

Dream contract factsheet 10: HiPP (Germany)

Dream value chain

Objective

The objective of the “dream chain” is to achieve a sustainable value chain consisting of producers, processors, retailers and consumers. Contracts are based on quality and quantity of the raw materials, but also on environmental protection measures and social benefits.

Enablers

Value chain stakeholders:

- Well-functioning networks already in place to provide necessary expertise
- Strong mutual trust
- Long-term supply relationships (= opportunity to introduce new approaches to farmers)
- Common values of producers and food companies

Inhibitors

Value chain stakeholders:

- Market dominance of retailers
- Lack of common values with retailers
- Not all members of the value chain live up to their responsibilities
- Competition for producers’ output, i.e., for certain raw materials
- Focus is on product quality, not on reward for environmental performance
- Brokers of raw materials may not be skilled enough to verify the environmental performance provided
- Farmers are often reluctant to accept measures additional to the rules for organic farming.
- Risk of transfer of expertise: a company cannot be sure that the expertise it provides to farmers does not benefit another company
- Lack of awareness amongst customers. Environmental services are difficult to communicate, and risk that customers lose oversight

Governance:

- Complex supply chains
- Current political setting is not supportive (especially CAP), because it mainly supports conventional farming and excludes (organic) food processors from subsidies.

Risks:

- Unclear risks to the fulfilment of objectives, e.g., due to climate change

Actors involved in defining the dream value chain

The dream chain is defined from food processors' perspective. Actors involved: Food processors, producers, food processors' representative organisation, consultants and farmers (retailer planned for the next step)

Method used

- Brainstorming, Process Net-Map
- Dream contract: Dream value chain

Dream contract

Objective

The dream contract is an action-oriented value chain contract between farmers and food processors, sometimes with intermediaries who collect bigger amounts of raw materials. The contracts will focus on the quality of raw materials as well as on biodiversity conservation, soil and water protection. Contracts between the processor and farmers are the first step in a more sustainable value chain. In a next stage, agreements with other actors in the value chain (such as trade, consumers) can follow.

Measures

The food manufacturer will propose environmental measures via a catalogue with regionalised measures, probably linked to a point system and adapted to the respective region. The farmer can choose those measures that fit well within his business, as long s/he achieves a minimum score. Measures will be add-on measures to organic farming. They should strengthen organic farming objectives but also have more specific effects on biodiversity and soil protection (especially humus content of soil).

Benefits envisaged

- Societal/environmental benefits:

Contracts have so far focused on product quality. This will be the first time that the provision of ecosystem services will be part of a contract. The targeted agri-environmental-climate benefits include biodiversity, soil protection, and water protection. The common idea is that farmers and food processors, retailers, consumers, but also other companies that purchase the raw materials take over the responsibility for the provision of ES within the dream value chain and share the costs. This will lead to a reduction of ES loss and create a common responsibility for the sustainable production of food. Especially for farmers outside Europe the compliance with additional social standards will improve their living conditions.

Awareness and also awareness-raising for this type of agriculture is expected to increase greatly. The retail sector is increasingly taking on its role as an active player and supporting organic food processors and producers. Farmers, processors and retailers follow a vision that is based on the same values and in which profit maximisation must be well-balanced. The customers' awareness of organically produced food is also strengthened.

- Benefits for farmers:

The farmers get contractual financial security, but will also get non-financial support via advice or seeds or trees for hedges that they can plant. In addition, (organic) farming will also benefit by the consequences of the environmental measures, such as increased biodiversity, better soil life, etc. It is a basic requirement of these contracts that farmers are aware about these benefits and that the measures are in their self-interest.



Figure 1. Field visit to farms cooperating with HiPP.

Application domain

- Farm types: Raw materials for HiPP are very diverse, so the targeted farms could be arable or grassland farms or special crop farms. For specific products raw materials from special crops like sesame, mango or cashew import from outside Europe is needed. For Lammsbräu, the contracts are aimed to producers of the raw materials of beer and lemonade.
- Land use: Predominantly arable land. To a lesser extent grassland and perhaps orchards.
- Land tenure conditions: Private land.

Contract duration

5 years (in line with usual business contracts with farmers).

Actors

- Farmers
- Food processors: HiPP, Neumarkter Lammsbräu
- Organic farming associations will be needed to provide advice and to check the implementation of the measures by the farmers.

In the case of Neumarkter Lammsbräu, a producer association of 170 farmers, who supply the brewing raw materials (most likely EZÖB - Erzeugergemeinschaft für ökologische Braurohstoffe [Producers' association for organic brewing raw materials]) will also be involved.

Access to land

N/A

Payments

Currently, the companies are financing the measures themselves. However, there are efforts to have retailers and consumers share the costs. A rising number of customers are informed and willing to pay a higher price for these foods. Also possibilities for involvement of public funding are investigated.

The payments are action-based payments aimed to cover the costs. Result-based payment on ES could be an option, but is difficult to be controlled by the food processors. Farmers will either get a higher price for their agriculture products or more money for completing certain environmental and social measures.

Monitoring

The monitoring will be conducted by in-house agricultural advisers (in case of HiPP), quality departments of the companies, organic farming associations, or by self-control by the farmer. The practice will be monitored, as well as the product quality via criteria of the organic farming associations.