



## Notes to the Panel Discussion:

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### Can 'Big Food' Embrace Sustainable Agriculture?

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A Sustainability Practice Network event  
Hosted by RiskMetrics Group  
Tuesday, Dec. 8, 2009

#### Panelists:

**Michael Doane**, Agricultural Economics and Sustainability, **Monsanto**  
**Ani Gulati**, Assistant General Counsel and Sustainability, **General Mills**  
**Chip Jones**, SVP Corporate Responsibility and Sustainability, **Dean Foods**  
**Jake Baker**, Climate Change Investment Research, **Deutsche Bank**  
**Tensie Whelan**, President, **Rainforest Alliance**  
**Josh Viertel**, President, **Slow Food USA**

#### Moderator:

Linda-Eling Lee, Sustainability Research, **RiskMetrics Group**

#### Introductions

**Tensie Whelan** represented the **Rainforest Alliance**. The non-governmental organization is active in 70 countries around the world, with activities that include providing certification of such diverse businesses as agriculture and tourism. Rainforest Alliance's agribusiness partnerships cover tea and coffee plantations, as well as carbon credits (specifically as relates to tree cover).

**Jake Baker** represented **Deutsche Bank** and, more generally, the investor perspective. Among other services, Deutsche Bank offers a number of themed portfolios, including clean energy, agriculture, and water.

**Michael Doane** is an agricultural economist at **Monsanto**, a diverse chemical and agribusiness supply company based in St Louis, and considers himself a fifth-generation farmer. He offered that Monsanto sees its business as crop improvement.

**Chip Jones** is a Senior VP at **Dean Foods**. Dean, which produces primarily dairy products, comprises a number of brands including Horizon Organic, Silk (soymilk), and a variety of regional dairy brands spanning the U.S.

**Ani Gulati** is an attorney and member of the sustainability team at **General Mills**, the international food manufacturer.

**Josh Viertel** represented **Slow Food**, an international non-governmental organization present in over 130 countries. Slow Food seeks to raise awareness of non-processed foods and promote an alternative to the conventional fossil-fuel and processing-heavy system currently in place.

## **Topic 1.** **Agriculture, Climate Change, and Water**

Moderator **Linda-Eling Lee** of **RiskMetrics** announced that the discussion would be focused on two themes – (1) *climate change and water scarcity*, and (2) *consumer demand for more sustainable products*. She launched the climate change segment with a question for Deutsche Bank:

*Given that agriculture accounts for 15 percent of global greenhouse gas emissions and 70 percent of the freshwater withdrawal, what are the key challenges around these issues for food companies, and where are the related investment opportunities?*

**Jake** quoted a question posed by his CEO: How can we feed the world in the future? The answer, explored in a recent Deutsche Bank report, was based on GIS analysis by the University of Wisconsin SAGE center, which adjusted yields region by region. The conclusion was that there is no one solution, but that filling the production gap will require a combination of every solution available, including transgenic crops (e.g. those that are drought resistant or allow reduced tillage), drip irrigation, etc. Jake sees investment opportunities in a number of these solutions, including equipment.

Pointing out that the profit opportunities did not seem to apply to food manufacturers, Linda asked **Dean Foods**:

*As one of the major contributors to agricultural emissions, do dairy farmers see any upside to reducing emissions, or are their initiatives really aimed at downside protection against future regulations? What incentives to dairy farmers have to reduce emissions given lack of regulatory threat currently?*

**Chip** pointed to a digester that Dean built in Idaho as an example of where the company has seen the upside to capturing methane. But he commented that a milk company cannot manage a utility, and this solution may not be feasible. And farmers continue to need convincing that such measures are worth the effort. Nevertheless, Dairy Management Inc has 15 projects underway, and digesters have the added benefit of reducing water pollution.

Milk companies, however, are relatively close to farmers. With big manufacturers traditionally several steps removed from farmers, Linda asked the **Rainforest Alliance**:

*What are the most difficult challenges in trying to influence the farm level of the value chain, and what kind of leverage do companies have in trying to affect agricultural practices to reduce environmental impact?*

To start, **Tensie** pointed out that farmers are not trained even in current best practices, where little or no technology is required. Diffusion of these practices could go a long way to mitigating the problems of deforestation and poor soil management -- without requiring new technology. Previously, government-sponsored agricultural extensions would diffuse best practices into the system, but with these no longer provided by governments, companies and NGOs are slowly realizing that they need to step into the void. Companies' interest is to ensure quality and consistency, as well as to avoid reputational risk. Companies can also get lower prices by encouraging greater efficiency.

**Ani**, of **General Mills**, added that his company has been investing money in taking research to farmers, for instance by encouraging drip irrigation. The company has partners in the U.S. and abroad, e.g. the Nature Conservancy in Minnesota. They have agricultural scientists who offer their expertise to growers. He also discussed Green Giant as a brand in the company that works closely with vegetable farmers.

Linda next turned to **Monsanto** on the issue of water scarcity:

*Monsanto is offering a solution to water scarcity problem in the form of a drought-resistant seed. Can you give us a status update of the technology, where you are currently very competitive with DuPont?*

**Michael** observed that, at its base, food comes from water. The characteristics of seeds can make better use of water in several ways, including by requiring less plowing (which conserves water in the soil and reduces emissions). And, by requiring less capital investment from farmers, the seeds may find easier uptake in the market.

Linda followed up:

*Does this line of development represent a strategic departure, given that the bulk of its transgenic offerings to date have been tied to chemical sales, for example, Round Up*

Michael encapsulated Monsanto's strategy as solving farmers' problems, pointing out that this strategy has not changed.

**Josh** from **Slow Foods** received the next question:

*Given Slow Food's grass roots approach to addressing climate change, what could we do to scale up best practices on small farms?*

Josh began by pointing out that we grew enough food last year to feed 11 billion people, yet we also had more hunger and more obesity than ever before, as well as more profit for food companies. The problem, Josh said, is a distribution gap, rather than a production gap. His view is that we need diverse production from local markets, but that he doesn't see this solution as helping large investors.

Josh pointed to the IIASTD study sponsored by the UN and released in fall 2008, which showed that science and technology haven't played a significant role to date in increasing agricultural productivity. To the contrary, he observed that where there has been capital investment, there has been hunger and environmental degradation -- and to export this model would be to widen the problem rather than to offer a solution. The Slow Foods perspective is that the way forward will include land reform, solutions that are local, and following more of what farmers want. A wholesale shift to organic agriculture in the US would be the equivalent of removing two million cars off the road and, depending on the study referenced, could even increase yields.

**Chip** of **Dean Foods** pointed out that the corporate structure is not necessarily antithetical to this perspective, that milk production remains a fairly local business, and that Dairy Management Inc, of which Dean Foods is a part, is especially proactive about involving farmers in its initiatives.

**Michael** of **Monsanto** offered his opinion that everyone should be a local farmer and gain a better understanding of agriculture, pursuing practices that reflect their particular values. Monsanto would gladly sell seeds to these farmers. Even today, there are one billion people working in the agriculture sector, making it the second biggest source of employment after the services sector. Yet within this model, he pointed out, there remains wide disparity, with African corn yields one-sixth that in the U.S. Given such a reality, he believes that producing more is an imperative.

## **Topic 2.**

### **Consumer Demand for Sustainability**

**Linda** opened the second half of the discussion with a question for **Slow Foods**:

*Given recent substantial growth in the local food movement, is there a limit to the demand for food grown locally and organically, especially given the current economic crisis where the price for these products is a major barrier to growth?*

**Josh** sees a cap to "fancy" food but not to local food. One effect of the crisis has been growth in vegetable seeds, in people starting their own gardens. But while money has driven some of the local food trend, there's also the desire for a good story, a connection to our food, which is hard to fake. Food companies have answered this demand with "supermarket pastoral," as Michael Pollan calls it. But consumers have a tendency to eventually catch up, sometimes

quickly as with the recent Smart Choices label which consumers rejected. Silk soy milk also saw consumer backlash when switching from "organic" soy beans to "natural" soy beans without changing the label.

Given this trend in consumer demand, Linda asked **General Mills**:

*Is local sourcing compatible with the infrastructure the company has in place to produce and distribute food across a global market?*

**Ani** said that the company has definitely seen some of these trends and made some inroads in meeting these demands. He adds that the company has programs in Malawi and Tanzania, where it sends employees to teach farming techniques and where production and demand remain very local.

**Rainforest Alliance** got the next question:

*Having worked with some of the biggest food companies, what are the barriers in the sourcing and manufacturing processes to providing more transparency to consumers about where food comes from?*

**Tensie** responded that it is easier to trace for fresh products but that increasingly companies are focusing on tracing key ingredients, such as palm oil. A study on our interaction with food shows that the nature of our interaction is changing, as evidenced by the spreading of focus on origin of wine to now cocoa. Research by the Grocery Manufacturers Association shows that about 10 percent of consumers will go out of their way for more sustainable products, but most consumers would like to have these choices if they are convenient -- but they are not finding the information they need to be able to act on their values. Tensie pointed out that neither companies nor PR agencies know how to market sustainability, but if they can convince us to buy Ruffles, then they can convince us to buy other things as well.

Linda added that trust and safety -- or at least perceived safety -- are other factors driving interest in supply chain transparency. She asked **Dean Foods**:

*Could you tell us how you make business decisions about your sourcing choices? Why GMO-free soy beans for Silk, but not necessarily organic? When did it become clear that rBST wasn't going to work for consumers?*

To start, **Chip** pointed out that the decision surrounding the switch from "organic" to "natural" soybeans was due to an inadequate supply of organic beans. On the other hand, the elimination of rBST was driven by feedback from retailers, channeling customer concerns. In the case of the switch from organic soybeans, the management of the Silk brand really took the consumer backlash personally, they are so concerned with maintaining consumers' trust.

Expanding on the theme of trust, Linda posed the question to **Monsanto**:

*In the face of such a large market as Europe failing to accept GMOs, how should we as investors weigh the technological promise touted in the company's R&D pipeline against the many and unpredictable barriers of consumer and regulatory acceptance?*

**Michael** countered that, despite the obstacles in some markets, transgenic technology has spread to two billion acres since its development in the 1990s, making it one of the fastest adoptions of any agricultural technology. But the fundamental question for Monsanto and other corporations is whether consumers trust the company, and in many ways a strong regulatory process helps foster that trust. Brazil, likely to be the next bread basket of the world, has a regulatory process that's more certain and faster than that in the U.S. Even in the EU, the scientists generally accept the promise of GMO technology, though the politicians continue to reject it. But the company is seeing progress in formerly distrusting societies, such as Kenya and China, which are now beginning to approve bio-tech crops. Monsanto continues to work on the question of how the company can earn trust.

Returning to **Deutsche Bank**, Linda asked about the investor perspective:

*How we should consider consumer and public acceptance as a factor for valuing technological advancements in agriculture, not just GMOs but use of antibiotics or technologies for handling livestock, etc.*

**Jake** replied that investment in agriculture is investment in civilization. China, for instance, is also adopting individual car use. And we need to adapt to the reality of such demand. There will be industrial farms – how do we mitigate the problems that face them? Deforestation is unsustainable – but how can technology help?

As a last question, Linda asked the panelists:

*Do you see concrete changes coming in U.S. agricultural policy, given symbolic gestures such as with the White House garden and receptiveness at the Department of Agriculture to changes in our food system?*

**Josh** of **Slow Foods** said that we are already seeing a reduction in barriers to small farms and meat processing operations. For the first time, the USDA and DoJ are working together on anti-trust issues, exploring whether consolidation in the food system is harming consumers or farmers. There are hearings on milk, where profits have been up at the same time that prices to farmers have been down, with some losing \$100 per cow per month. [Dean Foods pointed out in private conversation that this statement was misleading, in that the government regulates the price of milk.] Jake pointed out that this could also affect Monsanto, which owns a high market share of cotton and corn. One result could be an increase in price transparency, labeling, etc., to address the previously mentioned question of trust.

**Chip** of **Dean Foods** countered that, while the details are complicated, milk has been a volatile market for the last 10-15 years and is in many ways a special case.

**Michael** of **Monsanto** said that farmers now have gotten greater benefits and more choice than previously, and that competition is maintained through Monsanto's open licenses of its seeds to competing seed companies. The seed market is highly competitive.

## **Audience Questions**

An attendee who has been in the food industry for 19 years, asked a two-part question:

*Will we see a change in how we measure productivity, from its current basis on land to metrics per water or per calorie? And what would happen if corn subsidies went away?*

**Chip** of **Dean Foods** pointed out that any policy change would require a transition period. **Michael** of **Monsanto** stated that we have more land available to farm, but that water is our biggest current challenge. He believes that with fewer subsidies, we would produce more corn, as the subsidies tend to keep less efficient medium and smaller farms in production, and reducing subsidies would encourage consolidation. **Ani** of **General Mills** projects that we will see productivity in terms of water more as the cost of water is better known and factored into production costs. **Josh** of **Slow Foods** said we will see energy as a constraint everywhere but water as a major constraint in some places, and that without subsidies, we would see smaller farms.

A blogger on sustainable agriculture posed the next question to **Monsanto**:

*Given all the challenges farmers face, why oppose seed saving?*

**Monsanto** responded that if a farmer has a heritage seed, he should save it and use it, but that it's different when the seed was created through an investment. Farmers are often choosing to buy seed also, because seed production is not easy and in such an uncertain business, farmers are willing to pay for quality.

A food and sustainability consultant and affiliate of the Sustainable Food Lab asked a question directed at Deutsche Bank:

*What would represent an investment strategy founded on a different vision of diet and nutrition?*

**Jake** replied that writers such as Amory Lovins lean more toward the Slow Foods vision, but organizations such as the Potsdam Institute prefer a vision that focuses on the high value production areas of the world and how to maximize production there.

**Chip** added that much of the current focus is on carbon, but that loses the point of why people buy food. Carbon labeling may be too narrow a focus and may be going in the wrong direction. What we are seeing this year is almost the inverse of where the market was a few years ago and Dean is eager to reduce this volatility.

The last question of the evening was:

*Sustainable timberland has agreed-upon standards, but what is the chance of reaching such agreement for agriculture? Are there labels that are more "sustainable" than USDA Organic?*

**Tensie** replied that organic focuses on reducing chemicals but does not cover social concerns or forest conversion to agricultural use; fair trade focuses on farmers' price but with less attention to environmental impacts. The Rainforest Alliance's approach aims to be more comprehensive, taking in lessons from the Forest Stewardship Council. Individual crops are

developing specialized standards, and there is some effort to coordinate these, such as the ISEAL association of nonprofit certifications. But Rainforest Alliance doesn't support a mega-seal, believing that competition can raise standards. Government can help, but politics tends to skew standards – it is better if governments set minimum standards and keep out fraud but let private entities coordinate the certifications to reduce the influence of politics and let consumers choose.