More Food for Thought

new risks, challenges and opportunities in the food and drink sector
Businesses in the food and drink production, manufacturing, distribution and service sector form the largest and fastest growing network of businesses in the world. Together they engage – from agricultural production, processing and distribution – the largest employer, employee and consumer population, touching more lives on a daily basis than any other sector of industry. While the public profile of the food industry may be dominated by a small group of large multinational companies with the world’s best known brand names and their supply and distribution chains, the reality is a highly decentralised and fragmented sector comprising millions of smaller scale enterprises responsible for large volumes of activity in every community around the world.

Over recent years many of the large international companies in Europe and America have emerged as leaders in shaping corporate responsibility policies, both for the food and drink sector and business in general. Many leading international and national companies have demonstrated an exceptional commitment to consumer value, quality and business standards, tested daily by consumers in a competitive marketplace. They have also been pioneers of food standards and progressive policies in corporate governance, workplace standards and environmental management. But, more recently, the challenges of agricultural sustainability, the impacts of food supply chains in developing countries and the growing public concern about the rise of obesity and chronic diseases have become new and significant challenges to the industry and its business models.

In 2002, following consultations with business, government and non-governmental organisations, the IBLF produced a report exploring corporate responsibility challenges in the food and drink sector. The report aimed to help companies to ‘get on the front foot’ and anticipate changing expectations in the marketplace.

“It would be fair to say that when the IBLF published Food for Thought as a working paper, there was a mixed and sometimes even hostile response from some quarters in the food and drink sector, even though we had put together the analysis with senior insiders in the industry. Not so much because the issues were not recognised, but they had seldom been put together as a comprehensive set of challenges. Senior management had not been briefed and some issues such as obesity and labour standards in the supply chain were simply still not seen on the short-term radar screen, or their potential impacts were felt, in 2002, to be greatly exaggerated. What happened in the subsequent 18 months, for a variety of reasons, including critical reports and ‘media hysteria’, could modestly be described as a tidal wave. The issues in close sequence hit the bows of most food companies and became CEO and board issues, leading to the position where today they are influencing the business models.”

Robert Davies, CEO, IBLF.

‘More Food for Thought’ updates the 2002 analysis and summarises new risks, challenges and opportunities in the food and drink sector. It also considers the impact of the interaction of a multiplicity of these issues for companies in general. This report finds that although leading companies are innovating rapidly, the combination of new challenges requires even more far-reaching responses, not least in emerging markets. To quote Kraft: "In today’s world, the expectations the public has of companies like Kraft are far more complex than they were even five years ago."
Food and drink products exist in a 'minefield of cultural and economic sensitivities'\(^1\). As well as providing the fundamental means of human survival, agricultural production employs nearly half of the world’s population\(^1\). At the same time, changing diets and lifestyles in the world’s growing urban areas have led to a great increase in the prevalence of obesity-related chronic diseases such as diabetes and cancer. The food and drink sector faces a uniquely complex set of risks and opportunities, which leading companies have been compelled to grapple with at a time of change in public policies, perceptions and expectations. Major trends contributing to this include:

- The global population is expected to reach 7.5 billion by 2020\(^3\). Availability of land for farming is declining, and water for agriculture and other uses is increasingly scarce. The capacity of the world’s food production system is under threat, exacerbated by a changing global climate.
- The rapid changes in communications technology have facilitated global trade and global branding, but, at the same time, have given activists the means to communicate and organise themselves with potentially damaging effects on brands and company reputations.
- Economic globalisation, combined with advances in food packaging, processing and storage technology, has given companies the ability to move high-quality food and beverage products around the planet at unprecedented speed. At the same time, the supply chains of these products have become extremely complex and layered. How companies manage the social and environmental challenges arising from these supply chains is critical to business success.

Where governments are resistant to change, companies can become the proxy for effective public action on issues that may not be their primary responsibility. For example, calls for individual companies to change national diets, or improve working conditions of millions of smallholdings, are often unworkable and unrealistic. However, there are a number of ways in which some companies in the sector could manage the risks and opportunities more effectively, particularly through working in partnership with other companies, government agencies and non-governmental organisations to support change.

This paper examines how leading companies are undertaking innovations in business development and partnerships, as well as highlighting challenges that remain largely unresolved, in order to share lessons. It focuses on issues that are of particular relevance to the food and drink sector, while recognising both that other industry sectors often have a stake in these challenges, and that companies in the food and drink sector also face pressure to address additional challenges such as human rights, HIV/AIDS, anti-corruption and the environment.

This report reflects the IBLF’s observations over the past two years of a broadening in thinking about corporate social responsibility issues within the food and drink sector, as the debate on food and health, and food and development, has evolved:

- From an emphasis on ‘corporate social responsibility’ to a focus on ‘managing risk and opportunity’. For companies, dealing with emerging public policy issues is not only a matter of corporate social responsibility, embedded in compliance, risk management and philanthropy, but also a matter of opportunity, based on innovation, value creation and competitiveness\(^4\). The increased international concern with issues of poverty and development are an additional driver.

- From a target group of ‘food and beverage manufacturers’ to the wider ‘food and drink sector’. While multinational food and drink manufacturers are unusually exposed to public policy issues as a result of their well-known brands and logos, they represent a tiny percentage of the global food chain. Less high-profile companies in other parts of the sector may have at least as much stake in the issues as the manufacturers. For example, retailers are important actors in influencing behaviour among consumers, manufacturers and beyond. Food processing companies, which lack the high-visibility brand names of manufacturers, are nevertheless often in a strong position to influence practices up and down the global food chain. Tens of thousands of small and medium-sized enterprises, and millions of agricultural workers that produce the raw ingredients, form the basis of the global food chain.

The report is divided into three sections. First, it explores the new risks and opportunities facing the sector at both the production and consumption ends of the food chain. It then turns to how leading companies are responding to the new challenges using brief case studies and the IBLF’s framework for understanding a company’s impact on society. In the final section, the report looks at possible future trends for the sector.

**Box 1: Intended audience**

This report has been produced for senior executives, managers and their advisors in the food, drink and related sectors in order to help them anticipate and respond to emerging social and economic issues and make a positive contribution to health and development. It may also have relevance for analysts, opinion formers, researchers and public policy officials.
The report draws the following conclusions:

• Improving nutrition and public health is beginning to be recognised as a business opportunity, not only among progressive companies and consumers, but also within the broader public health community and even by parts of the media.

• There is continued discussion within both the business sector and much of the international development community of the impact of non-communicable diseases (such as diabetes, cancer and cardiovascular conditions) on developing countries. The business sector can take a lead in addressing this.

• Leading companies are rapidly developing new business models to respond to and reach poor or under-served markets in developing countries. They can address ‘development impacts’ on poor countries and communities, for example through local sourcing, enterprise development, and food fortification. This trend will most likely continue in the agri-business sector, with companies trying to find greater alignment between effective supply chains and positive development impacts.

• Many leading companies have taken steps to improve their strategic management of new risks and opportunities, in particular through the establishment of board-level committees and advisory structures on public health issues. But, despite this, most companies are not taking a holistic approach to supply chain issues, for example through minimising the environmental impacts of purchasing decisions, or managing the nutrition and public health impacts of product portfolios.

• Retailers can still do more to maximise opportunities to create a positive social impact. There is increasing criticism of companies exerting (or appearing to exert) undue economic influence and power in the marketplace. With a few important exceptions, major retailers do not always take into adequate account the social and environmental conditions under which agricultural products are grown.
A RAPIDLY CHANGING GLOBAL CONTEXT
The food and drink sector has undergone significant developments over the last decade. The opening up of huge new markets in Latin America and Asia, and increasing concentration, through mergers and acquisitions, at all levels of the sector, has presented a number of unprecedented risks and opportunities.

Many leading companies in the food and drink sector have demonstrated their commitment to consumer value, quality and business standards, tested daily by consumers in a competitive marketplace. Against this backdrop many of the larger companies have gone beyond basic regulatory and legal requirements to become the pioneers of progressive policies in corporate governance, food and workplace standards, and environmental management.

However, for companies operating internationally, simply complying with the law can be a major challenge where the regulatory regime is weak. In addition, what it means to be well governed and attractive to investors, as well as to consumers, is changing as stakeholder demands on companies become increasingly clearly articulated.

WHO IS DRIVING CHANGE IN THE FOOD AND DRINK SECTOR?
The food and drink sector is not a homogenous entity. In its broadest sense it ranges from agricultural producers working on smallholdings through to the world’s largest companies, via trading, processing, packaging, marketing and retailing. Nevertheless, a number of broad stakeholder groups influence the sector, with the significance of each varying with the circumstances of individual companies.

The diagram shows the main stakeholder groups in the food and drink sector. Stakeholder groups are not discrete, undifferentiated constituencies. For example, employees may also be members of NGOs or investors, agricultural producers are also consumers of food and drink products, and competitors and campaigning organisations are potential partners.
Employees and their associations are prime drivers for change in the sector, for several reasons:

• The effectiveness of new policies depends on employee buy-in.
• People do not like working for companies that receive negative media coverage.
• In some countries, unions such as the global food workers’ union, the IUF, are attempting to hold companies to account to ensure labour rights.
• The workplace offers a useful testing ground for initiatives on health and nutrition before implementing them in wider society. The Washington Business Group on Health has found that: “Organisations lose more than US$12 billion per year due to higher healthcare utilisation rates, lowered productivity, increased absenteeism, elevated health and disability insurance premiums and other consequences associated with obesity and weight-related conditions”.

Non-profit organisations can have an influence on company behaviour. According to the annual Edelman Trust Barometer, the public in most developed countries, particularly in Europe, place greater trust in NGOs than in business and other institutions. Judging from the success of media-backed advocacy campaigns in rich countries, these groups would appear to have a disproportionately large impact on companies, although there is a wide range of organisations in this category, ranging from activist, campaigning groups at one end of the spectrum to those willing to work in partnership with companies (and, in some cases, a mixture of the two types). Campaigns linking corporate products with health risks – whether the links are perceived or real – can have a damaging effect on corporate reputation. Leading companies are responding to this emerging constituency through a range of mechanisms including social reporting and public policy dialogue in order to increase public trust.

Local communities in developing countries - that is, people based around the site of company factories and facilities, or those working on smallholdings or plantations that supply companies – are important but rarely-heard stakeholders in the food and drink sector, although campaigning NGOs may speak on their behalf. However, with water access, population explosion and urban migration becoming increasingly urgent issues in developing countries (see below), maintaining a strong relationship between the food and drink sector and these communities looks set to become an increasingly important management issue.

THE CHALLENGES FACING THE INDUSTRY TODAY

Agricultural production
Most of the value added to agricultural commodities takes place outside the country of origin. An estimated 1.3 billion people work in agriculture around the world and another 2.5 billion depend on the sector for livelihoods. This mismatch between where most of the food is grown and where most of the value is added has left many producers – particularly in developing countries – facing increasingly difficult circumstances. The United Nation’s Food and Agriculture Organisation (FAO) describes the situation as follows:

agricultural commodity chains, particularly those of high-value crops and processed products, are increasingly dominated by a few transnational enterprises and distribution companies with significant market power. Internal supply constraints also limit the ability of many developing countries to take advantage of opportunities to trade processed agricultural products. These include obsolete technology; inadequate transport, storage and marketing infrastructure; inadequate legal and regulatory frameworks; and trade and economic policies that are biased against agriculture and exports.

Sustainable agriculture expert Bill Vorley puts it this way: “The terms of trade between a concentrating processing sector and primary producers, both North and South, must be a cornerstone of the food and drink industry’s commitment to sustainable development.”

Fair and ethical trade
The degree of influence that companies in the food and drink sector have over agricultural producers varies both with the commodity and the type of company in question. Buying companies can have a direct influence over the way products such as tea or bananas, which tend to be grown on large, centralised plantations, are grown. Companies may have less influence over the conditions in which products bought directly from the open market, such as sugar, or products grown on smallholdings, such as cocoa, are grown.

Despite this variation in influence, companies in the food and drink sector can seek to maximise the positive benefits to agricultural producers resulting from their purchasing decisions. For example, McDonald’s recently became the largest buyer of apples of all restaurant chains in the USA, which gives it significant power over the apple market. The company is in a position to demand particular quality standards, or particular varieties of apple, which has implications up and down the supply chain. As another indication of the growing importance of these issues, Cadbury Schweppes lists “trading with care” as one of its four ‘big challenges’ in its latest social report.
Leading companies now have ethical guidelines based on internationally-agreed standards that govern their purchasing decisions. Unilever asks its suppliers to adhere to its own business principles. Chiquita intervenes “in the event of any serious or systemic violations of human rights, workers’ rights or legal requirements” among its suppliers.

Equally important is for companies to ensure that their social and environmental guidelines provide opportunities rather than barriers to market entry for small-scale agricultural producers. UK-based NGO ActionAid claims: “European supermarkets are implementing new standards that require producers to pay for farm audits that cost upwards of US$500 per farmer.” If agricultural producers and other suppliers are involved in the standard-setting process, and offered technical support and other assistance in order to meet the standards, then the policies are far more likely to have a beneficial impact.

Water stewardship and water scarcity
Although water is a renewable resource, distributions of freshwater and human settlements rarely match, leading to mismatches between supply and demand. For instance, 40% of the population in Latin America is located in areas that contain only 10% of the region’s water resources.

In a recent report exploring water risks facing the private sector, the Pacific Institute argues that “The availability of safe and adequate water may be as crucial to economic development in the coming years as access to oil was to development in the 20th Century.” In the face of community concerns about industrial water use and pollution, and potential changes in water availability and quality stemming from climate change, increased demands on a dwindling supply raise the possibility of social unrest and even conflict. It is becoming clear from campaigns against soft drink and water producers in India, and even in rich communities with commercially-exploited natural spring sources in America, that water use is quickly becoming a ‘lightning rod’ issue, particularly for companies with vulnerable global brands. Experience has shown that when high-visibility, well-known brand names are involved, and government responses are inadequate, campaigners often focus on companies as easy targets for their dissatisfaction.

The food and drink sector faces a unique set of challenges in this area because of the use of water in agricultural production, in manufacturing processes, and often in the end-product itself. In its latest accountability report, SABMiller identifies water as one of the three most significant issues it faces, alongside HIV/AIDS and the social aspects of alcohol consumption. Nestlé argues that its influence on the use of water in agriculture is somewhat indirect, but has nevertheless produced a report focusing on the implications of an increasingly water-stressed world for the sustainability of its operations, as has Unilever. A Portuguese trade union estimates that some 50,000 jobs in agriculture, food and forestry have already been lost or are immediately threatened.

Box 3: Media coverage of food and health issues in the US and UK

![Media Coverage Graph]

**Box 3: Media coverage of food and health issues in the US and UK**
as a result of the serious depletion of groundwater and water reserves in Portugal\textsuperscript{25}.

The experiences of natural resource companies\textsuperscript{26} in the areas of land rights and community relations may be applicable to companies in the food and drink sector as they come to terms with activities in water-depleted areas.

**Climate change and food security**

The UN’s Food and Agriculture Organisation has identified several significant ways in which climate change will affect agricultural production, and food security more generally. For example, a recent report states that: “Sixty-five developing countries, representing more than half the developing world’s total population in 1995, will lose about 280 million tons of potential cereal production as a result of climate change.”  Although there will be an expansion of cultivable land in developed countries as a result of climate change, which means that the overall supply of cereal – for example – will remain fairly constant, “the distributional effects overall will be negative for the developing world.”\textsuperscript{28}

**Marketing, retail and consumption**

Food and drink companies own some of the world’s best-known brands, but brand recognition can bring unique vulnerabilities. In “Brand-jacking and how to avoid it”, the IBLF, together with WPP subsidiary, Enterprise IG, explored these new vulnerabilities, which included lack of forethought about issues and a lack of appreciation of how activists and campaigning groups operate.

Together with other intangibles such as customer relationships and technology, brands account for an ever-growing proportion of corporate value: 48% according to PWC research on the American M&A market in 2003.

Interbrand, a consulting firm, in 2004 ranked the Coca-Cola name as the world’s most expensive at US$67 billion\textsuperscript{29}.

Newspaper and magazine coverage of nutrition and health issues has increased dramatically since 2000. The recent media obsession with diet, lifestyle and childhood obesity would have been hard to predict (see box ‘Media coverage of food and health issues in the US and UK’). Reviews by investment banks including UBS Warburg and Morgan Stanley, looking at how food companies are managing investment risks associated with obesity, have further contributed to the rising profile of the issues. The WHO Global Strategy on Diet, Physical Activity and Health in 2003-2004 added momentum to this.

Meanwhile, rapidly urbanising populations in countries such as Mexico, Brazil, Turkey, Russia, China, India and South Africa have faced an increase in diet-related diseases, including diabetes mellitus, cardiovascular disease, hypertension and stroke, and various forms of cancer. These conditions are eclipsing more traditional public health concerns like under-

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**Box 4: Diabetes prevalence in major markets in 2025**\textsuperscript{33}

Some 194 million people worldwide have diabetes. It is now one of the most common non-communicable diseases globally, and is the fourth or fifth leading cause of death in most developed countries. There is evidence that it is reaching epidemic levels in many developing and newly industrialised nations. Diabetes is certain to be one of the most challenging health problems in the 21st century.
nutrition and infectious disease, and placing additional burdens on already overstressed national health budgets. As populations in these countries continue to grow, and become wealthier, the problems look set to escalate. The FAO presents the following demographic scenario: “The world’s urban population is expected to increase by 70% over the next three decades. Most of this growth will take place in developing countries, particularly in Africa and Asia. Their higher incomes and urban lifestyles are likely to bring about further changes in the structure of global imports, accelerating the trend towards higher-value and processed foodstuffs.” World Health Organisation experts Derek Yach and Corinna Hawkes summarise the implications for companies as follows: “Many of the most important decisions associated with the future global burden of chronic diseases, which affect millions of people, are made by transnational companies and investors operating in the marketplace…risks should be turned into opportunities and private capital and trade made to work for chronic disease prevention.”

In developing countries, the negative impacts in huge cities and environmentally-stressed rural areas could dwarf the chronic disease crisis in rich countries, as the chart on the previous page shows (see ‘Diabetes prevalence in major markets in 2025’). Companies operating in developing countries can act now to help avoid these negative impacts and avoid being blamed for them in the future.

Advertising and communication
Sensitive marketing takes into account issues such as advertising to children, portion sizing, the sale of products in vending machines and in schools, traceability, safety, and the use of genetic modification. In addition, companies face varying cultural and legislative contexts for product marketing in different countries.

Unilever, Nestlé and Cadbury Schweppes are among the companies that have revised communications principles governing how they market their products. Several leading companies have made additions or changes to their product portfolios, and taken steps to make the labelling of products clearer, particularly with regard to their health impacts. All of these measures require the investment of additional resources in competitive and – in rich countries – saturated markets. It is often difficult for companies to measure the impact of these adaptations, especially as some have been made relatively recently. In any case, scrutiny from investors and public groups has now reached such intensity that companies must be seen to be acting in the interest of public health.

In response to the growing public concern about increasing child obesity, the beverage industry in the USA announced new voluntary restrictions on the sale of beverages in schools in August 2005 – products higher in sugar were withdrawn from elementary schools and restricted in middle and high schools. American Beverage Association President, Susan Neely, was quoted as saying: “childhood obesity is a serious problem in the US and the responsibility for finding common sense solutions is shared by everyone including the industry”. The agreement will increase pressure for restrictions in Europe and elsewhere, although it should be recognised that while many recent innovations have been made, these measures alone are not likely to result in significant changes in health outcomes.

**Box 5: School lunch revolution in the UK**

Popular British TV chef, Jamie Oliver, recently hosted a television series drawing attention to the seriously poor nutritional quality of school meals in the UK. The issue rapidly rose up the political agenda, when he delivered a petition of more than a quarter of a million signatures to the UK government, and Oliver secured a promise of £280 million to improve school dinners. A debate was also triggered in North America by the celebrity chef.

The campaign demonstrates to companies the potential power of public health awareness initiatives on consumer behaviour, especially where threats to children’s health are concerned. This is the kind of consumer power that modern food and drink companies need to be aware of if they are to avoid the knock-on effects on share price and company reputation that companies faced in the wake of Oliver’s campaign.

In Latin America and Asia, trends in public health are very worrying, due to the increasing numerical size of populations and rate of transition of diet, but until now there has been less public and media attention than in rich countries. Companies have an opportunity now to be proactive in drawing attention to diet and lifestyle issues, as leading companies did in South Africa in the fight against HIV/AIDS (see box: ‘Learning from the business fight against HIV/AIDS’). Taking the initiative at this stage will help companies offset future risk by demonstrating their commitment to be part of the solution, rather than being perceived as part of the problem – which is what has happened in the USA and UK.

According to IBLF CEO, Robert Davies, “companies have a unique opportunity to get on the front foot on these issues by collaborating early on in health and wellness partnerships, clarifying their roles in providing consumer information on healthy lifestyles and consumer information, and recognising that the problem cannot be solved within the context of the food and drink sector alone, but requires multi-sectoral responses.”

**The special case of retailers**

Retailers have great economic power both up and down the supply chain to influence consumer choice as well as the conditions under which products are produced. However, in many cases, retailers are not using their influence to its full potential. As long as retailers do not routinely require processors and manufacturers to demonstrate high social and environmental standards along the supply chain – while ensuring that producers do not face a swarm of competing standards – it will remain
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Box 6: Learning from the business fight against HIV/AIDS

The private sector can offer a pragmatic, solutions-focussed approach to challenges, which can help to break policy deadlock. In South Africa, for example, action by large companies such as DaimlerChrysler and Anglo American helped to overcome the official culture of denial about the magnitude and impact of the HIV/AIDS crisis. Coca-Cola, the largest private sector employer on the continent, used its distribution system to reach communities across Africa. The company donates advertising space on billboards, radio and television for distribution of educational materials, information and contraceptives across the continent36.

A recent report by UK-based NGO ActionAid, Power Hungry: six reasons to regulate global food corporations, singles out transnational corporations for harsh criticism, claiming that they ‘abuse market power’ to raise the price of agricultural inputs, push down local prices and marginalise small farmers. In the context of the increasing public profile of the “Make Poverty History” debate, there is likely to be increasing concern about the impacts of the food industry on poverty, and about over-reliance on regulation as an effective way of resolving problems.

Companies can engage more directly in dialogue with stakeholders on these ‘lightning-rod’ issues, noting that:

- Effective governance comes from a mixture of policy measures, including regulation and voluntary codes, and a range of mechanisms in between
- Many poor countries already have a range of regulatory instruments, but lack the public sector capacity to implement them effectively and evenly
- Leading companies can gain a competitive advantage if regulatory measures are introduced in areas where they are already active.

Box 7: Is increased corporate regulation the silver bullet?

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Product reformulation

Recognising that hundreds of millions of consumers in poor countries lack access to mainstream markets, and that many markets in rich countries are close to saturation, leading companies are looking to reformulate their products in order to cater for a wider market in developing countries. Product reformulation or fortification brings a number of public health benefits, and the Global Alliance for Improved Nutrition (GAIN) – an alliance of public, private and civil society organisations – is working with a number of companies to deliver high-quality, fortified products to the poor at affordable prices30. For example, GAIN has awarded a US$3 million grant to Dutch chemicals company, Akzo Nobel, to market a new form of iron that can be added to food and drink, and is easily absorbed by the body. It is being used in a programme to fortify fish sauce in Vietnam as a wide-scale delivery mechanism32.

Catering to these new markets poses unique operational challenges, such as the lack of a distribution chain in many rural areas, but as this example shows, the potential business rewards are great.

In developed countries, product reformulation provides an opportunity for the food industry to break the cycle of conflict and blame which has too often dominated the debate about modern sedentary lifestyles. General Mills, for example, has
diversified its products to offer specific health benefits. It now has brands that have reduced fat and fortified vitamins, and which can help with cholesterol management.

But, while companies may wish to market products with ‘health claims’, public regulators are showing some resistance. A recent debate about this issue in the European Commission illustrated how inhibitions on health claims may limit research and development, innovation and the introduction of ‘healthy foods’ into the marketplace.

**Consumer education**
Companies face some of their toughest challenges in the ideologically fraught area of consumer education. However sensitively a company manages risks and opportunities along its supply chain – as Unilever’s experience in fish sustainability shows – the final arbiters are consumers. If companies are successfully to blend profitability with social and environmental considerations, collaborative action is likely to be necessary. The success of the Fairtrade label, raising public awareness of the conditions faced by producers in many countries, shows that consumers can be interested in the processes that bring food and drink products to the supermarket shelves. However, information about these processes needs to be presented to them in an objective and balanced way.

The Social Issues Research Centre in the UK, which aims to ‘provide a balanced, calm and thoughtful perspective on social issues, promoting open and rational debates based on evidence rather than ideology’, has developed a ‘timeline of dietary advice’ extending from prehistory to the present day, enabling objective analysis of the (often contradictory) messages facing consumers.

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**Box 8: Redesigning the food pyramid**

In April 2005, the US Food and Drug Administration redesigned its food pyramid in order to emphasise that physical activity is a vital element of healthy lifestyles. The new pyramid allows users to input basic lifestyle details and provides a personalised dietary recommendation. Shortly after the release of the new pyramid, General Mills and other cereal companies redesigned their packaging to including the new logo, although other companies have not been as fast to exploit the opportunity for public nutrition education.

**Brand vulnerability**
High-profile company brands continue to attract unwanted attention from campaign groups and the media in rich countries (see box: advertising in politically sensitive regimes). However, campaign pressure is often directed in the wrong place: certain big brands may be able to do less for agricultural producers due to the complexity of supply chains. Other processors who operate further upstream may be able to do more to influence standards, but because of their relatively low profile brand names, they may not feel compelled to act. Whether or not a campaign is fair, companies that become the targets of activism rarely emerge victorious. The most effective course is to anticipate controversy before it happens, which can be facilitated by the active engagement of a wide range of stakeholder groups.

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**Box 9: Advertising in politically sensitive regimes**

Companies in the food and drink sector are among the world’s most prolific advertisers, and the Olympic Games provide significant market opportunities. However, the Beijing Olympics in 2008 will draw an unprecedented level of international media coverage to the country, and it is likely that the weak labour standards (including lack of freedom of association and expression, poor health and safety conditions, long hours, corruption and unpaid pensions) in many Chinese factories will be brought to the world’s attention.

For corporate sponsors of the Beijing Olympics in 2008, which include Heineken, Anheuser-Busch, Coca-Cola and McDonald’s, this poses a potential risk. Campaigning organisation Human Rights Watch has this message for companies: “The International Olympic Committee didn’t even try to get guarantees on human rights. If abuses take place as preparations for the Games proceed, it won’t be just the Chinese authorities who will look bad – the IOC and the corporate sponsors will be complicit.”

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**Supply chain vulnerability**

Food and drink companies are not only exposed to negative attention through their intangible assets. They also face risks along their supply chain; in the most extreme cases they can be held to ransom by activists or terrorists looking to further their causes. A recent example of this was the ‘discovery’ of a human finger in a bowl of chilli at a Wendy’s restaurant in California, leading to company losses of $2.5m. Although it later turned out that the case was a hoax, it highlights how easily companies can be sabotaged.

In another recent case, an illegal food dye called ‘Sudan 1’ was found in supermarket products in both the UK and South Africa, leading to a major product recall. The UK’s Food Standards Agency drew up a list of 464 products potentially containing the dye. The estimated cost to one of the suppliers of the contaminated food – Premier Foods – was £100 million.

A political activist looking to raise awareness of, for example, hunger or malnutrition in his or her country could take advantage of supply chain vulnerability. A report prepared for the US-based Centre for Science in the Public Interest states that “concerns about intentional adulteration of food by terrorists, criminals, or other antisocial groups have risen and led to the need for new preparedness efforts.” Without a good reputation for quality and decisiveness, and without public trust in their brands, companies faced with such a dilemma would struggle to react effectively to the ensuing situation.
This section identifies the practical steps that companies are taking to manage risks and opportunities arising from issues associated with agricultural production, and with marketing, retail and consumption.

Companies have various interfaces with society, as shown in the diagram below.

The columns on the facing page provide brief case studies (taken from company websites and social reports) to demonstrate how leading companies are addressing the challenges outlined here in their core business, social investment, and policy dialogue and advocacy activities. The examples are purely illustrative: individual companies can adapt the framework to assess their own responses to the issues outlined in this report.

### Social Investment
Mobilise core competencies and resources to help support and strengthen local communities by:
- Supporting education, training, youth development, environmental and health and nutrition projects in local communities.
- Building capacity of community leaders and social entrepreneurs.
- Training local technical specialists in environmental management.
- Building the governance capacity and voice of local civil society groups and media organisations.
- Supporting multicultural education programmes.
- Assisting with voter education initiatives.
- Establishing and supporting microcredit programmes.

### Policy dialogue and advocacy
Take individual and collective action to influence the enabling environment and support systemic change at a local, national and international level by:
- Working with governments to improve social infrastructure by supporting healthcare and education reform and quality improvement.
- Addressing environmental, regulatory and fiscal policies with governments and civil society.
- Engaging in global dialogue on issues such as climate change and biodiversity.
- Supporting local and national governments to achieve: the elimination of bribery and corruption; efficient public administration and service delivery; fair and transparent regulations; and respect for human rights.
- Helping to increase ability to attract and retain foreign and domestic investment.
- Advocating for improved access for developing country exports to OECD markets.
- Advocating for increased levels of donor government aid to developing countries.
- Increasing transparency of private payments to government in the form of taxes, royalties and political campaign finance.

Adapted from: NELSON, J. Business as Partners in Development, IBLF, UNDP and World Bank, 1996 © IBLF. Reference source and IBLF in any use or quote.
### Agricultural production

- **Unilever Brazil** provides financial and technical support to help tomato farmers convert to drip irrigation, which is more complicated and expensive to install than other systems. These expenses are offset by increased yields and reduced chemical costs. And there is also a long-term environmental benefit from using fewer crop protection chemicals.

- **Business for Social Responsibility**'s agricultural water initiative seeks to improve water management practices at the farm level by creating an assessment tool that farmers and companies further up the supply chain can use to better document and understand the effect their operations have on water resources.

- **Cadbury Schweppes** and the Earthwatch Institute have formed a partnership with the Ghana Nature Conservation Research Centre (NCR) to improve biodiversity levels of cocoa farms in Ghana and establish the country's first cocoa farm ecotourism initiative.

- **Chiquita** remains the only manufacturer to be a member of the UK's Ethical Trading Initiative, a cross-sector project to 'identify and promote good practice in the implementation of codes of labour standards'.

- **Kesco**'s Board of Directors accepted the ethical principles for purchasing on 30 April 1999. The principles are based on the fundamental rights at work accepted by the International Labour Organisation (ILO), the UN Declaration of Human Rights and the UN Convention on the Rights of the Child. Deviations from these principles are handled similarly to deviations from other quality requirements. UK-based retailer, Waitrose, has agreed to invest 20% of its profits from the sale of South African citrus fruit back into the farms where the fruit was grown.

- **Kraft** has formed partnerships with Rainforest Alliance, the US Agency for International Development and Germany's bilateral development organisation, GTZ, to ensure that its agricultural commodities are produced with due regard for social and environmental considerations. Rainforest Alliance claims that its partnership with Kraft – in which the company has purchased 5.3 million pounds of certified coffee – ‘provides the first indisputable evidence that the concept of sustainability, once limited to niche markets, is entering the mainstream.'

- **Unilever Indonesia**’s Foundation, as part of its focus on developing small and medium sized enterprises, worked jointly with the local university in 2003 to provide financial, technical and training support to over 300 farmers of black soya beans. Guaranteed markets and prices secured farmers’ incomes; some harvests increased by nearly a third; and Unilever Indonesia secured supplies of beans for its Kecap Bango soy sauce.

- **Starbucks** has committed US$1.2million over the next three years to the ‘Conservation Coffee Alliance’, a partnership with Conservation International and the US Agency for International Development. This will increase the amount of coffee that Starbucks buys that has been grown with regard to economic and environmental factors.

- **Nestlé, Danone, Unilever, Danisco, Dole, Findus, McDonald’s, Kraft and Sara Lee** are all members of the Sustainable Agriculture Initiative, which exists to ‘support the development of and communicate about sustainable agriculture, involving all stakeholders of the food chain’.

### Marketing, retail and consumption

- **Unilever**, working closely with UNICEF Ghana, launched an iodine-fortified brand of salt called Annapurna. Annapurna salt is made available in 200g sachets to place it within the price reach of some of the country's poorest families. Following its success in tackling iodine deficiency in Ghana, in 2003 the company introduced it in Nigeria, Africa's largest salt market.

- **The Co-op** supermarket in the UK has switched the entire Co-op brand coffee range to Fairtrade because the company “believe[s] in a fair day’s pay for a fair day’s work.”

- **Cadbury Schweppes** has recently issued a new global marketing code of practice; Nestlé has released a revised set of communications principles; Kraft has developed a new set of advertising guidelines.

- **Starbucks** has developed Coffee and Farmer Equity (C.A.F.E.) Practices, a set of socially responsible buying guidelines that evolved from a two-year pilot project. Farmers adhering to the independently verified practices become preferred suppliers to the company.

- **PepsiCo** has introduced the Smart Spot™ symbol to make it easier for people to identify food and beverage choices that contribute to healthier lifestyles. The Smart Spot logo will appear on more than 100 products across all of PepsiCo’s brands.

- **Kraft** has increased the visibility of healthier food options through its Sensible Solution labelling programme, which highlights food products that have achieved nutrition criteria derived from the proposed 2005 US Dietary Guidelines and authoritative statements from the US Food and Drug Administration, National Academy of Sciences and other public health authorities.

- **SABMiller**’s Ugandan operation, Nile Breweries Ltd, developed Eagle Lager for the Ugandan market. The company used a locally-produced primary raw material, namely sorghum, replacing expensive imported brewing ingredients. After four years of collaboration and partnership with the Ugandan government and local civil society organisations, Eagle Lager has become the company’s top-selling Ugandan brand with over 20% of the country’s market share, guaranteeing income for farmers and improving public health through replacing the illicit local brew.

- **Kraft’s Healthy Lifestyle Initiative** assisted non-profit organisations that help children and their families improve their physical activity and eating behaviours. In 2004, a partnership was formed with the National Latino Children’s Institute to develop Salsa, Sabor y Salud (Food, fun and fitness), a healthy lifestyle course for Latino families.

- **As part of its international partnership with the World Heart Federation, Unilever Russia** worked with Russia’s Society of Cardiology to help Russians learn about cholesterol levels. Over 4,000 consumers were offered health advice and cholesterol testing. The company worked with Russia’s Centre of Preventative Health to co-produce a range of videos and educational materials to help teach people about blood pressure and cholesterol.

- **Starbucks** has become an advocate for making America’s healthcare system more efficient, reliable, transparent and affordable. Chairman Howard Schultz and other senior executives have met with federal policymakers and will continue to engage with them to offer assistance and urge them to take meaningful action.
In common with managing other aspects of corporate performance (such as quality, health and safety etc.), the issues faced by the food and beverage industries are best addressed within a coherent management framework. The diagram below is an illustrative framework that may be drawn upon in order to manage the process of implementing policies to control corporate impacts on society.

The individual steps in this process are deliberately somewhat generic as it is recognised that there is a variety of subsectors within the overarching food and beverage sector. Companies can adapt the process according to their situation, and the ‘thought bubbles’ leading off some of the steps start to explore the company-specific issues.
3 LOOKING TO THE FUTURE

The key observation from this report is that while markets currently work in favour of price, quality and volume, they do not always take into account public health impacts, nor the conditions under which agricultural production takes place (see box, ‘Making markets work for agricultural producers’). Leading companies often recognise this. As Unilever co-chairmen (at the time) Antony Burgmans and Niall Fitzgerald pointed out in the introduction to the company’s sustainable agriculture brochure: “We want the market…to encourage fully sustainable agricultural systems. We wish to contribute to this development and benefit from it.”

This view is echoed by Chiquita: “We believe that if customers and consumers insisted on the demonstrated achievement of international labour standards, including those related to child labour, normal market forces would influence producers to implement improved systems and practices.”

Despite some examples of good practice, many companies can take a more holistic approach to supply chain issues, in particular, to understand more effectively the links between production and consumption. Derek Yach and Corinna Hawkes suggest that: “Lack of understanding and research into the links between agriculture and chronic disease is hampering progress.” Because the influence of individual companies varies at different stages of the supply chain, and because of the upfront costs associated with research in this area, it will be essential for companies to work collectively in order to make progress.

**Box 12: Making markets work for agricultural producers**

Globalisation and economic liberalisation have exposed small-scale farmers, processors and agribusinesses to new opportunities as well as to new forces of marginalisation. Low farm incomes have led the International Federation of Agricultural Producers to call for “a mechanism to stop the increasing crisis that is growing in the farm community”. They state that “the market must reward the farmers for their work as food producers.”

Attempts are underway to balance the needs of agricultural producers with the demands of an increasingly concentrated food and drink sector. Regoverning Markets is one such initiative. The focus is on the impacts of market concentration on rural livelihoods and communities, particularly given the challenges facing small-scale producers and processors in negotiating market access and the terms of trade. The aim is to provide strategic advice and guidance to the public sector, agri-food actors, civil society organisations, and development agencies on approaches that can anticipate and manage these impacts. The project recently finished its pilot phase and will now study selected food chains in specific countries in order to produce detailed case studies and comparative analyses.

**Beyond the corporate responsibility department**

A company’s product portfolio has implications all the way across the food chain, from commodity requirements through to diet and lifestyle issues. Therefore, leading companies are encouraging all internal departments to manage new risks and opportunities arising from their product portfolios. For example, the Finnish retailer, Kesko, has developed ethical principles, based on International Labour Organisation standards, which guide its purchasing decisions.

Similarly, the research and development, logistics and purchasing units of food and drink companies can integrate public health considerations and the conditions of agricultural producers into their buying patterns. Companies that do this effectively will profit, and they will be in a strong position to avoid any future regulatory restrictions.

Along with several leading companies, Kraft has established a board-level ‘Health and Wellness Advisory Council’. The council is developing policies in product nutrition, marketing practices, consumer information, and public advocacy and outreach. Essential to the success of the council will be the degree to which it takes a holistic approach to these issues, for example how it links these four areas to its purchasing decisions, its relationships with suppliers, and so on.

**New business models**

Cadbury Schweppes identified one of its “four big challenges” as “managing company change”. All leading companies are looking at ways to ensure future profitability in emerging markets and developing countries. For example, SABMiller has tapped a new market with the development of a lager in Uganda which has improved conditions for local agricultural producers, and helped to improve the local health impact among consumers.

One of the practical recommendations that ActionAid makes to companies in its report, Power Hungry, is to “widen their supply base to include more smallholders who wish to supply TNCs, and invest in the development of smallholder organisations and marketing infrastructure.” For example, one of Coca-Cola’s largest bottlers, Coca-Cola Hellenic Bottling Company, has recognised that the distribution systems in Nigeria are not efficient and has set up a training programme in business management and sales, leading to the establishment of more than 550 independent small businesses – 70% of which are owned by women.

**Scenario planning**

Public policy challenges can be explored through scenario planning exercises, such as the following:

- A report into public health in the UK has set out a vision of the UK’s health service in the year 2022. It provides three alternative public health scenarios – solid progress, slow uptake and fully engaged – depending on how people respond to the different factors set out in this vision.

Most food retailers have not yet integrated environmental and social concerns into their purchasing decisions. Today, purchasing is based primarily on price, quality and volume.

Chiquita, Corporate responsibility report 2002

Walmart. Always low prices.
• Major pension funds are looking at the sustainability of the pharmaceutical sector through their 'Pharma futures' project. The project has found that “fundamental change for the industry is inevitable since “muddling through” on the basis of the current business model will mean increasingly unsuccessful fire-fighting on a growing number of fronts.”

• The World Business Council for Sustainable Development’s Water Working Group has recently launched a scenario planning process, with the participation of non-business stakeholders, to “develop alternative narratives on how water issues might evolve over the next 20 to 25 years”. The project will “examine the influence of water-related issues on social, economic and environmental development and explore the roles business can play in shaping appropriate actions and outcomes.”

One way for the food and drink sector to equip itself for emerging risks and opportunities would be to collaborate with pension fund managers and/or a business leadership organisation to develop a 'Food futures' project.

**Good governance**

Direct and trade association lobbying activities are coming under increasing scrutiny. Companies, including those in the food and drink sector, are rarely open and transparent about their relations with governments and, in particular, about their lobbying activities. However, there is a clear opportunity for leading companies to demonstrate their commitment to transparency by identifying how they interact with governments, as Starbucks demonstrated in its 2004 social report, in which it stated that it has been lobbying for healthcare reform in the USA.

Lobbying can be positive – for example, companies could lobby for an increase in the amount of physical activity undertaken in schools, or to campaign against the tariffs on agricultural commodities in rich countries, both of which would benefit companies and society. CEOs of Unilever and Nestlé have been strong advocates of positive change in trade rules that would help developing nations.

Outside the food sector, Alcoa, Rio Tinto and Dupont have been increasingly vocal in their support for the Kyoto Protocol – indeed, a group of companies in the UK recently wrote to

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**Box 13: Responding to the health agenda**

On the public health front, a unique initiative designed to facilitate action by business to be part of the solution to the massive increase in chronic lifestyle-related diseases around the world, is the IBLF’s HEAL (Healthy Eating Active Living) Global Partnership. The HEAL project is an independent, business-focussed initiative aimed to promote and facilitate action by business in the marketplace, the workplace and the wider community. It offers a wide range of global companies a positive, non-competitive platform to broaden the debate across all sectors of industry, to work with other non-business partners, and to devise innovations and implement action as part of a sustainable business response to the problem.

**HEAL Partnership Framework**

Mobilising multi-sectoral businesses as responsible partners for sustained change in health and wellness - through action in the workplace, marketplace and community

**MARKETPLACE**
Action appropriate to each business sector through innovation in products, services, consumer marketing and information - to make healthy choices and behaviors easier

**WORKPLACE**
Action through health and wellness programs - to reinforce personal behaviour change and facilitate parental action to promote healthy lifestyles within the family.

**COMMUNITY**
Action through targeted outreach in partnerships with schools, institutions, community groups, sport and leisure facilities - to achieve change to healthy diet and active lifestyles.

© IBLF 2003
UK Prime Minister Tony Blair requesting increased regulation to combat climate change. Given the potential impacts of climate change on food security, and the fact that corporate environmental responsibility alone will do little to address the challenges of climate change, companies in the food and drink sector can lobby for government action in this area.

Many of the challenges that have been identified in this report have at their root a failure of public or corporate governance. Some groups have called for increasing regulation in order to redress this, although it is not clear how regulation alone will improve the social impact of business. Others recognise that working to reduce bribery and corruption among public officials, and addressing the lack of public sector capacity in many developing countries, is a more effective way to tackle the challenges. Well-governed companies, working collectively to use legitimate and transparent processes to improve public governance, can be an important factor in addressing new challenges.

Social reporting
One way in which companies can improve transparency is through regular dialogue with stakeholders. The number and depth of social reports from companies in the food and drink sector has increased significantly in recent years. Chiquita, for example, has set a new benchmark by reporting on the impact of its logistics operations. Japanese retailing giants Ito Yokado and AEON recently produced social reports for the first time using GRI guidelines, and the Coca-Cola Hellenic Bottling Company has gone even further than its parent company in the depth and detail of its reporting. A recent Sustainability/UNEP report looks at new directions in social reporting between now and 2010.

Where challenges converge and amplify
Companies face some of their most challenging management tasks where the different issues interact, or when several issues – such as childhood obesity, climate change and labour standards – hit the company at the same time. Recognising that further research is necessary for effective responses to these ‘collisions’, the diagram below developed by IBLF offers one way of initially framing the different types of challenge. For the general business issues and the governance issues there is an increasing amount of practical help available to companies. Where more specialised advice is needed is in the area of the ‘sector issues’ – discussed in this report – and in the space where the three types of challenges overlap.
The risks and opportunities now facing the food and drink sector internationally are more complex and inter-related than previously. However, leading companies are starting to manage their impacts more thoroughly, and report more openly on the challenges facing them. These external drivers are also opening up largely untapped opportunities for product innovation, market development and non-traditional business models, prompting the new concept of ‘corporate social opportunity’.

By learning from and collaborating with each other, and with other industries and societal sectors, these companies can continue to meet their central purpose of providing safe, affordable and high quality food and drink products.

A summary of the findings:

• **Improving nutrition and public health** is beginning to be recognised as a business opportunity, not only among progressive companies and consumers, but also within the broader public health community and even by parts of the media.

• There is continued discussion within both the business sector and much of the international development community of the impact of non-communicable diseases (such as diabetes, cancer and cardiovascular conditions) on developing countries. The business sector can take a lead in addressing this.

• Leading companies are rapidly developing **new business models** to respond to and sometimes reach poor or under-served markets in developing countries, and manage ‘development impacts’ on poor countries and communities, for example through local sourcing, enterprise development, and food fortification. This trend will most likely continue in the agri-business sector, with companies trying to find greater alignment between effective supply chains and positive development impacts.

• Many leading companies have taken steps to improve **strategic management of new risks and opportunities**, in particular through the establishment of board-level committees and advisory structures. But, despite this development, most companies are not taking a holistic approach to supply chain issues, for example through minimising the environmental impacts of purchasing decisions, or managing the nutrition and public health impacts of product portfolios.

• Retailers can still do more to **maximise opportunities to create a positive social impact**. There is increasing criticism of companies exerting (or appearing to exert) undue economic influence and power in the marketplace. With a few important exceptions, major retailers do not always take into adequate account the social and environmental conditions under which agricultural products are grown.
International Business Leaders Forum
The IBLF is an international non-profit organisation supported by CEOs and companies from Europe, Africa, America, Middle East and Asia. It promotes leadership in responsible business practices and innovation in partnerships for social and economic development. The IBLF has been a partner of the World Health Organisation in initiatives since 1997, and since 2001 has been engaged in business dialogue on non-communicable diseases linked to poor diet and lack of physical activity. The IBLF has international programmes in over 50 countries, addressing diverse issues including health, human rights, enterprise development, business standards, information technology, conflict prevention, partnership building and employee engagement.

Corporate support of the IBLF and involvement in IBLF programmes including HEAL does not imply endorsement for the products, processes and practices of companies, and membership of the IBLF cannot be used as an endorsement of the same.

www.iblf.org

What is The HEAL Global Partnership?
The HEAL (Healthy Eating, Active Living) Global Partnership aims to mobilise business as a responsible partner for health and wellness in the marketplace, workplace and community. A programme of the International Business Leaders Forum (IBLF), HEAL is a multi-sector, international initiative that promotes a framework for action in the workplace, marketplace and community, aligned to corporate interests and competencies. It profiles and shares good corporate health and wellness practices, and facilitates active engagement in partnership initiatives designed to help to tackle the growing epidemic of obesity-related illnesses that can make systemic impact at national and international levels.

www.healpartnership.org

The views, observations, conclusions and recommendations in this report are those of the research team and authors, intended to inform and stimulate debate, and do not necessarily represent the views or formal position of the IBLF or its supporters or partners.

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