

FOOD MILES/SUSTAINABILITY MARKET INTELLIGENCE

April 2009 Quarterly Report

The growing importance of sustainability as a market driver in some of New Zealand's food and beverage export markets has led the Ministry of Foreign Affairs and Trade and New Zealand Trade and Enterprise to prepare a quarterly report for business people highlighting trends and issues in key markets.

UK

IN SUM:

- Price concerns lead to growth at both ends of the spectrum for retailers: The economic downturn is seeing consumers move away from middle-tier products in favour of basic products, bargains, and private label products, but also to premium products and ready-made meals as 'economical luxuries' replacing going out with dining in. Retailers remain engaged on sustainability issues with an increasing focus on the resulting economic benefits.
- Ethical concerns still growing in relevance: Consumers are not compromising on ethical concerns, despite the economic downturn. Although some organic sales have declined, animal welfare is the fastest rising driver of product choice, and FairTrade marked products have seen a 43% increase in estimated retail value in the past year.
- Carbon / environmental labelling: Many companies are now using PAS 2050 carbon footprinting methodologies and finding increasingly sophisticated ways to communicate results. A report by the House of Commons Environmental Audit Committee has called for a sector-based universal environmental labelling scheme to reflect the most important environmental priorities of different sectors and to avoid confusing consumers.
- "Buy Local" / "Buy British" and country of origin: Retailers and consumers have continued to emphasise "buy local" as a way of supporting local communities and employment in tough economic times. Concerned about traceability, DEFRA Secretary of State Hillary Benn calls for clearer information on the origin of food products and discussions about voluntary country of origin labelling.
- Food Security: Food security remains a significant issue in the UK, both for the Government and private sector. Studies have highlighted a skills shortage among UK farmers, and the relationships between environment, health, strategic and geo-political interests, and resilient food supply. DEFRA Secretary of State Hillary Benn says that both strong domestic agriculture and a robust global trading system are necessary to ensure UK food security.
- Increasing accountability for environmental claims: UK Government is taking steps to ensure that businesses' environmental claims are genuine and substantiated through a review of its 'Green Claims Code', and proposed tighter advertising rules.

CONSUMER TRENDS

Price concerns lead to growth at both ends of the spectrum for retailers

The economic downturn has seen price become a more significant choice motivator for consumers. Consumers are increasingly buying products on promotion, shopping around more for bargains, trading down from branded products and buying more private label products. As noted in the previous quarterly report, UK shoppers are continuing to 'dine-in' as a means of cutting back. This trend has continued heavily this quarter, with widespread use of promotional offers by retailers, including a £9 roast dinner meal deal from Morrisons, a £10 'dine in for two' at Waitrose and a £15 roast dinner meal for four at M&S.

The combination of these trends is leading to growth at the two ends of the price spectrum. Rather than simply the premium end or the budget end singularly dominating, consumers are moving away from middle-tier options. Premium products are seen as 'economical luxuries' and instead of going out, consumers are buying high-end products and dining in. As a result, Waitrose has seen sales of Champagne up 5% and top-end food sales increasing in double-digits. At the budget end, consumers are purchasing more basic products as a means to economise and cook from scratch, as evidenced by the increase in sales of private label goods.

Ethical concerns still growing in relevance

While price has become a more significant choice motivator, consumers scrutinising value are not compromising on their ethical concerns. A decline in sales for some organic products has not equated to a decline in sales for all ethical options, with animal welfare the fastest rising driver of product choice, according to the Institute of Grocery Distributors (IGD). Animal welfare is now seen by 20% of consumers as a driver of product choice compared with 13% in 2008. Sales of products carrying the FairTrade Mark also saw a 43% increase in estimated retail value over the past year. The Food and Drink Innovation Network suggests that successful brands will need to become 'ethical all-rounders' and communicate their wide-ranging ethical opinions, processes and strategies to the growing number of consumers interested in these issues.

Consumer perceptions of British farmers positive

At the January 2009 Oxford Farming Conference IGD CEO Dame Joanne Denney-Finch presented findings of research commissioned by the Conference organisers on how British consumers perceived farmers. She emphasised that 'now was the time for British farmers to take advantage of the current extraordinary times' and that if they could 'build shopper loyalty this year', they would 'benefit for at least the next decade.' A concern about globalisation, an urge to support local communities, an appreciation for British farming methods and the quality of British foods meant that the tide was in farmers' favour. The recent research also showed that whereas consumers had a positive image of farmers, farmers on the other hand were more negative about themselves than consumers were. Farmers also underplayed the potential in the market place, and underestimated how sensitive consumers were to price.

PRIVATE SECTOR ACTIVITY

Retailers emphasise value and sustainability commitments become increasingly focused on economic benefits

Retailers with strong 'value' credentials or those who have managed to capitalise on consumers dining in and trading down are benefitting from the economic downturn. Asda and Morrisons, retailers with heavy emphasis on value, have seen sales growth of 8.1% and 9.7% respectively. Sainsbury's, the UK's third largest retailer, saw fourth-quarter like-for-like sales (excluding fuel) up 6.2%. Sainsbury's Chief Executive, Justin King attributed the rise in sales to the success of its 'Switch and Save' campaign, noting that sales of Sainsbury's 'entry price point' Basics range had increased year-on-year by 60%. High-end retailer Waitrose recently launched the 'Essential Waitrose' private label range in an effort to attract customers trading down from branded products. Tesco, the UK's largest retailer, has announced that it will be expanding its discount range in order to remain competitive in a market increasingly driven by price.

Retailers remain focused on sustainability commitments, with greater focus on the resulting economic benefits. This theme remains true across the spectrum of supermarkets, from the budget to the premium-positioned. For example, in January 2009, Asda launched a new advertising campaign and strapline ('Saving you money every day') to communicate its value and sustainability credentials to shoppers. The new advertising campaign explains how Asda's focus on sustainability leads to ongoing price reductions within stores. Through energy saving initiatives and recycling, the retailer committed to reducing the price of 4,000 products in January – with 1,000 rollbacks per week – as part of its 'New Year Rollback' campaign.

Interest in biodiversity and water management issues growing

Biodiversity and water now feature with increasing regularity in the dialogue around sustainability. Global Head of Health, Safety and Environment for Rio Tinto, Elaine Dorwood-King recently noted that managing the risk of biodiversity with the same rigour and quantifiable measurements as water and carbon has been done for some time by market leaders. Likewise, speaking on the topic of responsible resource management at a recent conference, the President of Coca Cola Great Britain and Ireland, Sanjay Guha noted that the challenge with water management was that it differed so heavily between geographies. As such, it could not be framed as a homogenous 'problem' and required a detailed and local plan of action in every location of a business' operation.

Cadbury launches guide to low carbon dairy farming

As a sign of the private sector's increasing sophistication around improving sustainability credentials, Cadbury has announced the launch of its 'Cadbury Guide to Low Carbon Dairy Farming'. In one of the most high profile private sector/supplier initiatives in the UK agriculture sector to date, Cadbury is hoping to reduce its own emissions by instigating changes to farm management practices. Distributed to all the dairy farmers who supply Cadbury, the guide provides an overview of the factors that contribute to carbon emissions from milk production and suggests practical measures that farmers can implement to reduce them.

Carbon Labelling

Many companies are now using the 'PAS 2050' product carbon footprinting methodology launched in late October 2008 (see January 2009 report) and are becoming increasingly sophisticated in the methods used to express their carbon footprints. For example, Innocent Smoothies is linking its carbon footprint to its high nutritional value. This is aimed at countering drinks such as Coca-cola which have a lower carbon footprint but less nutritional value. Innocent Smoothies is also looking at ways of making its carbon footprint more meaningful to consumers, by calculating the carbon footprint of one smoothie as a percentage of a person's daily CO2 allowance, in line with UK Government recommendations.

The "Buy Local" / "Buy British" trend continues

Both retailers and consumers have continued a heavy emphasis on "buy local" campaigns. As reported in January, the ongoing support for buying locally is not surprising in the current environment, given the opportunity it provides to consumers to feel as though they are supporting local communities and employment. Asda's local food sales have increased by 40% year on year, after the company spent over £80,000 researching customers' views on local food. Asda's Customer Planning Manager, Caroline Burgess recently told the website talkingretail.com that 'Asda always listens to our customers and what they are telling us is that they are increasingly interested in local products relevant to them'.

Food security remains a prominent issue

Food security remains a significant issue in the UK, both for the Government (see below) and for the private sector. A recent feasibility study carried out by IGD on the skills shortage among UK farmers suggested that the UK could suffer future food shortages unless the number of skilled people entering the UK farming industry improves. It revealed that 60,000 people need to be recruited by 2019 to ensure a skilled agricultural workforce is maintained in the UK, and for current levels of UK food production to be maintained. The number of farmers has declined by 25% in the last 13 years and evidence suggests that the number of agriculture graduates does not come close to meeting the forecasted needs of the industry.

A recent Chatham House report, entitled 'Food Futures: Rethinking UK Strategy', encourages the UK to develop a clear vision for its food supply arrangements and to look at how food supply supports the best outcomes in a range of policy areas including security of supply, environmental objectives and consumer health. The vision should also include a statement of the UK's strategic and geo-political interests as they relate to resilient food supply, and a set of principles and accompanying indicators to create a 'food supply business model' capable of reconciling resilience, competitiveness and evolving consumer expectations, the report concludes.

GOVERNMENT ACTIVITY

Increasing accountability for environmental claims

To maintain consumer confidence in 'green' products and services, the UK is taking steps to ensure that environmental claims made by businesses are genuine and substantiated. The Department for Environment, Farming and Rural Affairs (DEFRA)

has announced that it will be reviewing its 'Green Claims' Code, in response to the growing range of environmental claims made about products and services. The Code, which was last updated in 2003, was devised to assist businesses in making genuine and meaningful claims about their products and services, and to ensure consumer confidence in 'green' claims.

In addition, tighter rules on environmental claims have been proposed in a review of broadcast and non-broadcast Advertising Codes, the Committee of Advertising Practice (CAP) and its broadcasting equivalent (BCAP) have announced. Rules preventing advertisers and marketers from making environmental claims without a 'high level of substantiation' have been included in the proposal. Consultation on both initiatives with interested parties is currently underway, with a view to publishing the results in late 2009.

Report calls for sector-based universal environment labelling scheme

The Government should encourage the development of a sector-based universal environmental labelling scheme, the House of Commons Environmental Audit Committee has suggested in its recent report on environmental labelling. Recognising the important influence on consumer behaviour that existing eco-labels have, such as in the white goods market, the report emphasises the need to ensure that a proliferation of labels focusing on different social, environmental and ethical issues did not confuse consumers while balancing the concern that a very basic label would become meaningless. A sector-based universal scheme would allow labels to reflect the most important environmental priorities, both in terms of consumer behaviour and in terms of the environmental priorities identified for each sector, the report concluded.

Calls for voluntary country of origin labelling

Secretary of State for the Department for Environment, Food and Rural Affairs, Hillary Benn, has called for supermarkets and food companies to provide consumers with clearer information on the origin of food products, in the wake of the recent Irish pork scare. Benn said that the UK Government was pressing the EU to tighten labelling requirements, so that food manufacturers would be compelled to indicate where an animal was born, reared and slaughtered. In the meantime, Benn said that he planned to meet food industry representatives to discuss how manufacturers could 'get ahead here by voluntarily introducing country of origin food labelling'.

Food Security

Food security remains a priority for the UK Government, highlighted in a speech given by Secretary of State for the Department for Environment, Food and Rural Affairs, Hillary Benn at the January 2009 Oxford Farming Conference. Benn said that the best way for the UK to ensure food security was through a strong vibrant domestic agricultural sector and robust global trading system (Benn noted that the UK was a significant food and drink exporter – to the tune of £11.7 billion in 2007).

Benn said that he wanted British agriculture to produce as much food as possible – 'No ifs. No buts' – in response to market demand and in an environmentally sustainable manner. He noted that long term food security was a 'global challenge' in which environmental protection and increasing production went hand in hand. Benn's

comments follow his speech to the Fabian Society in December 2008, where he emphasised that UK food security was about security of supply, not self sufficiency.

On 5 February, the Department for Innovation, Universities and Skills launched its 'Food and Farming Futures' project which will examine how the world can feed a rapidly expanding population. The project will analyse the global food system including changing demand, production and supply. It will also consider food and farming in oceans and freshwater environments as well as on land. The project's findings are expected to be launched in late 2010.

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