Creating Shared Value and Food Security

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Peter Brabeck-Letmathe:
First of all thank you very much for this distinction, which on behalf of my company, of course, I receive with great pleasure and great honour knowing from what a distinctive association it comes. I think we spent most of the evening talking about the importance of foreign policy and opening the minds and the hearts of Americans to what is happening outside of their wonderful country. I think it is extremely important and will be even more important in the future without any doubt.

And so I'm very honoured to receive this. On the other hand, of course, I'm also very pleased to be talking to this Association which is not yet 100 years. I mean, you were talking about Credit Suisse with more than 150 years where last year we celebrated the 150th anniversary and my organisation which is 142 years. And I'm sure you will be celebrating those 142 one day which in 2008, for the United States, is very impressive. And these talks about the value that you're bringing to society, congratulations for that, and thank you very much for this invitation.

I was being asked to talk about a subject which we call Creating Shared Value and the food security. And the question was: how can we improve our collective ability to feed the world, and whether this is really an important subject, which I think it is.

And I think 2008 has been an interesting year, to say the least, when it comes to this topic of the food global supply. We have seen food riots erupting in many parts of the world – now it has calmed down a little bit because we have some other issues like financial things – but we have prices of basic commodities reaching record highs during the first half of the year. More recently, we have seen those prices ease a little bit but it would be delusional to take this as a sign of an end to the food crisis.

The price of basic foodstuffs today is still more than 75% higher than it was in 2005, and we do not expect prices to return to those levels anytime soon. Now 75% increase of food prices affects you and me relative because we are spending perhaps 10-12% of our disposable income on food but when you are poor in the developing countries, it affects 80% of their disposable income and then this has a completely different impact in your life.

And therefore, the dramatically increased cost of basic foodstuffs is particularly devastating to the poorest of the poor, and especially and contrary to what you can read in the media, it is especially affecting the people in the rural environment. After decades of reducing poverty and relieving millions from the grasp of chronic malnutrition, we are now, it seems, going all in reverse. In the past year – just in 2008 - these high food prices have actually pushed more than 100 million people

back below the absolute poverty line, living on less than US$1 per day.[1] Back again. And this is you know one of the most delicate things. If you are poor and have always been poor, you can live with that. But once you have got out of poorness, or at least relative poorness, and suddenly you are being pushed back, this is a social bomb.

According to FAO data, over 900 million individuals in the world are today undernourished, and unfortunately, that is a number that appears to be growing. Again, this began slowly after 1995, and now with rising food prices, at an accelerated pace.

So the question that one can ask oneself is why, despite our efforts, do we find ourselves in this position today? Why, despite our advanced technology that we have developed and the increased ability to deliver products globally, is our ability to feed ourselves being so challenged?

Although increased demand due to population growth, and the effect of inclement weather in the form of floods and droughts play a role, I dare to say that the largest single cause of our current predicament is a combination of poor judgement and irresponsible decisions made by policy makers around the world. It is us who have caused this mess and the good news is that we have the capacity to get out of it if we want.

There are, according to my belief, four major obstacles to long-term global food security that I would like to focus on today.
The first one is protectionism - policy decision, very clearly;
The second one is lower agricultural productivity – big part policy decision;
Three: expanding the use of biofuels – clear policy decision;
And the fourth: the overexploitation of our most precious natural resource which is water.

So let me talk first about protectionism. Some of the blame for our current state of affairs lies in failed and misguided agricultural policies and protectionist trends that governments around the world have adopted. The failure of the Doha round of negotiations, for example, can be attributed in great part to the refusal by developed countries to let farmers in developing countries access, and to let them compete, on an even playing field.

[1] The threshold of US$1 per day is calculated in purchasing power parities (in order to allow comparisons between countries) and at constant overall prices, base year 1994 (in order to allow comparisons over time). If the prices of the most important goods that poor people buy, i.e., food, goes up significantly, the purchasing power of the same amount of disposable money goes down. The effect is that people are being pushed below the poverty line as indicated in the text. Source: World Bank

In the OECD alone, agricultural support amounts to over 360 billion U.S. dollars. Every single day, 1 billion U.S. dollars goes into protectionist and trade distorting subsidies, only on the agricultural side. This kind of agricultural protectionism fundamentally hurts farmers in the developing world by shutting them out of the most lucrative markets and hurts global consumers by artificially maintaining inflated prices for goods. As a company, we are opposing these types of trade distorting subsidies.

Second, another aspect that is very important, the decreased agricultural productivity. It is shocking to me that despite the advances in new technologies and their availability, our ability to produce food is actually on the decline.

For decades, productivity growth in agriculture far exceeded productivity increases in manufacturing and services, thanks to the utilization of better technology, thanks to what we call today the green revolution. As a result, between 1950 and 1990, the average inflation-adjusted price of agricultural products, indexed to wages, fell by approximately 75 percent. That was the basis of the improvement of the standard of living of most of the people in the world, because since food is the largest single expenditure for poor households, this sustained decrease in pricing was a major contribution to alleviating poverty.

Now, however, productivity growth in agriculture has slowed significantly, and in large part due to the deliberate resistance to universally adopting available technologies that have the potential to increase agricultural productivity again.

For example, while many countries in Latin America and Asia are increasing their use of hybrid seeds, which produce higher yields and have a reduced need for herbicides, in Europe, widespread, paranoiac distrust of GMOs has severely limited their use. Despite well established safety and environmental records, Europeans are consciously limiting the availability of a wide range of basic foods such as, for example, soya.

And while European’s decision on GMOs can be interpreted as a regional decision, which certainly affects millions of European consumers, the truth is that the ramifications are global in scope. They are especially severe for farmers in the developing world who are not able to export their crops to Europe.

To make matters worse, Europe is now threatening to ban agricultural imports containing even secondary ingredients derived from GMO plants, making its intransigence that much more damaging.

Basically what they're saying, if an animal has been fed with GMO crops, you're not allowed to import them any more although nobody can basically prove that these animals were being fed by GMO crops.

Another cause for the slow-down in agricultural productivity is the concerted efforts of influential players around the world to turn the clock back on agricultural practices specifically related to pesticide use.

As an example, agricultural experts agree that certain legislative proposals on pesticides currently under consideration in Brussels, if they were passed, would in all likelihood lead to a loss of one third of the European potato crop.[2] One third less productivity.

While it is clear, and I think we can all agree, that there were excesses in the use of pesticides during the green revolution and that those must be corrected, we simply cannot and should not revert to a 19th century agrarian ideal while tasked with feeding a 21st century population.

The third, and perhaps most significant, cause of the current food imbalance is the growing use of biofuels. This misguided and poorly thought-through trend has had dire consequences for global food production on two key fronts: the first one is the diversion of food crops for biofuels and the other one is the overtaxation of our already stretched fresh water supply.

Both Europe and the U.S. have set ambitious targets and are handing out hefty subsidies on top of the 360 billion I have mentioned before, for the production of biofuels derived from food crops. In the U.S. alone, more than 30% of the 2008 corn crop will be transformed into ethanol for cars. And it is not just the U.S. and Europe. Because following the leadership of the U.S. and Europe in their footsteps are developing giants like China, India and South Africa among others.

According to the World Bank, two-thirds of the price increases of basic food stuffs over the last 24 months can be directly attributed to the diversion of these food supplies for the production of biofuels. By 2025 we can be looking at a 30% shortfall in global cereal production worldwide if we continue down this path. This of course, I hope everybody can agree, is pure folly.

And as I mentioned earlier it is not just the diversion of food crops to make biofuels that is a threat; it is also the use, or let me say the overuse, of water to grow those crops that is and will continue to strain the system, thanks in large part to the massive

[2] WWW.pesticidesinformation.eu

subsidies that promote this trend. Ladies and gentlemen, it takes up to 9,000 litres of water to grow enough soy for 1 litre of biodiesel, and it takes up to 4000 litres of water to grow enough corn for 1 litre of bioethanol. We can expect water use for agriculture to increase by 30-50% if all of the biofuel targets set by governments across the world would really be implemented and being achieved. 30-50% more water usage.

I have no doubt, there is no question, that we have to become more energy efficient and that we have to reduce our consumption of fossil fuels. But biofuels derived from food crops planted exclusively for that use are clearly the wrong solution.

This leads me to the fourth major challenge: water. Even without biofuels, water is being overused throughout the world and most of that consumption is not by households but it is clearly in the agricultural field. 70% of fresh water withdrawal is in agriculture but 93% of water usage is in agriculture. So any problem about water has to be solved through agriculture.

And we know that agriculture and food production are very water-intensive propositions. It takes, on average, about one litre of water to produce one calorie of food. The average is significantly higher in areas where meat is a central part of the diet. So for example, in order to feed one Californian we need 6000 litres of water per day, whereas in order to feed one Indian, we need about 3000 litres of water per day.

Already today, in some of the most fertile regions of the world (like in the Midwest in the U.S., Southern Europe, Northern India, North-east China), the long-term overuse, mainly for agricultural purposes, of what were once considered inexhaustible supplies of fresh water is resulting in dramatic declines in the levels of their water tables. Basically, the water tables are declining by 1.5 metres every single year, just to give you an idea. In the Punjab today, in the North of India, we are now drilling down to 240 metres in order to get fresh water. For too long, pumping from the water tables has been free, without any consideration of the finite nature of these resources.

It is very telling that earlier this year, Saudi Arabia, one of the twenty largest producers of cereals in the world, announced that it would completely phase out its cereal farming because, as they suddenly seemed to have realized, the production was using too much of their scarce water resources.

Just for anybody who has been to basic school, it takes 20-30 litres of oil to produce 1000 litres of desalinated water – 20 to 30 litres of oil for 1000 litres of desalinated water. It takes 9000 litres of water to produce 1 litre of oil. You don’t have to be very high in schooling to see the craziness of this proposition.

It is estimated that by 2025 one third of the world's population, according to Frank Rijsberman of the International Water Management Institute, will be affected by water scarcity. He estimates that we may be looking at losses equivalent to the entire grain crops of India and the US combined by then. Further, according to some estimates, by the same time we will very likely reach the upper limit of the 12,500 cubic kilometres of fresh water available worldwide for annual human consumption.

All those figures do not take into consideration biofuels. This is just what we are using today. Now add to that 30-50% and you see that the water scarcity issue is something which is relatively very close.

I am convinced, therefore, that if we continue on the path we are today, we will run out of water long – but very long - before we are running out of oil. You are sitting on the board of Shell and I think we can assure that there is oil for minimum 130 years in front of us - minimum. There is no water for 130 years for us, no doubt about this. But on the other hand, I think it is also clear that this problem - as I said before it is a man-made problem - therefore it can be solved. But what it does, it requires better policies and it requires more reasonable pricing.

I have often wondered what would happen if water, for example for golf courses or swimming pools or other non essential uses, wasn't just free or subsidized as it is in the U.S. or in Europe today. I'm being told water is a human right. Yes, for me it's a human right for the 5 litres I need to drink and the 20 litres for the basic hygiene that we need. But to fill up swimming pools, I don't think this is a human right. Would biofuels still be produced if water had a real price? I think the mathematical calculation talks for itself. Would existing water-saving technologies be used more broadly if water had a price? Most probably yes.

The case of Israel, and now recently the case of Australia, are good examples - that once you put a reasonable price on a resource then people start to invest into new technologies. So the question is - there are solutions - you might rightly ask yourself what are we doing about it? What is a company like Nestlé doing about it?

First, as I hope it's evident today, I consider that speaking out on these issues wherever we have an opportunity is our first responsibility that we have. Three years ago, when I talked the very first time about water scarcity and that water is much more important than climate change, I was being accused of being a dinosaur and didn't understand what really is important for this world. Well, I think today we have been able to create a consciousness that perhaps water should be, and is, the most important issue that humankind has to face in the next coming couple of years. We are clearly and though it is not always politically correct in Europe, but also here in the U.S., we are clearly active and vocal opponents of the protectionist and trade

distorting policies that hurt farmers in the developing world and the opponents of food crop-based biofuels; and we are strong and enthusiastic advocates for policies that ensure greater access to and more responsible management of water.

Second, while we as Nestlé account for only about 2% of the processed food of the world, we have made it our mission to help farmers throughout the world, especially those in developing nations, in an effort to improve the global food supply chain. We are working today directly with more than 600,000 farmers, providing them technical assistance to increase production, improve the food quality and build the rural infrastructure which is necessary and which are basically huge investments in roads, in possibilities to bring these products to the market. In addition, through our supply chain and factories, which are basically food preservation kitchens, we contribute significantly to reduce the loss of food once it leaves the farm. In developing countries, 30-50% of the food which is being produced is being lost on the way from the farm to the consumers, whereas in developed countries this is only 3-5%. So a big step forward would be if we could have the same savings in the developing countries, we would have a big relief on the food supply.

We have been focused particularly on dairy industries in Asia, Latin America and now Africa. We have provided, and are providing on a yearly basis, more than 30 million dollars in microcredits to farmers to help them increase their production capacity, and, by adopting more environmentally sound practices, and therefore their sustainability as well. We are helping to develop clean water supplies for dairy villages in countries like India and Pakistan, and we are working with international partners and NGOs in similar programs in Kenya and South Africa.

Third, we are developing lower-cost food products and distribution systems so that the lower income people have greater access to iron and vitamin-fortified products, particularly of course milk and soups. We have developed a dedicated line of products that we call Popularly Positioned Products, which are being rolled out around the world. We recently opened a new 25 million dollar factory in one of the poorest parts of North Eastern Brazil to manufacture these products and did so a year ago in India, for example.

We call this approach to business “Creating Shared Value”. Meaning that in order to build a successful business, we are convinced you have to create value for society and, in the case of a food company, we have to deliver more nutritious products at a lower cost to all parts of the population not only the rich ones of this world. Our long term business strategy is “Nutrition, Health, and Wellness” – selling food of higher nutritional value to all segments of society.

But, we are also keenly aware of our own limitations. It is in our business interest to foster rural development; but even, and though we have perhaps more impact than any other food company, we can only be a small part of the solution. We cannot alone find the solution.

The fact is that all our efforts, and those of other companies and consumers, will be in vain if all forces of society are not working together in a coordinated manner with one common goal – to effectively feed the world with healthy nutritious food.

Comprehensive, sustainable solutions need to be initiated by broader changes in governance, correction of policy mistakes, increased investment in rural development and much more efficient resource utilization, especially of the most noble of all the resources that there are, which is, of course, water. Only then will we be able to effectively feed the world.

Thank you very much.

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