



SUSTAINABILITY FOCUS

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Agricultural operations : Stakeholder's scrutiny increases

Media reports, academic studies and institutional discussions are increasingly documenting the rise in foreign direct investment in agricultural land (1). In this context, there is growing concern over the subsequent impact of land acquisitions on local communities' property rights and regional food security.

Considering the potential vulnerability of stakeholders and the growing global attention, being linked to these so-called 'land grabs' represents immediate and significant risks for companies and investors (2).

This short piece will therefore provide an overview of the emerging trends, raise stakeholder concerns, highlight business risks and opportunities and provide a summary of Vigeo's related findings following our review of the European Food sector (3).



Background

The documented trend suggests a reversal in the post-World War Two approach of contractual agricultural production (4). Commonly cited stimuli for such developments include the global increased demand for food, with the United Nations Food and Agricultural Organization estimating that **the world will need to produce 70 percent more food in order to feed the forecast global population in 2050** (5). Other factors include food price volatility, general scarcity of resources and growing interest in using agricultural products as biofuels. Land acquisitions can also be linked with decisions to allow for more open global markets.

Regions attracting the greatest interest are those with substantial uncultivated agricultural land and weak protection of land rights, such as the African continent. **In this context, local communities and small-scale farmers are unlikely to have formal documentation of land ownership and are thus extremely vulnerable to dispossession, often without consultation or compensation.**

Considering the frequency of subsistence living in these regions, loss of land usually means loss of livelihood.

In addition to these direct impacts, such events can also impact regional food security, as agricultural resources become a global commodity: meeting the demands of the market rather than the needy.

In response to stakeholder concerns, the 'Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources' (6) have been promoted since January 2010 by the World Bank, the International Fund for Agricultural Development, the United Nations Conference on Trade and Development and the UN Food and Agriculture Organisation. The aim of these guidelines is to provide guidance for host governments to help in the creation of domestic legislation and to guide investors in decision making processes. The Special Rapporteur on the Right to Food has also developed eleven core principles to address the human rights challenges associated with large scale land acquisitions and leases (7).

Business Risks and Opportunities

Business risks arise for any company or investor that is associated (directly or indirectly) with land acquisitions that cause societal or environmental damage.

Any business negatively linked to societal human rights violations (such as being accused of violating property rights or deteriorating access to subsistence land and water) faces major reputational risks. NGOs are increasingly scrutinising business activity and related allegations could lead to consumer boycotts or shareholder pressure.

Another concern is the risk of legal pursuits or fines. Concerned legal firms and activists are continuously attempting to hold the private sector accountable for their actions, pursuits that may be all the more determined following the UN Human Right's Council's endorsement

of Ruggie's three pillars (including businesses' responsibility to respect international human rights standards) (8).

This risk is thus significant even in host regions where land and environmental regulation may not always be sufficiently substantive.

For the agri-business, a further concern is operational efficiency as community opposition can create major production hurdles. **This can constitute delays in land being vacated for a project and, once established, may result in disruptions from protests, ranging from blockages to sabotage.** Opposition can even lead disaffected communities and civil society groups to lobby governments, which may in the long run stifle approvals for further investments (as appears to be the case in Australia and South America) (9).



Beside from these risks, it has also been advocated that community involvement, as opposed to community imposition, can actually represent a business opportunity for agricultural investment.

For instance, in a 2010 World Bank report ‘Rising Global Interest in Farmland’, the writers argue that the assets of investors (capital, technology and markets) can be combined with the assets of local communities (land, labour, local knowledge and social acceptance) to optimise operational productivity (10).

Such investment models, which are also advocated in the 2011 International Land Coalition publication (11), not only provide opportunities for growth for small-scale farmers, considered to be crucial factor in ensuring future food security, but also represent business opportunities for investors.

Vigeo’s findings for the European food sector

Implementing due diligence measures and developing industry self-regulation can mitigate risks and enhance opportunities. It should therefore be seen as being in the business interests of all associated companies.

However, in Vigeo’s recent CSR review of the European Food sector (published July 2011) **Vigeo found that only one company in the panel, Unilever, had a direct policy on respecting property rights.**

Furthermore none of the companies’ reported specific measures to avoid being linked to property rights violations during agricultural land acquisitions. Danone, Nestlé, Marine Harvest and Bonduelle did state that they carried out human rights risk mapping. In addition, Marine Harvest and Associated British Foods reported individual consultations with indigenous people when relocation or agreements were needed for specific operational developments. **Three companies, Unilever, Nestlé and Tate & Lyle faced an allegation**

related to community land rights violations in the last 18 months.

This issue is analysed in the sustainability driver ‘Respect for human rights standards and prevention of violations’ (HRT 1.1). Vigeo also assessed Food companies’ approach to avoiding over-exploitation of land and water in the sustainability driver ‘Promotion of the social and economic development’ (CIN 1.1).

One third of companies committed to mitigate the impact of their operations on the local community but none report on precise measures in place to avoid over-exploitation related to land acquisitions.

Conclusion

As highlighted, being linked to land grabbing allegations represents **significant reputational and legal risks for businesses.** Moreover, an analysis of international organisations and NGOs suggests that stakeholder attention to this topic is increasing.

Following a review of the CSR performance of the European-headquartered Food Sector, it appears that some companies are taking action in order to adequately handle these risks and opportunities. These are developments that are being closely monitored by Vigeo in order to aid investors’ integration of ESG risks into their portfolios.



Notes and Sources

- 1) "In total, says the International Food Policy Research Institute (IFPRI), a think-tank in Washington, DC, between 15m and 20m hectares of farmland in poor countries have been subject to transactions or talks involving foreigners since 2006": Outsourcing's third wave, 21/05/2009, The Economist.
- 2) [Pension funds: key players in the global farmland grab](http://www.grain.org/article/entries/4287-pension-funds-key-players-in-the-global-farmland-grab), GRAIN, 20/06/11: <http://www.grain.org/article/entries/4287-pension-funds-key-players-in-the-global-farmland-grab>
- 3) Vigeo published the European Food Sector for clients in July 2011.
- 4) "Land Grabbing" in Developing Countries: Foreign Investors, Regulation and Codes of Conduct', Nadia Cuffaro and David Hallam, Paper presented at Paper presented at the International Conference on Global Land Grabbing 6-8 April 2011 06/04/11 p3
- 5) Food production will have to increase by 70 percent - FAO convenes high-level expert forum, <http://www.fao.org/news/story/en/item/35571/>, 23/09/09
- 6) 'Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources': http://siteresources.worldbank.org/INTARD/214574-1111138388661/22453321/Principles_Extended.pdf
- 7) Large-scale land acquisitions and leases: A set of core principles and measures to address the human rights challenge, Mr. Olivier De Schutter Special Rapporteur on the right to food, 11/06/2009
- 8) "Guiding Principles for the Implementation of the UN Protect, Respect and Remedy Framework", drafted by UN Special Representative on business & human rights John Ruggie were endorsed by the United Nations Human Rights Council in June 2011: <http://www.business-humanrights.org/Links/Repository/1006797>
- 9) For example in 2010 Brazil blocked foreign companies from purchasing additional local real estate, Argentinean Pres-ident said in April 2011 she would send a bill to Congress restricting how much land foreigners can buy or own: Food inflation, land grabs spur Latin America to restrict foreign ownership, The Christian Science Monitor, 06/05/1. In Australia the Senate began a Coalition-led inquiry into foreign landholdings in July 2011 following public concern: Plan for China to invest in agricultural business rather than buy the farm, The Australian, 03/08/11
- 10) Rising Global Interest in Farmland, World Bank, 2010. A similar argument was made in the conclusions to the Better Returns in a Better World seminar on 'Responsible Land-based Investment: the Role of Institutional Investors', 2010.
- 11) Land Rights and the Rush for Land, International Land Coalition, 2012

Additional Sources:

- 'Foreign land deals and Human Rights, Case Studies on Agriculture and Biofuel Investment, Centre for Human Rights and Global Justice, 2010
- Discussion on the Human Rights and Business Dilemmas Forum under the thread: '[Local communities and large-scale land acquisitions](http://human-rights-forum.maplecroft.com/showthread.php?671-Local-communities-and-large-scale-land-acquisitions)': <http://human-rights-forum.maplecroft.com/showthread.php?671-Local-communities-and-large-scale-land-acquisitions>
- United Nation Global Compact webinar: "Spotlight on Community Relocation", July 2011
- United Nations Principles of Responsible Investment webinar on 'Investing in agriculture: risks and opportunities', July 2011
- Better Returns in a Better World seminar on 'Responsible Land-based Investment: the Role of Institutional Investors, 2010.
- Rising Global Interest in Farmland, World Bank report, 2010

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