgently. According to the latest modelling, emissions from food consumption in the UK will need to be cut by 70% by 2050 if the industry is to play a proportional role in meeting the 80% cuts in overall UK emissions stipulated in the Climate Change Act.

Work has begun already. We see a great deal of positive initiatives in the food industry; each one a step towards a more sustainable future. Plastic bag bans, reductions in food miles, zero energy superstores are all playing a part. But they are the quick wins - they grab consumers' attention, and can distract retailers and manufacturers. We want to encourage them to look further than these operational changes and at their overall ecological footprint.

As The Economist pointed out recently: "Boosting world food production without gobbling up land and water will require technology to play a larger role in the next 40 years than it has in the last 40."

There will also have to be behavioural changes. Ecologically and economically, we can't afford for everyone to have a western diet. The developing world's diets are evolving with more meat - in a sense good news in that they are a result of rising wealth in poor and middle-income countries - but ours needs to go in the opposite direction. Somewhere in the middle a balance must be struck: a sustainable diet on a global scale. If not, global food security will surely be pushed beyond breaking point.

Consuming less of anything is a tricky business concept. You won't get Peter Mandelson or Sir Terry Leahy to support the idea. But we are beginning to see the pre-eminence of economic growth challenged at the highest levels - the report recently produced for President Sarkozy, advocating a shift away from GDP and towards sustainability criteria as indices of national success, springs to mind.

Encouragingly, the World Business Council for Sustainable Development has now stated the following on behalf of some of its biggest members, including Nokia, Adidas and P&G:

"...it is becoming apparent that efficiency gains and technological advances alone will not be sufficient to bring global consumption to a sustainable level; changes will also be required to consumer lifestyles, including the ways in which consumers choose and use products and services."

What really matters is fostering sustainable consumption patterns, increasing the resource efficiency of food production, improving farmland as a habitat and reducing land use change (for example, deforestation). These are considerable challenges and will require the involvement of every part of the food chain - and much, much more besides.

The UK, with its advanced food system, could lead the way by creating a vision for food and land use, showing how much energy, food and fibre the world will need by 2050 whilst staying within key resource and environmental limits. The Government made tentative steps towards recognition of this in Food 2030.

WWF's One Planet Food programme will no doubt be involved in pushing this debate on. Our programme, which incorporates the whole food chain, from the production of commodities (like palm oil and soya) through processing and on to consumption and disposal, aims to help radically improve the key environmental impacts of the food that is eaten in the UK, including our impact on the parts of the world richest in biodiversity. This is a complex task.

Underpinning this has to be a new economic landscape, and one that values natural capital. To date, we've been creating and testing a country's economic policies on treasury models that don't include the ecological realities. In years to come, we need to be looking back on that and thinking 'why did we do it that way?'

Refs: FAO (2006) World agriculture: towards 2030/2050, The Economist (2009) How to Feed the World, WWF (2010) Environmental impacts of the UK food economy, Defra (2010) Food 2030, UN Millenium Ecosystem Assessment WWF – David Nussbaum, chief executive, speech to sustainable consumption conference, www.wwf.org.uk/what_we_do/changing_the_way_we_live/food/it_s_not_just_about_plastic_bags.cfm, Food Ethics magazine Meat: facing the dilemmas Vol 2 Issue 4.

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

Growth isn't possible

The current rate of global economic growth isn't sustainable, argues **VICTORIA JOHNSON** in a new report from the think tank nef.

Why rich countries need a new economic direction

From birth to puberty a hamster doubles its weight each week. If, then, instead of levelling-off in maturity as animals do, the hamster continued to double its weight each week, on its first birthday we would be facing a nine billion tonne hamster. If it kept eating at the same ratio of food to body weight, by then its daily intake would be greater than the total, annual amount of maize produced worldwide.

There is a reason that in nature things do not grow indefinitely. Yet the entire canon of mainstream contemporary economics seems to believe that economics exists independent of the laws of biology, chemistry and physics. It assumes, without exception, that infinite economic growth on a finite planet is both desirable and possible.

In economics 'growth', or the lack of it, describes the trajectory of Gross Domestic Product and Gross National Product, two slightly different measures of national income (they differ, basically, only in that one includes earnings from overseas assets). An economy is said to be growing if the financial value of all the exchanges of goods and services within it goes up. The absence of growth gets described, pejoratively, as recession. Prolonged recessions are called depressions.

Yet, it is not that simple. An economy may grow, for example, because money is being spent on clearing up after disasters, pollution, to control rising crime or widespread disease. You may also have 'jobless growth,' in which the headline figure for GDP rises but new employment is not generated, or environmentally destructive growth in which a kind of false monetary value is created by liquidating irreplaceable natural assets on which livelihoods depend.

The fact that an economy is growing tells you nothing about the 'quality' of economic activity that is happening within it. For example, research by (the new economics foundation's (nef) centre for well being shows that the link between rising GDP and higher life satisfaction in developed nations broke down decades ago.

Research also by nef highlighted a flaw at the heart of the general economic strategy that relies on global economic growth to reduce poverty. The distribution of costs and benefits from economic growth, it demonstrated, are highly unbalanced. The share of benefits reaching those on the lowest incomes was shrinking.

In this system, paradoxically, in order to generate ever smaller benefits for the poorest, it requires those who are already rich and 'over-consuming' to consume ever more.

Every time the economy doubles (as it is currently measured) we use the equivalent in resources of all of the previous doublings combined. For modest growth rates of 3% each year, common to developed economies, the doubling period is around 23 years. For higher growth rates of 10%, more common to developing economies, the doubling period is approximately seven years.

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 it necessary to "define planetary boundaries". 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 global economy is, as economist Kenneth Boulding famously stated, '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 inescapable 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 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 drowns out 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

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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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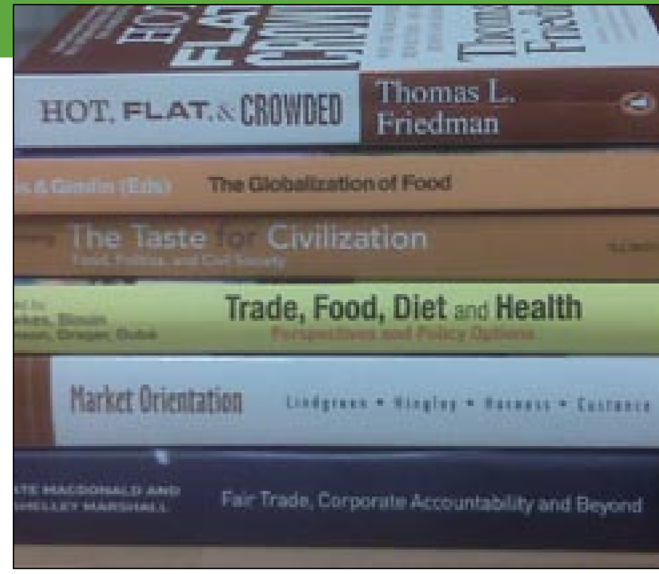

The ethics of intensification
Thompson, P.B. (ed) | 2008 | Springer
ISBN 9781402087219
Is intensification in agriculture good or bad? This publication reflects on the effects of technology development towards higher productivity on farmers' livelihoods, affordability of food, environmental health and 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
Levidow, L. and Carr, S | 2009 | Routledge
ISBN 9780415955416
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 fallacy of a solely technical apolitical 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 9781845208202
As the editors note, this book could more aptly be titled 'Globalizations' 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' foodwork 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., Dube 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 unfurls some of these links, outlining 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 9780566092084.
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
Macdonald K., Marshall, S. (eds) | 2010 | MPG Books Group, UK | ISBN 9780754674399.
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

Forthcoming events

6th Mar '10	Food Futures Day Conference | JRI/Redcliffe College | www.redcliffe.org/standard.asp?id=5245 | Gloucester, UK
16th-17th Mar '10	29th Annual Outlook for Agriculture 2010 | Agra Europe | www.agra-net.com | London, UK
20th Mar '10	Green Architecture Day | Brighton Permaculture Trust | www.brightonpermaculture.org.uk/courses-conferences-and-events/gad-general/72-gad-general.html | Brighton, UK
21st-24th Mar '10	Food & Drink Expo | Food and Drink Federation | www.fdf.org.uk/event.aspx?event=2020 | Birmingham, UK
22nd Mar '10	World Water Day | United Nations Environment Programme | www.worldwaterday2010.info | International
22nd Mar '10	Annual Waterwise Water Efficiency Conference: The Future of Water Efficiency | Waterwise | www.waterwise.org.uk | Oxford, UK
28th-31st Mar '10	The Global Conference on Agricultural Research for Development (GCARD) |Global Forum on Agricultural Research (GFAR) | www.egfar.org/egfar/website/gcard | Montpellier, France
7-9 Apr 2010	BSA Annual Conference 2010: Inequalities and Social Justice | Glasgow | Caledonian University
20th-22nd Apr '10	Sustainability live! | Sustainability live! | www.sustainabilitylive.com | Birmingham, UK
27th-29th Apr '10	Agri-environment Schemes - What Have They Achieved and Where Do We Go From Here? | The Association of Applied Biologists | www.aab.org.uk/contentok.php?id=91&basket=wwsshowconfdets | Oadby, UK
7th-10th May '10	Real Food Festival | Real Food Festival & Soil Association | www.realfoodfestival.co.uk | London, UK
15th May '10	39th IFAP World Farmers' Congress | IFAP | www.ifap.org/events/detail/en/?dyna_fef[uid]=38868 Algiers, Algeria
13th Jun '10	Open Farm Sunday | Linking Environment and Farming | www.farmsunday.org/ofs/about/2010.eb Regional, UK
14th-15th Jun '10	2nd International Feed for Health Conference | British Society of Animal Science | www.bsas.org.uk/Meetings_&_Workshops/Event_Calendar | Tromso, Norway
15th-17th Jun '10	2010 Sustainable Ocean Summit World Ocean Council | www.oceancouncil.org/site/pdfs/SOS_General_22-10-09.pdf | Belfast, Ireland
16th-20th Jun '10	Good Food Show Summer | BBC | www.bbcgoodfoodshowsummer.com | Birmingham, UK
17th-20th Jun '10	Taste of London | Channel 4 | www.tastefestivals.com/london | London, UK
21st-23rd Jun '10	Children and Teen Consumption 2010 | Linköping University | www.tema.liu.se/tema-b/ctc2010 Linköping, Sweden
30th Jun '10	UFAW Animal Welfare Conference | British Society of Animal Science | www.bsas.org.uk/downloads/Recent_Advances_In_Animal_Welfare_Science.pdf | York, UK
28th Jun-1st Jul '10	Innovation & Sustainable Development in Agriculture and Food | CIRAD, INRA and ORSTOM www.isda2010.net | Montpellier, France