



SUSTAINABILITY MARKET INTELLIGENCE

October 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 January 2009 NZTE commissioned leading US consumer research and consulting firm The Hartman Group to examine North American consumer perceptions of sustainability and New Zealand. An executive summary of this research is now available for download on www.nzte.govt.nz/explore-export-markets/Export-Markets-Resources/Pages/Consumer-Perceptions-of-Sustainability-and-New-Zealand.aspx.

SUMMARY:

- Coping with recession, premium US consumers adjust demands for food products and restaurant services: New market research concludes that high-income consumers are looking for food adventure, health and nutrition benefits, organic and natural foods, and ethical consumption options, and using the internet and coupons more than the rest of the population.
- Consumer perceptions of sustainability start with food and beverages, says Hartman study: A new study reports on how consumer concerns about health and wellbeing dovetail with concerns about environmental, social, and economic impacts of food and beverages, for example around pesticides, antibiotics, hormones, genetic modification, and artificial ingredients.
- Organics: Overall growth for organic food and beverage sales slowed significantly in the last year, while private-label organic food sales soared. Despite a ban on 'group' certification, natural and organic retailer Whole Foods Market, Inc has had each of its 273 US stores individually certified under USDA organic standards. The Government continues to pay close attention to the rigour of these standards, with a new appropriation approved for an investigation into whether small amounts of non-organic substances are "inappropriately" being allowed.
- Walmart continues to promote "Sustainability Index": Walmart is using webcasts and other meetings to provide further information and invite comment on the development of a "Sustainability Index" it hopes will be adopted across the entire retail industry.
- Report: food, beverage sector's carbon intensity threatens bottom line: A new report identifies carbon emissions embedded in supply chains as a significant financial risk for food companies as emissions pricing is introduced. Meanwhile, Coca-Cola has vowed to reduce its carbon footprint by 15% by 2020. On the other hand, Agriculture Secretary Vilsack announced economic

analysis concluding that economic benefits to agriculture of US cap and trade legislation will likely outweigh costs to the sector.

- WWF, JohnsonDiversey to create global standards for water use: The cleaning products giant is funding WWF to convene a Global Water Roundtable and develop water stewardship standards for efficient use minimising impact on people and the environment.
- Nation's grocery stores take on sustainability issues: The Food Marketing Institute's second Sustainability Summit was told that about 80% of US supermarkets have sustainability initiatives. Among those covered in this report are Hannaford's new LEED-certified store and Whole Foods Market's certified GMO-free private-label range and other initiatives.
- Fisheries and aquaculture certification: WWF is helping Giant Eagle supermarkets to convince all its source fisheries to be assessed for Marine Stewardship Council certification. Major facilities management company Sodexo is to require Best Aquaculture Practices certification for all its farmed seafood sold in North America by 2015. Meanwhile, Whole Foods is marketing fully traceable Alaska salmon from a Yup'ik Eskimo fish processing company.
- Packaging and waste: Whole Foods is also selling water in a new 100% biodegradable, recyclable, compostable plastic bottle; organic grower Earthbound Farm has adopted recycled plastic clamshell packages; a San Francisco wastewater treatment plant is generating energy from food waste; and Fairmont Hotels & Resorts are converting used cooking oils into biodiesel.
- McDonald's tests 10 new green units: Green-designed restaurants are enabling the world's largest fast-food chain to make significant gains in water and energy usage, but packaging waste remains a concern.
- 'Buy local': As multinational corporations invoke 'local' in their marketing, USDA has launched "Know your Farmer, Know your Food" to educate children about food sources and help develop local and regional food systems. The State of Illinois has also legislated local food procurement goals for state agencies and state-funded institutions.
- New resource for information on the US Dairy Sustainability Commitment: www.usdairy.com/sustainability features information, tools and best practices on greenhouse gas emissions reduction and other issues.
- Bill seeks to impose tariff rate quotas on milk protein imports: New Zealand and other dairy exporters to the US are watching carefully legislation under consideration with potentially detrimental effects on trade.

CONSUMER TRENDS

Coping with recession, premium US consumers adjust demands for food products and restaurant services

Even among America's affluent, personal financial trajectories are reshaping consumer spending on groceries and foodservice, according to "Premium Consumers in the New

Economy: Food and Foodservice,” an all-new report by leading market research publisher Packaged Facts. A keener taste for food adventure, elevated health and nutrition consciousness, stronger preferences for organic and natural foods, a heightened sense of ethical consumerism, and a greater propensity for internet and coupon use are the new norm for a growing number of upscale US consumers. Packaged Facts found that the direction of financial change matters less than the fact of financial change in shaping consumer mindsets. Therefore, premium consumers who have taken a financial hit often align in attitudes and behaviour with those on the financial upswing, in contrast to their counterparts whose finances have remained stable. The report defines premium consumers as either single-person households with an income of at least \$75,000, or multiple person households with an income of \$100,000 or more. Premium consumers, though remaining less likely than other consumers to shop at Walmart supercenters, are nevertheless shifting to Walmart at above-average rates. Specific segments (such as Gen Xers) are discovering that fast food, especially in its healthier incarnations, fits well with their current lifestyles. And premium consumers are using coupons more, rather than less, than the rest of the population.

Consumer perceptions of sustainability start with food and beverages, says Hartman study

The food and beverage market is central to consumer perceptions of sustainability, according to a new study by market research firms The Hartman Group and Packaged Facts. Foods intersect with health and wellness concerns in that consumers are focused on both the potentially harmful and the potentially beneficial impacts of food products on their physical health and vitality, according to the joint study “Consumers and Sustainability: Food and Beverage”. Consumers are worried about the presence of certain “negatives” in their foods and beverages – pesticides, antibiotics, hormones, genetically modified ingredients, and artificial ingredients – and the long term impact these may have on their health. As consumers become more educated about the environmental, social and economic impacts of foods and beverages, their health and wellness motivations dovetail with societal concerns, the companies studied said.

Organic food sales hit hard

Sales of organic and natural grocery items grew just 4.6% to \$18.3 billion during the year ended June 13, according to market research firm SPINS Inc., the Wall Street Journal reported. Overall organic food and beverage sales increased 15.8% last year to reach \$22.9 billion, ending a string of years with 20% plus sales growth. The WSJ article described the acceptance of cheaper, private label products by organic food producers and supermarkets to help keep cash-strapped shoppers from trading down to non-organic products. In total, private-label organic food sales soared 34% to \$1.1 billion for the 52-week period that ended June 13. That compares with the \$166 million in organic, private-label sales generated in 2005, according to Nielsen Co. Overall organic food sales in 2005 were \$13.8 billion.

PRIVATE SECTOR ACTIVITY

Walmart continues to promote “Sustainability Index”

On 25 September Walmart Senior Director for Sustainability Rand Waddoups presented a webcast on Walmart’s “Sustainability Index” hosted and moderated by

media company www.greenbiz.com. Waddoups stressed that Walmart hoped that the index would be applied across all retail, not just its company: "We want this to turn into something that is far bigger than Walmart, far more important than any one company." The Index aims to use a life cycle analysis (LCA) approach to increase transparency for consumers and find extra value in supplier production chains, e.g.: efficiencies to lower cost; quality improvements; and increased environmental benefits.

July market intelligence includes the set of 15 Supplier Sustainability Assessment Questions that is the first stage in the development of the index. In parallel, the Sustainability Consortium – a group of academics and companies co-convened by Arizona State University's School of Sustainability and the University of Arkansas's College of Business – is working on the development of LCA methods that are accurate and relatively streamlined, and eventually an open life cycle database. The final component of the project will be a sustainability scoring system, which may take up to five years to have in place and reflected on product labels.

For further information on the webcast, please see www.greenbiz.com/walmart. Walmart will also be sharing more about developments in this area in a Global Sustainability Milestone Meeting on 12 November 2009, which is to be webcast live. For details, please see <http://walmartstores.com/Sustainability>.

Report: food, beverage sector's carbon intensity threatens bottom line

The average food company needs to prepare for the fact that over 90 percent of their carbon emissions are embedded in the supply chain, representing a significant financial risk, according to a new NSF International report. The report, "Carbon Emissions – Measuring the Risks," warned the industry it could see prices rise for goods and services purchased from suppliers who have to pay for their emissions. Many US companies will soon have to pay for greenhouse gas emissions under the planned cap and trade program, an approach used to control pollution by providing economic incentives to companies achieving reductions in pollutant emissions. The cost of carbon may reach as high as 20 percent of earnings for some firms, as measured by earnings before interest, taxes, depreciation and amortization (EBITDA), the report said.

Coca-Cola vows to cut carbon footprint by 15%

Coca-Cola Enterprises Inc. said it will reduce its carbon footprint by 15% by 2020 as part of its "Commitment 2020" program. The Atlanta-based Coca-Cola products marketer and distributor listed goals for its 5 strategic corporate responsibility and sustainability (CRS) focus areas: energy conservation/climate change; water stewardship; sustainable packaging/recycling; product portfolio/well-being; diverse and inclusive culture.

WWF, JohnsonDiversey to create global standards for water use

A new initiative seeks to establish global standards for water stewardship, with the goal of addressing the global threat of water stress, the increasing pollution of rivers and a decline in fresh water wildlife species. The World Wildlife Fund (WWF) said it has accepted a four-year \$1 million grant from cleaning products giant JohnsonDiversey, Inc. to support the initiative and the Global Water Roundtable, which is being convened by the Alliance for Water Stewardship. The Roundtable's primary objective is to bring

together stakeholders from government, science and industry to evaluate and establish a clear set of standards and a certification system for efficient water use. When finished, these new standards will seek to recognize and reward water users who take steps to minimize the impacts of their water use on people and the environment.

Nation's grocery stores take on sustainability issues at summit

Sustainability is quickly weaving its way into the business strategies of the US supermarket industry. Some retailers have embraced sustainability as a core principle of the business model, while others may be integrating cautiously, concerned about too much change too quickly. About 80% of America's supermarkets have embarked on sustainability initiatives, Leslie Sarasin, CEO of the Food Marketing Institute (FMI), told attendees at the trade association's second Sustainability Summit in San Francisco.

Nation's most environmentally advanced supermarket opens

Hannaford Supermarkets said its new store in Augusta, Maine, is the first in the country to win Platinum LEED (Leadership in Energy and Environmental Design) certification, the highest standard of the US Green Building Council. Owned by Delhaize Group of Belgium, Hannaford, which is headquartered in Scarborough, Maine, operates 169 stores in Maine, Massachusetts, New Hampshire, New York and Vermont.

Grocery chain has all stores certified organic, despite ban on 'group' certification

Whole Foods Market, Inc said each of its 273 US stores has been individually certified as organic. The Austin, Texas-based retailer, the world's largest seller of natural and organic foods, was the first national chain to be certified under the USDA's national organic standards in 2003. Whole Foods said it voluntarily opted to have its stores certified to ensure that the integrity of the organic supply chain is intact. Certification requires that organic and non-organic foods cannot be commingled. And, when sanitizing a surface that touches food – knives, cutting boards, displays, bins – the retailer is required to remove completely any sanitizer residue.

Whole Foods to roll out first verified, non-GMO products

Whole Foods Market, Inc. said it will test all private-label branded products to ensure products contain no genetically modified organisms (GMOs), and called on the rest of the industry to participate in an industry-wide migration to verified non-GMO products. They will use the Non-GMO Project's Product Verification Program (PVP), the nation's first system designed to test scientifically whether a product has met a set of defined standards for the presence of GMOs. Once a product has been "verified" as GMO-free by the PVP it can be labelled with the Non-GMO Project's compliance seal. Unlike 30 other countries around the world – including Australia, Russia, China, and all the countries in the EU – the United States and Canada do not require foods containing GMOs to be labelled.

US supermarket chain to ask source fisheries for eco-label

Supermarket chain Giant Eagle, Inc. has signed an agreement with the World Wildlife Fund (WWF) to help convince the company's source fisheries to be assessed under the Marine Stewardship Council's (MSC) sustainability standards. WWF said it will assist the Pittsburgh, Pennsylvania-based company in assessing its current sourcing

of its top seafood species. Giant – with sales over \$7 billion – operates 158 corporate and 65 independently owned and operated supermarkets in addition to more than 130 fuel and convenience stores throughout western Pennsylvania, Ohio, north central West Virginia and Maryland. WWF said it will also help Giant Eagle negotiate with those running the fisheries it sources its wild-caught seafood from to achieve the MSC's eco-label and submit to the year-long evaluation by a third-party certification agency.

Sodexo wants all its farmed seafood certified by 2015

Sodexo, Inc. said it will require Best Aquaculture Practices (BAP) certification for all of its contracted purchases of farmed seafood sold in North America by 2015. Gaithersburg, Maryland-based Sodexo is a major facilities management services company in North America and Mexico with \$7.7 billion in annual revenue. Sodexo serves more than 10 million customers daily in corporations, health care, long term care and retirement centers, schools, 600 college campuses, government, and remote sites. The Best Aquaculture Practices program of the Global Aquaculture Alliance (GAA) is a comprehensive, metrics-based certification program for aquaculture – including farms, hatcheries, and processing plants.

Fish processor offers 100% traceability on certified sustainable salmon

A Yup'ik Eskimo fish processing company already known for its wild Alaska salmon rich in Omega-3s oils is offering customers an added bonus this season: 100% product traceability from the icy waters of the Yukon River Delta to the marketplace. Whole Foods, has adopted the traceability of Kwik'pak's chum (also known as keta) salmon as a selling tool to market the fish.

New water bottle at Whole Foods completely biodegrades in 250 days

Aquamantra, Inc. said it has introduced the first 100% biodegradable, recyclable, compostable (non-PLA) plastic bottle at Whole Foods Market store in Tustin, California. The Dana Point, California-based company said its water bottle completely biodegrades into organic material within 250 days. The new bottles are FDA-approved PET 1 bottles that are not PLA (made of cornstarch) or oxo-degradable (in need of UV rays to break down). If these bottles end up in microbial landfills (as 80% of all bottles do), the bottles will break down within 10 months into inert biomass and biogas through either anaerobic (no oxygen, no light) or aerobic decomposition.

Earthbound Farm switches all clamshell packaging to eco-friendly plastic

Natural Selection Foods LLC, the nation's largest grower of organic produce under the Earthbound Farm brand, said it has switched all its plastic clamshell packages to 100%, post-consumer recycled polyethylene terephthalate (PCR PET) – an industry first. The move by the San Juan Bautista, California company will divert 1.3 million pounds of solid waste from landfills. Based on Earthbound Farm's annual usage of rigid PET plastic in 2008, the company's conversion to 100% PCR PET for clamshell will conserve 424,000 million BTUs of energy and 68,307 gallons of water, as well as eliminate 16,191 tons of carbon dioxide equivalent emissions.

Plant is nation's first to turn food waste into energy

A wastewater treatment plant in San Francisco is the nation's first to generate renewable energy using food waste, diverting it from landfill and reducing greenhouse gas emissions, according to the Environmental Protection Agency (EPA). The East Bay Municipal Utility District (EBUD) takes food waste from San Francisco and Contra Costa County restaurants and commercial food processors and uses it to produce green renewable energy through anaerobic digestion. In the US, more than 30 million tons of food waste is sent to landfills annually. And, if 50% of food waste in the US was anaerobically digested, enough electricity would be generated to power approximately 2.5 million homes for a year.

Fairmont Hotels cooking oils out of the kitchen, into the engine

Fairmont Hotels & Resorts has been working closely with the World Wildlife Fund to reduce its greenhouse gas emissions, including a sweeping kitchen-fat-to-biodiesel initiative. 22 Fairmont properties around the world are now converting their kitchen oils to biodiesel. End uses for the fuel vary by location – from running grounds equipment and resort buses, to a pilot project at Fairmont's The Savoy in London where it is estimated recycled kitchen oil will generate enough energy to power the daily lighting requirements of 10% of the hotel's guestrooms in 2010. Fairmont says beyond a smaller carbon footprint, benefits linked to kitchen-oil recycling include a reduction in waste disposal costs and on-site fuel costs, as well as the practical boon of fewer clogged pipes, and a reduction in the use of harmful chemicals for clearing drains and treating wastewater systems.

McDonald's tests 10 new green units

The largest fast-food chain in the world is opening 10 green-designed restaurants to use as "learning laboratories." Bob Langert, McDonald's vice president of Corporate Social Responsibility, told Daily Finance that one unit in Chicago has cut water usage by half and energy usage by 25 percent. He also said packaging waste is a top concern for McDonald's, and the chain has two pilot composting programs in place. Langert said McDonald's has been testing biodegradable packaging materials for the past 15 years but finds them severely lacking.

Diners in Chicago get tipped off on restaurants' greenness

The Green Chicago Restaurant Co-op announced a program to help area diners identify and patronize restaurants that are independently certified by two non-profit groups with tough standards for environmental responsibility. The program, dubbed "Guaranteed Green," will allow people to find restaurants certified by either the Green Restaurant Association or Green Seal – two national non-profit organizations with comprehensive standards on energy and water conservation, waste management, and sustainable food purchases.

Are corporations co-opting 'buy local' movement?

Hoping to capitalize on growing public enthusiasm for all things local, some of the world's biggest corporations are brashly laying claim to the word "local". HSBC, one of the biggest banks on the planet, has taken to calling itself "the world's local bank." Winn-Dixie, a 500-outlet supermarket chain, recently launched a new ad campaign

under the tagline, “Local flavour since 1956.” The International Council of Shopping Centres, a global consortium of mall owners and developers, is pouring millions of dollars into television ads urging people to “Shop Local” – at their nearest mall. Even Walmart is getting in on the act, hanging bright green banners over its produce aisles that simply say “Local”. In one way, all of this corporate local-washing is good news for local economy advocates: It represents the best empirical evidence yet that the grassroots movement for locally produced goods and independently owned businesses now sweeping the country is having a measurable impact on the choices people make.

New resource for information on the US Dairy Sustainability Commitment

On September 17, the Innovation Center for US Dairy launched www.usdairy.com/sustainability, a website dedicated to the dairy industry’s sustainability commitment featuring information, tools, and best practices. The site explains the industry’s roadmap to greenhouse gas reduction and related projects, the science behind the lifecycle assessment currently underway, and detailed best practices and resources for each segment of the dairy industry supply chain.

GOVERNMENT ACTIVITY

Bill seeks to impose tariff rate quotas on milk protein imports

Schumer Bill (S. 1542) was recently introduced into the Senate by Senator Schumer, and has 14 co-sponsors. It would seek to impose tariff rate quotas on milk protein imports. The Bill has been referred to the Senate Finance Committee, trade subcommittee. On 30 September in the House of Representatives, Congressman Peter Welch (D-VT) introduced H.R. 3674, the Milk Import Tariff Equity Act. The language of the House version is identical to S. 1542. There are currently 15 co-sponsors, largely from North Eastern States. New Zealand dairy importers together with foreign importers and other domestic manufacturers are watching these Bills very closely with respect to the potential detrimental effects of the legislation.

Agriculture Secretary: cap and trade benefits to agriculture will outweigh costs

Secretary of Agriculture, Tom Vilsack, testified to the Senate Agriculture Committee on the role that rural America can play in addressing climate change. In his testimony, Secretary Vilsack announced results of USDA economic analysis showing that economic benefits to agriculture from the cap and trade legislation will likely outweigh costs in the short term, and that the economic benefits from offsets markets will easily outpace increased input costs over the long term. Secretary Vilsack said, “the agriculture sector will benefit directly from allowance revenues allocated to finance incentives for renewable energy and agricultural emissions reductions during the first 5 years of the HR 2454 cap and trade program. (Note: HR2454 has a companion bill in the Senate (S.1733, also known as Kerry-Boxer bill), which has yet to be voted on. The House and Senate versions will eventually be ‘conferenced’ before going to a final vote.) Funds for agricultural emissions reductions are estimated to range from about \$75 million to \$100 million annually from 2012-2016. HR 2454’s creation of an offset market will create opportunities for the agricultural sector. In particular, the analysis indicates, that annual net returns to farmers range from about \$1 billion per year in 2015-20 to almost \$15-20 billion in 2040-50, not accounting the costs of implementing offset practices.”

House passes bill with \$500k to investigate organic foods

The US House of Representatives passed an appropriations bill that includes \$500,000 for an investigation into whether non-organic substances “inappropriately remain” allowed in small amounts in USDA certified-organic foods, even after organic alternatives have been discovered. The money, allocated to the USDA’s Inspector General, will also go toward investigating whether the nation’s organic certification program can ensure that the “most rigorous standards for certification are honoured,” according to the amendment to H.R. 2997, the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2010.

“Know your Farmer, Know your Food”

A “Know your Farmer, Know your Food” program has been launched by USDA Deputy Secretary, Kathleen Merrigan. It is aimed at better connecting kids to the sources of their food; and to help develop local and regional food systems and spur economic opportunity. It is also aimed at decreasing the amount of resources used to transport food domestically. Funding for the programme will amount to approximately US\$65 million. For more information visit www.usda.gov/knowyourfarmer.

Illinois enacts new local food procurement law

Illinois Governor Pat Quinn recently signed into law legislation that establishes local food procurement goals for state agencies to purchase 20 percent of their food locally by 2020. State-funded institutions such as schools would have a goal of 10 percent by 2020. The law also creates a local food purchase preference for state-owned food buyers that allows them to pay a premium of up to 10 percent above the lowest bid in order to purchase locally grown goods. House Bill 3990 is designed to increase demand for locally-grown food by building a reliable market for it at state agencies and facilities that receive significant state support.

DISCLAIMER:

While the Ministry of Foreign Affairs and Trade and New Zealand Trade and Enterprise have verified the information in this document, we make no representation as to the completeness, correctness, currency, accuracy or fitness for any purpose of the information. The Ministry of Foreign Affairs and Trade and New Zealand Trade and Enterprise will not be responsible for any damage or loss suffered by any person arising from the information contained in this document, whether that damage or loss arises from negligence or otherwise.