



a joint initiative from SDC and NCC

SUSTAINABLE CONSUMPTION: THE ROLE OF FOOD RETAIL

A Sustainable Consumption Roundtable response to the draft Food Industry Sustainability Strategy

This submission is informed by discussion at a seminar held by the Sustainable Consumption Roundtable on 28 June on the subject of Sustainable Consumption in the Food Industry Sustainability Strategy. The Strategy sets out to apply sustainable development thinking to the entire food supply chain. Our recommendations, and the seminar proceedings that informed them, are clearly focused on the consumption end of this chain. We are interested in how FISS addresses the imperative of shifting society towards more sustainable patterns of food consumption, and the role of food retailers in this challenge. A more detailed note on discussions is attached as Annex A, and the seminar agenda and a list of participants are attached as Annex B.

Summary

The FISS makes clear the urgent need to make food consumption patterns more sustainable. However it has not yet set out a compelling agenda for action by the food retail sector to make this possible. Only the early movers in the sector are willing to engage, and these companies cannot be expected to operate far outside of a business case. Even where small financial savings may result, this is often not enough when sustainability initiatives are competing for funding with other, potentially far higher-yielding investments. For early movers on sustainability the opportunity cost of ignoring this fundamental business principle can be highly damaging.

As the experience of the Race To The Top initiative demonstrates, there is currently no business case for the sector as a whole to address the concerns of citizens, where these are not expressed in their behaviour as customers. There was clear consensus among retailers and wider stakeholders at the seminar that it is the role of Government to close this governance gap, by making a clear commitment to intervene with policy tools where voluntary action does not deliver.

The Roundtable makes the following key recommendations:

- **The FISS needs to instigate the development of a clear Sustainable Consumption Roadmap for action by the food retail sector on a shortlist of critical issues.** This shortlist could usefully include: food miles, food and packaging waste, chemicals, fish, meat and dairy, and ethical trade; but this shortlist would be decided by the Champions Group (see below). This roadmap should set out clearly what outcomes need to be delivered by voluntary action, and a timescale at which

policy incentives, both negative and positive, will be enacted if outcomes are not met.

- The rules of engagement with the industry need to change. **A Champions Group of strategic thinkers from among the early movers in the sector should be established** to develop the food retail roadmap in partnership with NGO specialists and policy-makers from all relevant departments. The objective of the FISS is a leadership agenda for change, not consensus around the status quo. Trade associations such as the BRC are constrained by the pace of their slowest members.
- **It is important for the Strategy to make clear connections between Government agendas on public health, sustainable consumption and animal welfare.** In view of recent evidence on the disproportionately high environmental impact of meat and dairy consumption, the FISS should be explicit about the need for Government to work with stakeholders to promote a more balanced diet with less frequent consumption of meat.
- While it is crucial for the FISS to make the connections across sustainable consumption and production, the **Sustainable Consumption Roadmap should set out targets and timescales against single issues**, to enable businesses to assign clear ownership internally and report against progress in a robust and meaningful way.

The Sustainable Consumption Roundtable

The UK's Sustainable Consumption Roundtable is an initiative jointly hosted by the National Consumer Council and the Sustainable Development Commission. Funded by Defra and the DTI, the Roundtable brings together a small group of leading experts in consumer policy, retailing and sustainability to advise Government on how to drive a significant shift towards more sustainable patterns of consumption in the UK. The Roundtable is Chaired by Ed Mayo and Alan Knight. It is due to report in March 2006, following which the Government will set out a plan for further action on sustainable consumption.

Sustainable consumption in the FISS

The FISS makes clear the urgency of addressing the carbon and wider environmental impacts of the food industry by changing food consumption patterns. It also makes clear that "it is the responsibility of Government and business to enable consumers to make sustainable choices"(2.1.39), while acknowledging that "price, use by date and taste are the three most dominant factors in consumer thinking" and "wider sustainability issues...do not feature highly." (2.1.29) The role of food retailers as choice editors for consumers is therefore very clear. The FISS sets out clearly the challenge of sustainable consumption for the food retail sector:

"Sustainable consumption and production represents a new frontier for Corporate Social Responsibility, in which the food industry will need to consider the implications of their business model and product offer for the necessary shift towards consuming differently, based on compatibility with a 'one planet economy' and consumer well-being (3.1.5)"

However, the FISS currently lacks actions and commitments proportionate to this challenge. The recommendations in the consumer behaviour section lack timescales and targets, and are currently confined to further research on consumer behaviour, and product lifecycle analysis to underpin information-based approaches such as assurance schemes and Environment Direct. The limitations of information-based approaches to behaviour change are acknowledged clearly in the Government's new Sustainable Development Strategy, 'Securing the Future.' The FISS needs to set out clear actions for Government and the food retail sector to make more sustainable consumption patterns the norm through the SD Strategy's four-step approach: Exemplify, Enable, Encourage and Engage.

Lessons from Race to the Top

The experience of the Race To The Top initiative facilitated by IIED offers some important lessons. Ultimately only three supermarkets were willing to make benchmarking data on sustainability available on a voluntary basis. The voluntary approach failed because in an intensely competitive business climate the business case for stakeholder accountability was not sufficient to divert attention and resources away from the bottom line. Supermarkets are intensely customer-focused, but people make short-cuts as consumers that cannot generally accommodate their wider concerns as citizens. IIED concluded that where consumer value and sustainable development do not overlap, there is a governance gap. The business case for action by food retailers is not sufficient without a supporting policy framework. It is the role of Government to set the necessary framework to fill the governance gap and enable the food retail sector to deliver more sustainable consumption.

The limitations of the voluntary approach

The Government's better regulation agenda aims to ensure that business is not unduly burdened with poorly targeted legislation and 'red tape'. Such legislation can sometimes impede the delivery of sustainability goals. The preference of policy-makers is therefore for voluntary codes when trying to influence the behaviour of business.

However, care must be taken in the design of voluntary codes to ensure that they will deliver the outcomes required. Voluntary codes can work best in two cases:

- 1.Process** - When they define acceptable ways of complying with legislation e.g. Reasonable Care etc.
- 2.Encourage** - When they encourage a minority vanguard of the market to demonstrate possible market transformation e.g. FSC, Salt usage, ETI etc. prior to eventual legislation. Or when voluntary agreements are in place in advance of potential regulation/legislation to prepare industry for future standards.

Voluntary agreements fail when they aim to move an entire sector towards best practice without any sanction on inaction. This approach has been attempted frequently in the past and, on the evidence, has always failed: for instance in the case of the *Food on the Go* litter code, and the Code of Practice on Commercial Leases. Indeed, business representatives present at the seminar were unable to cite a single instance where such codes had been effective.

As Race To The Top demonstrated, businesses that are not in the vanguard will have no incentive to participate if there is no disbenefit to inaction.

- Early movers receive no reward, and can run the risk of punishment by the market if there is no level playing field.
- Voluntary initiatives are not free: they consume time and resources on the part of both Government and business, so they cannot be justified where they are unlikely to work.

The FISS in its current form is proposing a voluntary agreement without sanctions and is attempting to influence the entire sector. Retailers present at the seminar emphasised that the sector therefore saw no compelling case for engagement. What is needed is an approach that gives encouragement to the early movers to demonstrate what is possible on a menu of issues, with a clear commitment to enact well-designed policy measures if the rest of the sector does not follow. A roadmap should set out clearly the 'system conditions' for regulation on a shortlist of priority issues where the business case is judged to be weak: ie at what date will progress be reviewed and policy measures be introduced if clearly specified outcomes have not been achieved. By 'regulation' we refer to a package of possible policy tools that can reward action and/or sanction inaction, including disclosure rules, fiscal measures, trading mechanisms, competition rules and planning policy. If well-designed, the prospect of such interventions would be sufficient to create a business case for voluntary action across the sector.

This roadmap would give business clarity and certainty about the scale and pace of change required, and time to innovate in response. It would prescribe outcomes but not approaches, enabling businesses to develop their own solutions. First movers would have the prospect of competitive advantage over competitors that do not invest voluntarily in solutions ahead of regulation.

The case for a Champions Group

The Sustainable Development Commission has recommended that the Government form a Champions Group of leaders and innovators to steer and help implement the FISS process. We support this recommendation and suggest that this group should consist of strategic thinkers from early-mover companies and a small number of specialists from NGOs and academia. This Group should be resourced to develop a shortlist of issues on which to pilot the roadmap, and to engage with senior policy-makers from HM Treasury, ODPM, DfT, Defra, DTI and the DoH in designing the system conditions for regulation on these issues.

**Alan Knight –
Co-Chair, Sustainable Consumption Roundtable
June 2005**

Annex A: Notes from seminar discussion

Balancing integration and clarity of message

There was much discussion of the relative merits of joined-up thinking and single issue agendas. Participants were concerned that the FISS should convey the integrated nature of the sustainable consumption challenge, but not at the expense of clarity in its agenda for action. Single issues are more easily managed and owned by business, and a roadmap for action should break sustainable consumption down into manageable goals.

It was pointed out that consumers have shown that they are capable of grasping and engaging with simple messages without oversimplifying. Recent examples include the 'Feed me better campaign' but other examples are the reaction to Food & Mouth, which brought issue of local economies to consumers. Another example is ethical trade, which to most people is not simply about labour standards but says a lot more about quality of food, fairness and global trade.

However, FISS can help ensure that win-wins and trade-offs across different issues are identified. The FISS does not as it stands exploit the clear links between the sustainability agenda and other issues such as health, to achieve real joined up thinking across Government. A number of participants pointed out that greater integration is needed between Government agendas on public health, environmental and landscape quality, and animal welfare, to ensure that every opportunity is taken by DoH, Defra and food retailers to deliver on all three simultaneously. In particular Government should give active consideration to the latest evidence of the disproportionate impact of meat-intensive diets on the environment, with associated negative impacts on health and animal welfare. This is an area where the Government can exemplify the changes needed through the school and hospital food procurement system, but in relation to the FISS the role of retail buying and promotions also needs consideration.

The limitations of the Green Consumer

Participants generally agreed that proactive consumers need clearer information to enable them to make better choices on the quality and sustainability of their food. A number of participants called for greater scrutiny of assurance schemes to ensure that they are not misleading the public. Some schemes, such as the Little Red Tractor, are often assumed by consumers to indicate standards above the legal minimum, when this may not be the case. Greater clarification is certainly needed.

However there was full agreement that better information and labelling will not by itself drive significant market transformation. Consumers rely on decision making short-cuts when buying goods that cannot easily accommodate the complexities of sustainability. Even in clearly ethical businesses such as the Cooperative Bank only one third of customers use them because of the ethical stance. Other drivers are clearly more immediate, as the case of Green & Blacks illustrates. Their success has come primarily from a marketing strategy that emphasises luxury over and above ethics. This suggests that a sustainable food label will only help a minority of proactive consumers make more informed choices.

There are some sustainability issues that do resonate strongly with consumers, such as the recent GMO debate. The strength of the public reaction to GMO led a number of large retailers to remove GMO products from the shelves. This illustrates that where industry priorities and customer concerns coincide, retailers will take action. However, retailers will only act on sustainability where citizen and consumer concerns converge. Where the

citizen and consumer do not coincide however there remains a significant governance gap.

System change

Where the green consumer is making him/herself felt is in the shift towards more producer-oriented models such as farmers markets and organic box schemes. This is symptomatic of a range of concerns including food quality, accountability, food miles, animal welfare and the power imbalance between small farmers and supermarkets. However, such purchasing options are still restricted to the few with the right geographical location, working pattern and income. NGO representatives argues that the FISS needs to do more to grapple with these citizen concerns, and their implications for the food system. Broad public debate is needed on the implications of consolidation and centralisation on the diversity and accountability of food retail.

Building a business case.

It was agreed that green consumer demand does not currently offer sufficient incentives for supermarkets to make sustainable development a boardroom issue. There needs to be another driver.

The case of energy efficiency is often assumed to be a clear win-win for business and the environment. However, business representatives at the seminar cautioned that businesses pursue profit maximisation strategies in which energy efficiency investment has to compete for capital expenditure with other options that yield greater profit. The fact that many competitive businesses with a clear eye for profit have not exploited the energy efficiency payback is therefore not necessarily due to lack of information. This suggests therefore that we need more positive incentives or legislation to reinforce the arguments behind these investments.

As the FISS consultation acknowledges, the environmental impact of the Food Chain is huge. Greenhouse gas emissions (not just CO₂) are extremely damaging. The Government is already reinforcing the business case for energy efficiency in a number of other sectors through various means such as the Climate Change Agreements and EU ETS. A number of participants argued that it seems inconsistent to limit the use of such incentives in the food industry as more widespread use of these measures could be powerful incentives.

As highly competitive businesses, supermarkets will only change their internal priorities if there is a commercial incentive to do so. If green consumers aren't able to provide this incentive and the economics of sustainability does not always add up, then it must fall to Government to create this incentive and fill the gap. Contrary to some perceptions retailers are already proficient at working profitably within the existing regulatory framework. For example, the OFR review will be requiring that business give projections of material non-financial information in their annual report which are likely to be primarily regulatory issues including:

- Consumer spending (level of future taxation, interest rates)
- Planning permission & business rates
- OFT/ DTI definition and threshold of single markets
- National minimum wage
- Combined Code on Governance

Although many trade associations will lobby hard against legislation, the worst case scenario for leading businesses is where free riders or laggards in the sector undermine

their profitability. Regulation in this instance is often a huge relief and levels the playing field.

For businesses to be willing to take action on sustainability, the playing field either needs to be level or there needs to be an indication that it will be in the future. This will ensure that the first movers are able to recoup any lost profitability through competitive advantage.

The Government needs to be realistic about how and when voluntary initiatives actually work. To drive forward sustainability such codes need a strong regulatory backing. It was notable that on this point the vanguard of the food retailers and the NGOs were largely agreed. However, it was noted that this needs to be done with sensitivity to the needs of the supermarket suppliers to ensure that they not disproportionately effected by any extra costs this involves.

Lessons for the future

It is clear from the informal discussions held by the Sustainable Consumption Roundtable that no party finds the FISS document particularly satisfactory or compelling as it stands. This suggests that there needs to be a fundamental rethink of the rules of engagement with industry when drafting sector sustainability strategies. The Government instead needs to work with leaders to create a document that is visionary and leading edge to illustrate the business case.

At the seminar close, participants were asked to offer one key recommendation each for the FISS process. The following comments were made:

- Ask honestly whether what it sets out is achievable.
- Learn the lessons from the Race to the Top Initiative about the success (or not) of voluntary initiatives.
- The FISS needs to be supportive of alternative food retail infrastructure like farmers markets, community supported agriculture and box schemes.
- Would like to see Government taking a lead on the impact of our diets on the environment, particularly the impact of a high dependency on meat and dairy.
- Decide on a short list of critical issues and how these can be addressed by industry.
- Work with the early movers on sustainability to establish a business case.
- FISS needs to work more on discouraging sector laggards and encouraging leaders.
- Keep the document simple with minimal amounts of jargon.
- Give self regulation a chance.
- The strategy needs to do what it takes to get greater buy-in from retailers.
- The FISS should encourage a more diverse food chain structure, in particular one that supports local food and farmers markets.
- The Government needs to start the debate on how we should be actually reducing our consumption.
- Dispel the myth of low industry appetite for regulation because trade associations are only able to put forward a lowest common denominator opinion.
- Need to acknowledge that environmental issues like climate change that are becoming non-negotiable.
- The document should explore the impact of food chains on landscape (eg poly - tunnels).

- The document needs a road map which sets out how Government will back up its aims with regulation and incentives to strengthen where there is no business case.
- Retailers need to set out better and clearer information to consumers (but just don't expect that to achieve much by itself!).
- Identify in each section of the FISS what are the critical impacts and decide how and which industry is able to make a difference.
- Get inside the head of different players in the industry (retailers, producers, manufacturers) when suggesting carrot and stick policies.
- Focus on a short list of critical issues where there is a weak business case and work with early movers to establish this.

Sustainable Consumption Roundtable
June 2005

Annex B: Agenda and Attendee list

SUSTAINABLE CONSUMPTION IN THE FOOD INDUSTRY SUSTAINABILITY STRATEGY (FISS)

SEMINAR AGENDA

Location: Defra, Nobel House, 17 Smiths Square, London. SW1P 3JR

Room: Conference Room B

Date: 28th June 2005

Time: 9.30 – 13.00 am

- 9.30** Introductions and welcome
Chair: Alan Knight, Co-Chair Sustainable Consumption Roundtable
- 9.45** Sustainable consumption and food retail in the Food Industry Sustainability Strategy
Callton Young, Defra Head of Food & Drink Industry Division
- 10.00** Questions
- 10.15** The role of supermarkets in sustainable consumption
- Bill Vorley, International Institute for Environment & Development
 - Rowland Hill, Head of CSR, Marks & Spencer
- 10.45** **Discussion: Promoting Sustainable Consumption in the FISS and beyond**
- What are the limits of Green Consumerism?
 - Early movers. Do they benefit enough? & what can Government do to increase these benefits?
 - What does FISS need to incorporate in recognition of the above?
- 12.30** Close & lunch

List of attendees

Alison	Austin	Sainsbury's
John	Breach	British Independent Fruit Growers Association
Rachel	Burlton	Co-Op
Joanna	Collins	SCR Convener
Kath	Dalmaney	National Consumer Council (& Food Commission)
Anthony	Davison	Big Barn
Joyce	D'Silva	Compassion in World Farming
Sara	Eppel	SDC
Dr Andrew	Fearne	University of Kent
Tara	Garnett	Food and Climate Research Network
Denny	Gray	SDC
Charles	Harkness	Defra EBC
Roland	Hill	Marks & Spencer
Prof. David	Hughes	Imperial College
Terry	Jones	NFU
Dan	Keech	Sustain
Alan	Knight	SCR Co-Chair
Poppy	Maltby	SCR Secretariat
Jason	Marsh	Defra
Baroness	Miller	House of Lords
James	Petts	Countryside Agency
Bill	Vorley	IIED
Bernie	Walsh	Defra EBC
Bobbie	Warwick	Defra (FISS)
Callton	Young	Defra