

FOOD MILES/SUSTAINABILITY MARKET INTELLIGENCE

January 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.

USA

IN SUM:

- The buy local movement continues to gain momentum in the US.
- A new report finds that consumer goods companies that do not implement environmental practices could face potentially significant reductions in earnings, despite the current economic crisis.
- The proposition to ban sow and veal crates and battery hen cages in California has been passed, which has upset the commercial egg industry.
- A water footprinting conference in San Francisco identified water as the “new carbon” but was met with controversy when public-interest groups were refused entry.
- Wal-Mart is funding the creation of a sustainable food system that will link small producers with large markets.
- The new Administration has signalled a clear shift in climate change policy with its appointment of a Special Envoy for Climate Change.
- A draft sustainable agriculture standard that took an “organics-plus” approach has been set aside by the American National Standards Institute and will now act only as a “reference document”.
- Mandatory Country of Origin Labelling entered into force on 1 October 2008 but the new Administration has promised to review the regulations, in response to concerns raised by industry.
- The US International Trade Commission has released a report on its investigation into the effects on the global beef trade of animal health, sanitary, food safety and other measures.

CONSUMER TRENDS

Locavore movement gains momentum

The locavore (buy local) movement continues to grow in the US. Increasingly the concept is a proxy for people's desires to connect with the food they buy – understanding where it came from, were pesticides used, and how animals were

treated, says Laurie Demeritt, who studies American eating patterns for Washington state-based research company The Hartman Group. Taste and freshness is important, but understanding the entire background of the product is just as important.

The number of farmers' markets has increased by seven percent in two years, and nearly 64 percent since it was first measured in 1994. Locally-grown produce was listed as the No.2 item in a "What's Hot" list compiled by the American Culinary Federation. With support from retailers such as Wal-Mart, which has pledged to source US\$400 million worth of fruit and vegetables from in-state farmers, the locavore movement is becoming well established.

Corn-plastic and recycling

Concerned Oregon residents are making noise about the contamination of recycling efforts by corn-based packaging. PLA, or corn plastic, is made with US corn and although its production is more efficient and less harmful to the environment than petroleum-based plastics, it is not easy to dispose of. PLA is compostable only at high temperatures in commercial composting systems but consumers tend to put it in with their recycling because it looks like the other plastics. Municipal waste collection services and recycling facilities are ill-equipped to sort PLA from the other plastics and mixing PLA containers can spoil the recycling of conventional plastics. The result is that it ends up in the landfill. NatureWorks, a Minnesota-based maker of PLA products, argues that use of PLA is so limited in the US that it will not contaminate recycling efforts. It has undertaken extensive research concluding that the best way to dispose of PLA is through recycling, both now and in the future as more plant-based materials enter the PLA products.

PRIVATE SECTOR ACTIVITY

Economic impacts on 'green' products

A report by the World Resources Institute and A.T.Kearney Inc. has calculated the potential financial impact on consumer goods companies that do not implement environmental strategies. The "future scenario" analysis states that companies in this sector that do not introduce such measures could face a potential reduction in earnings of 13-31 percent by 2013 and 19-47 percent by 2018. The authors find that environmental pressures (such as climate change and water scarcity) will continue to impact on the supply and price of key commodities in the long term, regardless of the current economic crisis. The analysis provides companies with a tool to assess how environmental legislation and climate change could impact their businesses in future years. See www.wri.org/publication/rattling-supply-chains.

In the shorter term, however, early holiday sales of consumer goods have been down and green items are being affected. Sales of luxury items were down 24 percent after the Thanksgiving shopping period and many retailers are reporting declines in sales. Much of what was sold was lower-priced goods such as books and DVDs. Green items generally carry a higher price tag and although many consumers are willing to buy environmentally friendly products, price remains the biggest factor in their decision making.

Animal welfare

Following a hard-fought battle between animal rights campaigners (in particular the Humane Society of the US, and Farm Sanctuary) and the livestock agricultural sector, a proposition to ban sow crates, veal crates and battery cages for laying hens was passed in California on Election Day (4 November 2008). The proposition will come into force in January 2015 and requires that all farm animals “for all or the majority of any day”, not be confined or tethered in a manner that prevents an animal from lying down, standing up, turning around and/or fully extending its limbs without touching another animal or an enclosure such as a cage or stall. As the pork and veal industries have been moving towards crate/stall-free systems, the proposition will have the greatest impact on the egg industry. The egg industry says that the initiative will “essentially close down the commercial egg industry in California”.

Biofuels

The bursting of the biofuel bubble has had increased attention in recent months, with the biggest US ethanol producer VeraSun filing for bankruptcy on 31 October 2008. Ethanol prices have followed oil and gasoline prices downwards in recent months, placing further pressure on the profit margins of ethanol producers already struggling with high corn prices. Some producers, such as VeraSun, locked in corn prices at their summer highs (US\$7/bushel) and have not been able to benefit from the recent drop in corn prices. The ethanol lobby has also sought to be included in the US financial bailout package. The *Financial Times* ran a series of articles on the bubble, available at www.ft.com/ethanol.

Water footprinting

A conference on water footprinting was held in San Francisco in December. “Water is the new carbon,” said Gil Friend, President and CEO of Natural Logic, during his moderation of a session on “The Outlook for Water Supply Shortages”. Speakers included representatives from The Coca-Cola Company, PepsiCo International, Nestle Waters, MillerCoors, and Cadbury as well as water experts, academics and consultants from a variety of firms, including Business for Social Responsibility and Natural Logic. The conference was met with protest and controversy, with a media statement from Food & Water Watch saying: “Given the absence of perspectives from those without access to water, this conference appears aimed more at polishing the images of some of the world’s biggest water abusers rather than addressing the very real global water crisis.” It has been reported that conference organisers, Green Power Conferences, refused to include members of public-interest groups on panels so they could speak about the social effects of unsustainable water management.

Sustainable food system

The Wal-Mart Foundation has granted US\$550,000 to the Applied Sustainability Centre at the University of Arkansas. This grant is to help create a sustainable food system that links small producers with large markets. Most small and medium scale agricultural producers and processors do not have access to facilities to combine their products to provide the scales needed by larger markets and therefore miss out on this opportunity. This includes things like insurance, product traceability, documented food

safety systems and other food distribution programs required by larger distributors. It is hoped that the newly developed system will help alleviate these shortfalls.

Restaurants consider sustainability a "hot trend" for 2009

The National Restaurant Association surveyed more than 1,600 chef members of the American Culinary Federation and found that nutrition and philosophy driven food choices will influence menus in 2009. The survey asked the chefs to rate 208 individual food and beverage items, preparation methods and culinary themes as a "hot trend", "yesterday's news" or "perennial favourite". The top 20 "trendy" items included local sourcing, organics, artisanal items, sustainable seafood, animal welfare and free range pork and poultry. Other trends included healthy choices such as bite-size desserts, healthy children's meals and gluten-free and allergy conscious meals.

GOVERNMENT ACTIVITY

Climate change

At the November Governors' Global Climate Summit in California, the then President-Elect Obama promised vigorous leadership on international climate change, mentioning the UN process and restating his commitment to a Federal cap and trade system with strong emission reduction targets.

On 26 January 2009, Secretary of State Hilary Clinton announced the appointment of Todd Stern as a Special Envoy for Climate Change. Stern will be the new Administration's chief climate negotiator at the UN and in bilateral sessions and will be a lead participant in the development of US-domestic climate and clean energy policy. In Stern's opening remarks he notes that the US "can only expect to lead abroad if we are prepared to act decisively at home" but then adds that "we can only meet the climate challenge with a response that is genuinely global". Stern observes that "this is not a time for negotiators to cling to old orthodoxies", rather "we will need a strong, new multilateral agreement. We will need partnerships and joint ventures among countries, collaborations between governments and the private sector, new technology and new financing...and above all, political will". For the full speech, including Secretary Clinton's remarks see www.state.gov/secretary/rm/2009a/01/115409.htm.

ANSI Sustainable Agriculture draft standard

The Leonardo Academy is developing a draft standard for sustainable agriculture for adoption by the American National Standards Institute (ANSI). The draft has been the subject of considerable concern within the US agricultural sector and food industries and USDA as it takes an "organics-plus" approach to defining 'sustainable agriculture'. Concerned also about the Leonardo Academy's standards development process, USDA has appealed to ANSI to remove the Academy's ANSI accreditation.

At the first meeting of the Standards Committee considering the Leonardo Academy proposal, it was decided to set the draft aside and treat it as a reference document for the development of the Sustainable Agriculture Standard (a modest victory for concerned parties). During this meeting, the Standards Committee also established a number of taskforces to: undertake a needs assessment; define principles and scope; gather and compare all relevant existing standards and reference documents; report on

the current state of measurement tools and indicators for sustainability; and specify processes for full stakeholder participation.

Mandatory Country Of Origin Labelling

Mandatory Country of Origin Labelling (MCOOL) entered into force on 1 October 2008. The Final Rule for MCOOL has been published. It does not include any changes relating to ground meat but contains other changes that are controversial with the livestock industry. President Obama has issued an order to delay all regulations that have been published but not yet come into effect for another 60 days. The Secretary of Agriculture has promised to review the MCOOL regulations, giving the factions of the beef industry that are unhappy with the Final Rule another possible avenue to have their concerns heard. It is not possible to distinguish the implementation of MCOOL from other factors (including decreased consumer demand and exchange rate fluctuations) on beef trade, but it appears that MCOOL has had little impact to date on exports of New Zealand beef to the US. The Canadian Government recently announced that it was seeking formal consultations with the US regarding MCOOL under the World Trade Organisation dispute settlement process. The first round of consultations was held in December.

Food safety

There has been no progress with food safety legislation since the introduction of Senator Richard Durbin's (Democrat, Illinois) revised version of his food safety legislation in July 2008. On the House side, Representative John Dingell has been replaced as Chairman of the House Energy and Commerce Committee, which may impact on his own ability to push through his own food safety bill.

Following the discovery of melamine in Chinese dairy products, the safety of food products imported from China (in particular) has come under further scrutiny. The US Food & Drug Administration (FDA) has placed additional restrictions on food products imported from China that contain milk, with shipments to be held at port of entry until an independent laboratory verifies that representative samples contain no melamine or cyanuric acid. The FDA also opened an office in Beijing in December and has plans to open two more offices in China in the near future.

Global beef trade

In October 2008, the US International Trade Commission (USITC) released a report on its investigation into the effects of animal health, sanitary, food safety and other measures on global beef trade. The report estimates that BSE-related restrictions on US beef exports have cost the US beef industry US\$11billion over 2004-2007, with Japan and Korea responsible for most of the loss. The impact of tariffs and tariff rate quotas on US beef exports is found to be less than the impact of BSE-related restrictions. To download a copy of the (279pg) report, see <http://hotdocs.usitc.gov/docs/pubs/332/pub4033.pdf>.

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