

Unilever: In Search of Sustainable Raw Materials



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Summary

Unilever is a company with multiple product lines, many of them food products. The company's idea is that in the near future the raw materials used to make these products will come from sustainable sources. To this end, Unilever is developing some programs with its suppliers.

Unilever is a global company with operations in many countries. It sells its countless products in 150 countries and employs 75,000 people. Among the company's well-known brands are Lipton tea, Knorr and many others, such as detergents and a product line for women.

To give an idea of the magnitude of the purchases of agricultural materials, I can tell you that Unilever buys 12% of world tea production, 4% of spinach production, 5% of pea production, 7% of tomato production, and 4% of palm oil production.

Operating at such a scale, it is only responsible to think about sustainability. And what is sustainability? It is promoting economic development, protecting the environment and assuring social progress in business every day. Sustainability is itself development, a direction for development. It is not a state of harmony, but a direction for the development of society which allows the needs of this

generation to be satisfied without compromising the ability of future generations to meet their needs.

And we must think about all this, because there is definitely something wrong in the current state of the world. If you look around, you see that every aspect of agriculture has its problems: not because we don't know how to do things well, but because there are many local conditions which prevent this being done, whether due to a lack of capability or of willingness.

As a result, it is imperative to begin to work on initiatives which allow us to achieve sustainability.

In many parts of the world, forests have been burnt, and soil degradation is the norm. Climate change and droughts provide further obstacles to agricultural production. So better intensive agricultural technologies must be applied, and, if this is achieved, we can feed 30 billion people on the same

land that we are currently using. According to UN projections, the world's current population –6.5 billion people– will grow to 9.5 billion in 2050, so that in fact we wouldn't need all land currently in use.

Unfortunately, best practices are not being applied. In fact, less than 0.1% of pesticides reach the specific pest which they are intended to attack, rather ending up in the air or water. Between 30% and 80% of nitrogen fertilizers are lost, a figure that is too high, especially in crops like oil palm which needs them in different stages. Each year 12 million hectares are lost due to desertification. 85% of seeds never germinate. There are immense losses in agriculture and there are 400 million people who are still hungry. And food prices increase.

In addition to the 400 million people with hunger, there are 800 million who are poorly nourished, while 1 billion are obese, a condition which is also related to nutrition.

Consumers see these things. As a result, various NGOs have launched campaigns against certain companies,

including Unilever, Nike, Nescafé and others, regarding issues such as the burning of the rainforests of Borneo, the use of child labor in China, or the application of pesticides in some countries, even though the same products are forbidden in other countries.

Market Facts

As consumers buy Unilever products a total of 150 million times, what worries them should worry us too. Our clients are retailers and they listen carefully to consumers' wants and desires. Currently, we are seeing the "greening" of the world. It is not just the giant Wal-Mart, which began an extensive sustainability program with several groups of products. This is indicative of the new direction that the market is taking. Tesco and Carrefour are also involved. Ultimately, all retailers are working on sustainability and, sooner or later, this is going to translate into specific requirements for their suppliers, so that they supply products which have a history of sustainability or a sustainability endorsement.

Consumers' agenda quickly becomes our agenda, although, for example, the organic foods trade is still small in relation to the global foods market. Indeed, the former represents between 2% and 3% of the latter. Also, in 2007, only US\$1 billion of Fair Trade products were sold.

As a result, it is imperative to begin to work on initiatives which allow us to achieve sustainability. Unilever has some certified products, but it wants to have more. A first step occurred with Lipton, through the signing of an agreement with Rainforest Alliance with the idea that all the brand's teas will be certified by 2015. We don't know exactly how many growers we have to certify to achieve this, but we estimate it will be between one and two million. It's a titanic task, whose cost will be assumed by Unilever without passing price rises to consumers.

We also made a commitment with palm oil, which consists in beginning to use the certificate which will become available at the end of this year. By 2015, all oil –1.5 million tons a year– will be certified in terms of sustainability. Unilever still has plantations in South Africa and part of our commitment is to prepare plantations in Ghana so that they are certified. We have established as an ideal that in future all our raw materi-



als should come from sustainable sources. The effect of such a decision is that growers will have income which allows them to improve their living conditions, at the same time that the soil fertility of the cultivated lands increases and that water sources and biodiversity are protected.

Framework

When Unilever establishes a program with growers, it meets with them to discuss the impacts of the 11 indicators in agricultural operations. They are already familiar with some of these indicators, like soil fertility, nutrients and pest management. However, others, such as those related to energy, water, biodiversity, social capital and human capital, are new to them. Nor are they usually familiar with the indicator of animal welfare, something which is of great interest to us as we have an ice-cream business and we buy large quantities of milk.

Unilever does not currently employ the number of agronomists that it once did. There are perhaps 25 across the world: experts in spinach, tomato, palm oil and tea. We have programs to include soy, canola and olive oils, milk products, strawberry, pineapple, banana, lemon, almond, coconut, sugar and patchouli.

Although Unilever is a large company, it is small in the overall agricultural market. Yet we have established a series of international indicators that are helping to direct the sustainability movement. One of these is the RSPO initiative; we also have a Roundtable on Sustainable Soy and we are founding members of the SAI platform. The latter is an initiative of the food industry, which we set up together with our competitors, Nestlé and Danone, and to which 25 companies now belong, among them Coca-Cola, McDonalds, McCain and some milk producers. The initiative is about finding a way to create incentives so that growers begin to apply sustainability principles.

There are also laboratories, which consist of a network of organizations, individuals and companies which try to develop innovative interventions in the food supply chain. The aim of such interventions is to produce local foods for local markets in developing and developed countries, thereby establishing fair prices.

We are also working on some software programs which help to improve the flow information in the value chain, both from the markets to the growers and vice-versa. We think that the amount of subsidized agriculture is going to change. Today it is worth around US\$ 1 billion.

Producers in the United States and Europe, who currently enjoy protective subsidies, must learn to produce for markets and not to obtain subsidies. This means that they must have information about what satisfies consumers. We believe that food companies which are in the middle of this value chain have an important role to play. As a result, a piece of software is being developed which will allow hundreds of thousands of growers to connect to databases to add information about the raw materials which are being supplied and to find key information when they are improving their performance as producers.

Finally, it is worth mentioning that it is frequently said that the world will have only one shopping basket. But that is not the case. There is great potential for improvements in agriculture. One example is the first hybrid that was patented for palm oil, quadrupling yields to 12 or 13 tons. However, there are around 2 billion subsistence farmers who do not demonstrate best practices, or have access to knowledge, credit or the market. It is to them that we must direct our efforts so that they can improve. Unilever is working with organizations like Oxfam to offer support in this area.

Certification can be used and it is a tool which gives us credibility in the marketplace. Yet it is not the solution for all crops. RSPO is looking for certification, as is the Roundtable on Sustainable Soy. However, the reality is that we buy hundreds of different raw materials, for which we pay 15 billion euros a year, and we can't certify all of them. Consequently we must find other ways of gaining the trust of consumers.

A client like Wal-Mart is crucially important for us: a third of our sales in the United States are carried out through its stores. If Wal-Mart finds the correct direction and the correct solution for a sustainability network, it will definitely be of great help to us.