

Rathbone Greenbank

Investor Day 2004 Report

October 2004

Food for the Next Generation

The Rathbone Greenbank Investor Day took place on the 23rd September 2004 at Ryton Organic Gardens near Coventry, the headquarters of the HDRA (Henry Doubleday Research Association). Over 50 clients and Greenbank team members attended what proved to be very interesting day. Our speakers provided different perspectives on how organic and local food production and distribution can be expanded. Whilst recognising the challenges, the speakers described the positive actions for change they are undertaking and gave us a real sense that, given time and will, we can move to a more sustainable food system. The investment team at Rathbone Greenbank will continue to seek out investments that are contributing to this vital change.

Helena Norberg-Hodge, International Society for Ecology and Culture.

Helena gave us a global perspective on organic and sustainable food chains, explaining how her experiences have backed up the notion that small scale and local is the best model for food production.

Helena's experiences in the Himalayan region of Ladakh were the starting point for her work in this area. This particular region had survived using its indigenous agricultural skills for 2,000 years, but recent exposure to the global economy has threatened its ecological and social stability. In this way, Ladakh is something of a case study for observing the impact of the global economy on local markets.

Food is a basic human need, yet its production is marginalised in modern economic thinking; farmers are often seen as obstacles to economic progress. Media coverage is often highly critical of any subsidies given to

farmers, yet ignores the subsidies provided to large businesses. This may be because many subsidies are 'hidden', such as the large amounts of public money invested in improving and maintaining transport links which enable large companies to run centralised distribution networks.

Helena explained that another form of subsidy to global business is provided by deregulation at an international level – 'free trade'. But, with free trade comes increasing competition, so companies find they need to expand or perish, and must aggressively seek cheap labour, as well as avoiding environmental costs. International deregulation contrasts markedly with increasing regulation at local level, where petty restrictions and rules make life difficult for the small farmer and businessman.

As a result, people's daily food is gradually coming from further and further away, and subsidised global food can destroy local markets –

The HDRA and Ryton Organic Gardens.

Our venue could not have been more appropriate. The HDRA has been working on the practicalities of organic production for many years and its facilities provide visitors with examples of organic gardening in practice. We heard from Margi Lennartsson (Head of Research & Development) and Bob Sherman (Head of Gardens) about their work, ranging from becoming a composting guru to school gardening projects. They then gave us a guided tour round the gardens, which was very informative. For more information, visit www.hdra.org.uk or better still, visit one of their gardens!

sometimes food that has travelled 10,000 miles or more is cheaper to buy than local products. Helena's experiences in Mongolia highlighted the absurdities that global trade can bring about. The country contains over 25m head of dairy livestock. Yet, in the cities, it is easier to buy butter from outside of the country than it is to obtain local produce.

Society has tended to focus on specific problems facing the planet in turn: pollution, social breakdown and, more recently, global terrorism. However, Helena asserted that the real problems are more systemic, and that individual problems are interlinked in a way that could prove disastrous. Policymakers have become both too global, but also too narrowly focused, dealing with specific economic issues in isolation, and failing to see the links between

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issues. Schumacher's message that "small is beautiful" has been marginalised in recent times.

The blindness to issues of global economics is acute in the UK and US. Fortunately, other countries are more interested. For example, in South Korea, where government policy has driven people from the land into 'modern' accommodation, global economy issues are headline news. This was born out by the media coverage of Helena's recent visit, which gained more publicity than a global popstar visiting at the same time.

To combat these challenges, public education to improve economic literacy is essential, so the public can challenge many of the absurdities in the current system. ISEC produces various multi-media materials to explain the issues. Currently, the model is characterised by 'topdown' regulation, i.e. centralisation of economic activity and power divorced from the experiences of those at the bottom. The current economic system is riddled with such inconsistencies; monopolies hinder free trade, yet we are moving more and more towards centralisation at the expense of diversification. Rules exist to prevent large companies monopolising local markets, but since they can offer lower prices and undercut local producers, they in time squeeze out all competition. Educating the public so they can challenge the system and expose these practices is costly, and funding it is tough as it provides no profit.

In conjunction with education, ISEC promotes decentralisation. An excellent example is the growth of farmers' markets, giving individual producers avenues to sell local produce. ISEC initiated the first one in Bath in 1997 and there are now over 500 in the UK alone, with hundreds

more in the US. The solution to local food lies in the growth of a multitude of businesses, which can shorten the supply chain. This could be facilitated by switching taxation away from labour to technology and resources.

Questions were raised on the specifics of the hidden subsidies. Helena highlighted the use of tax revenues to expand transport networks. Road design in the UK is obviously not intended for private car use but large scale road haulage. If roads were constructed for the use of small cars then roads could follow the natural contours of the land rather than requiring large scale cuttings, for example. Lorries have a much greater environmental impact, yet pay proportionally less tax.

Another problem is failure to include the environmental impact of unnecessary transport of food stuffs. For example, in the UK roughly as much milk is exported as imported, resulting in a huge amount of unnecessary transport and subsequent emissions of climate change gases, yet aviation and marine fuel is un-taxed.

In response to a question relating to the possibility of any short term actions to combat the problems detailed, especially in light of the recognition that systemic change as advocated above takes a great deal of time, it was re-iterated that the core of the problem lay in the lack of recognition of the connections between deregulation and the destructive influence of the global economy on local markets. If these large scale systemic problems were addressed, then change could be rapid.

Bob Jeffries, Organic Lending Officer, Triodos Bank

Bob provided a UK perspective on organic and sustainable supply chains. He outlined changes in UK food

consumption, then explained the effects these trends have on agricultural production.

Trends in UK food consumption have changed over the last 30 years. Defra statistics show that UK consumers now use 1/3 less dairy produce, and half as many eggs and potatoes. By contrast there has been a 200% increase in the consumption of cereal products (including rice, which has replaced the more traditional foods e.g. the potato). As well as health concerns, these figures reflect the decrease in home cooking. Similarly, consumers have lost contact with the seasonal nature of food. When a child's only experience is that of a supermarket containing all types of food all the year round it is difficult to relate the problems of organic food sourcing. A return to 'domestic science' style lessons in schools may be required!

Currently organic food accounts for 1% of the UK food market, but is experiencing good growth. The same surveys showed that 23% of people consider themselves as organic buyers (defined as those who buy 1 or more organic products per year). The UK has seen a 10% drop in self sufficiency in food and indigenous crop production over the last 10 years, and is currently 64% self sufficient in food production.

The retail value of many products produced is often far removed from the prices the grower receives. Crisps are valued at over £10,000 per tonne, while the price at sale by the producer is around £100 per tonne of potatoes.

Echoing Helena's comments in a UK context, Bob felt that a major change is needed in people's perceptions of farmers. As many people only see food in supermarkets, they do not see farmers as important in society.

“Public education to improve economic literacy is essential”

“Over-regulation may hinder the growth of farmers’ markets”

These changes mean that 100,000 jobs have been lost in rural agriculture in the past ten years, 36,000 of them in the last 2 years. Agricultural colleges are beginning to close, as farming is no longer seen as a useful or desirable career. This results in a lack of skilled labour. Employers are having to use workers from areas such as Eastern Europe.

To address these challenges, the message from central government to farmers is to diversify. On-farm processing is becoming increasingly commonplace as producers attempt to move further down the supply chain. However, while supermarkets claim to support local producers, many problems remain: a typical product must be transported away from the area for packaging and then transported back. Large supermarkets cannot cope with multiple small deliveries, as their distribution systems are based on large combined orders from centralised wholesalers.

In this economic and social climate, Triodos bank supports various projects in organic food supply chains. Sheepdrove organic farm is an excellent example. It produces pork, beef, lamb and chicken for the domestic market, all to high welfare standards. A farm shop is run to give a local retail point for its products. Bob also profiled an organic farmers’ collective in south Devon. The group of farmers co-operate on crop rotations and planning, and are able to employ a full time marketing director for the entire group.

Questions were raised about the impact of the growth of farmers’ markets potentially rivalling the ‘big 4’ supermarkets who control around 80% of food retailed in the UK. Bob noted that the growth has levelled off somewhat recently. A key challenge is that licensing for farmers’ markets generally prevents them being held weekly, mainly due to pressure applied by local retailers, which makes them less useful to consumers.

Over-regulation may also hinder the growth of farmers’ markets. For example, it is requirement that the farmer must actually be present and sell the products themselves, which can impose huge burdens on the farmer. An example was given of a dairy farmer who found selling at a farmers’ market amounted to a nineteen hour day. Employing extra staff is not an affordable option. What would be more helpful would be a system to provide assurance of origin rather than requiring the actual farmer to be present. This is one of many examples of regulation at local level hindering the growth of local producers and short supply chains.

Similarly, organic meat producers must comply with the complex and detailed regulatory environment surrounding the cutting and processing of meat products. As a result, there are no organic producers able to run their own abattoir facilities. Even meat sold at farmers’ markets must be packaged in the same way as that sold in supermarkets.

EU legislation also impacts the UK market in many ways. As the organisation is premised on removing the barriers to free trade, and thus allowing longer supply chains to operate, EU regulations often ignore, and can cause real problems for, organic and local production.

It was generally agreed that these perverse regulations should not be simply accepted without question; and we should all speak out for change rather than assume that such things cannot be changed because they represent conventional thinking.

Emma Hockridge, Hospital Food Project Officer, Sustain

Emma is involved in the establishment of an organic food supply chain for four London Hospitals. She provided an excellent foil to what had been discussed previously as she was actually experiencing the challenges of instigating short local and/or organic supply chains in an urban area.

Sustain (the alliance for better food and farming) is involved in many areas, such as organising the Child Food Bill, which aims to stop junk food marketing to children, and the “grab 5” project, which aims to increase the amount of fruit and vegetables school age children eat.

The Hospital food project is a pilot scheme being run for two years. It aims to increase the proportion of local and/or organic food served in four London hospitals, representing a cross section of NHS hospitals. Local sourcing is aimed to be as close as possible, but the practicability of this is tempered by the urban location and relatively long distances to agricultural areas.

The project target is to have 10% of routine hospital food from local and/or organic sources. This will help achieve the more holistic aims of the promotion of health; and support for producers. Funding for the project comes from Defra, the King’s Fund and the European Agricultural Guidance and Guarantee Fund.

Currently, the NHS spends £500m p.a. on food. This means that the project has important potential impact on Government policy should it prove successful. Work from the project should help the creation of a model which can be replicated by any hospital in the NHS. The project aims to impact all stages of food production (including catering, cooking and procurement) by acting as a broker between the relevant parties. The establishment of a sustainable local supply chain must be achieved within the context of NHS auditing requirements and the difficulties of transport in and out of London.

The project does not fund food purchases directly; rather, it seeks to help hospitals understand the advantages of sustainable and local food, and similarly to help producers to understand the requirements of the NHS, and so optimise their opportunities to win hospital supply contracts.

The project has found that the hospital environment has many implications for the supply process. As highlighted in Bob Jeffries' presentation, large institutions are unsuited to receiving many small deliveries. In the healthcare field, disease control adds an extra dimension, as the threat of outside infection is greater from a larger number of deliveries from smaller suppliers.

The cost of very specific auditing – an NHS requirement – is proving a considerable obstacle. If a truly local and organic supply was achieved, instead of needing to audit a few large wholesalers the hospital managers would need to keep track of a great number of individual producers.

The project also found that hospital chefs and purchasers could be suspicious of local and organic products, as they had become used to standardised, pre-packaged food, and needed re-educating on the reality of what food looks like on production, and the variety of sizes and shapes that occur naturally.

One important step forward has been to arrange a supply of organic milk for one of the hospitals, which will hopefully begin shortly. Explaining the health benefits of organic milk with its higher Omega 3 content was crucial in persuading the hospital to make this move.

The project's longer term impact is being measured in economic and social terms by teams of consultants. While the project has some way to go, it has already identified a number of structural, educational and other factors that inhibit the uptake of organic and local food. The project has also identified that many of these obstacles can be overcome, which provides grounds for optimism.

Conclusions

Our speakers exhibited a tremendous level of knowledge of the issues involved in the production and distribution of local and organic food. They explained clearly the challenges involved in expanding organic and local food production. More encouragingly, they described and

advocated many practical solutions and initiatives to increasing sustainable food production.

Unfortunately, from an investment perspective, the UK listed supermarkets appear to be more part of the problem than the answer to the challenges of sustainable food production. We will continue to engage with them as appropriate, and seek to encourage improved practice. However, we feel that we must look further afield, to unlisted and overseas companies, to find suitable investments involved in this area of key interest and importance to our investors.

[Matt Crossman](#)
[Mark Mansley](#)

For more information on our speakers and their organisations, please visit their websites:

www.isec.org.uk
www.triodos.co.uk
www.sustainweb.org

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