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Relations between the Food Industry and its Suppliers

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First of all I would like to start with a quick overview:

- Who is Nestlé?
- Nestlé's position in the food industry
- Some main Brands used by our company

To explain the relationship between the food industry and its suppliers of agricultural raw materials, I first need to point out the place of the food industry within the food chain. To better understand this relationship, our industry has to be seen within this whole chain.

Far back into human history the food chain was rather short. Whatever a hunter caught, or a farmer grew or collected he found himself as the consumer on his own table. Specific consumers' preferences and quality complaints, if these already existed, would have quickly been communicated and solved within the family, the producer and consumer being part of the same family.

The domination of the home production and consumption, the subsistence agriculture, lasted a long time in our history and it still exists for a number of people in developing countries. Trade, and especially the development of the food industry in the 20th Century, caused substantial changes and an elongation of the food chain with consequences at both ends.

Consumers on one end may today have no idea where their food comes from, how it was produced and what is needed in order to supply food in the required quantities and qualities, including safety, and at affordable prices. They themselves, or their more or less legitimized representatives, therefore may ask for food attitudes that provoke reactions further up in the food chain.

Farmers at the other end of the chain, especially if they are only production oriented, which is still widely the case if they have guaranteed sales outlets, may not comply with consumers' needs or preferences simply because they do not know about what these are.

The complexity of the food chain becomes even more visible if, for instance, the farm supplying industry introduces new technologies or products without sufficient acceptance studies throughout the whole food chain. This was e.g. the case with some of the first generation GMO products. If further the relevant legislation, either local or international, is not clear or may be bent by pressure groups, we, from the food industry come in between a rock and a hard place. We have faced this situation in many markets.

The food industry therefore has to react and to accept an additional task. Besides being a food manufacturer, we have to recognize that we are a key link between the producers and the consumers - we have to react more as an interface between all the related stakeholders and to raise our voice if developments go in a wrong direction. This should be done on a scientific basis and avoiding too emotional an interpretation.

However, our current business environment leaves room for a range of reactions on all sides, and stakeholders. We within Nestlé, as the globally leading food company, have to think globally and to react locally, depending on our customer's preferences. However, all over the world, we follow one basic principle, we have to meet our consumer's quality expectations, in the short and long term. And quality is for us what our customers and the consumers want.

Thus, we define quality composed of three elements:

- Safety:** The assurance that the product does not harm - a mandatory element.
- Compliance:** The assurance that our products are in accordance with legislation in all respects - a hidden element that needs not to be discussed specially.
- Satisfaction:** Meeting the consumers' expectations and delighting them with our products and services - being the reason why she/he will buy our products again.

Based on these quality elements and taking into consideration the availability, the manufacturing characteristics of raw materials, we define and elaborate our sourcing strategies and our relations with suppliers - being it our direct or indirect suppliers.

Our effectively applied sourcing methods therefore span from sourcing through trade, according to product specifications, to strict contract growing with strong advice on specific production methods.

When we source through the trade, we follow our company "*principles of purchasing*". By this we aim for long term business relations that allow the supplier to understand our needs and that allow us to understand the suppliers capabilities. Suppliers' audits are an important factor in this collaboration. They bring transparency to our collaboration and help us to increase traceability during the production and trade, to identify, if necessary, sources of concern, and to eliminate them accordingly. We are fully aware that traceability becomes more and more complicated the further away we are from the primary production, and the longer the trade chain of a raw material is - however, we are working seriously in this direction and motivate our suppliers to do the same.

We do all this not because we are just a "nice" company, but because our clear objective is to obtain goods and services most appropriate for the purpose for which they are intended and at the lowest system costs - and not just at the lowest actual purchasing price.

Perishable raw materials, like fresh milk, or raw materials with very strict quality requirements, like raw materials for baby food in Europe, we source to a high percentage directly from farmers. In these cases, we have very close contact with the primary producers, which may include contract growers. But whatever relation we have, we aim for long term relations - in the suppliers' and in our own interest.

For the sourcing of fresh milk, which is one of our most important agricultural raw materials, we elaborated our **Farm Quality Assurance Scheme (FQAS)**. These schemes are country specific guidelines on the production and supply of fresh milk with the primary objective to ensure quality produce everywhere.

We have introduced these schemes so far in some European countries and here in Australia. Later on, we will introduce them step wise, depending on the feasibility of their full or part implementation, in all countries where we source milk. By this we encourage our fresh milk suppliers to apply sustainable production methods. We favor quality production and give recommendations how the required quality may be achieved. In the countries where the full implementation can be achieved, the advice we provide is far reaching and goes from site-selection, animal husbandry and feeding, to water usage to treatment of waste.

A key element of the final and fully implemented FQAS is record keeping of all key activities on the farm, including purchases and sales of animals, use of farm chemicals and animal feed. By asking for all this information, we like to motivate our milk farmers to become responsible producers and to produce quality - which we pay for. Our objective is again to encourage sustainable production and **traceability**, that ensures us long term supply - which is in the end, more profitable than short term lowest, possible prices.

We elaborated the basic concept for the FQAS in our Corporate Center. Our agricultural specialists in the different countries elaborate later on the locally applied **GAP documents** and they take our general concept as the base. They do this in collaboration with local specialists, farmers' organizations and the dairy industry in order to get full acceptance of the final document and assistance in the practical implementation of it.

Coffee is another key raw material for us and we are one of the most important coffee users worldwide. We buy a large proportion of this raw material through the trade because the majority of our coffee factories are not in coffee producing countries.

However, in several countries we source and process coffee locally. This is for instance the case in Mexico, Ivory Coast, the Philippines, Thailand, Indonesia and China. In these countries we are again in close contact with the planters and, in case of need, we help them in locally suited ways to support sustainable agriculture. This is e.g. the support of local R&D in Mexico, a collaboration with "*nifap*", the Instituto Nacional de Investigaciones Forestales, Agrícolas y Pecuarias. But the contacts with farmers can become much closer e.g. where we have established our own E&D Farms, Experimental and Demonstration Farms. Farms, such as these were established in China, the Philippines, Thailand and Malaysia. We use them to train farmer's e.g. sustainable production methods.

The fruit, vegetables and cereals that we use for our baby food in Europe are another example of a very close relationship with farmers. This close relationship is necessary for several reasons. As mentioned before in our definition of "quality", safety of food is for us a mandatory quality element and in baby food this is an even more sensitive issue than in any other food. The second element is **compliance**, a hidden quality element but a very important one. In this area, especially in Europe, we are in a very critical situation.

The European legislation limits residues of pesticides and their metabolites to 10-ppb in baby food. These limits are very low, and as we have to achieve these limits in our products, we have to use specific raw materials. We do not calculate with degradations during processing. But, raw materials with residues of pesticides below 10-ppb are practically not available on the open market. Therefore contract growing is the solution to guarantee the standards and also to eliminate contamination. This means: Growing with precise instructions on cultivation methods and the use of pesticides and fertilizer.

We do this contract growing either directly or together with selected primary processors who contract the farmers following our instructions. In this case again, we have very close relations with farmers. This collaboration starts with the selection of farmers who are able and willing to collaborate with us, and who accept our advice and our control systems.

Conclusions

The relation of the food industry with its suppliers is very manifold.

Nestlé, is a good representative of the whole industry, because we have both, rather loose relations in cases where we buy through trade channels or very intensive contacts where we have contract production with advice on the growing and primary production methods.

The food quality and safety of our food products is for us of primary importance and we define the sourcing strategies for our raw materials accordingly. We aim for long-term relationships and for sustainability in the supply of our raw materials - which consequently, contributes to sustainability in agricultural production.

The recent food scares in Europe have shown that there is a gap opening between the consumers and the farmers. The food industry as a whole, perhaps also together with retailer organizations and consumers, should take increased responsibility for bridging the gap between these two ends of the food chain. On the supplier side we should increase our efforts to encourage sustainable production, and supply.

On the consumer side we should do more educational work to help people understand the efforts needed to enable them to have access to the quality food products they want.

Dialog, information sharing, communication, etc.also one of the main reasons for this forum we are participating.

Thank you for your attention.