

**KEYNOTE: PRIVATE-SECTOR LEADERSHIP IN PARTNERING WITH  
SMALLHOLDERS**

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Thank you, Ambassador Quinn. Good afternoon. I’d like to thank you for inviting Cargill to join the Borlaug Dialogue and particularly the discussion this year about smallholder farmers.

We first offer our congratulations to World Food Prize Laureates David Beckmann and Jo Luck for their extraordinary efforts over the years to reduce hunger and alleviate poverty.

Today we are all asked to consider what role smallholders can play in meeting the challenge of feeding our world. Many of my remarks will relate to the centrality of price in enabling their success.

In my job I have the great opportunity to observe the incredible signaling power of price. I’ve watched the power of price mobilize and energize people. I had an opportunity in 2007 to travel more than 2,000 miles by car across Southern Russia and to see the reenergizing and the remobilizing of capital investment in food production in Russia, a land that had sat idle since 1991. And on the other side I have seen the opposite, the power of price signals to discourage and defeat people’s optimism.

And so the theme of our meeting today is *Taking it to the farmer*. And my observation is: If you take good prices to farmers, stand back and watch the incredible progress that can be made in very short periods of time.

First, a little bit about Cargill. Today we operate in 66 countries; more than half of our 133,000 employees are outside of the United States. We describe our activity as the commercialization of photosynthesis. The building block of the products that we process and trade and convert into food are the outcome of sunlight and carbon dioxide through photosynthesis — whether it’s malt for beer, cocoa for chocolate, soybeans for cooking oil and sugar for pastries, a long list of the food products that are an important part of Cargill are the outcome of that photosynthesis.

We’re also engaged in trading energy products, and the confluence between energy and agriculture has never been more obvious than in the last five or six years. When you think about Cargill, you probably think about us working with a lot of large farmers, whether it’s here in Iowa or in Brazil or in Argentina or the plains of Canada. But in point of fact, in spite of the importance of these very large farmers, we have a significant stake in the success and health of a lot of smallholders.

In Zimbabwe we purchased last year cotton from 46,984 farmers. I’m impressed with the accuracy of our accounting system. I’m equally impressed because we gave preplanting financing to 36,000 of those farmers to enable them to put in those crops and to do it with the fertilization and the seed treatment necessary to have a successful harvest.

In Zambia we purchased cotton from more than 41,000 farmers and provided loans to more than 30,000 of them preplanting.

In Ghana in the Ivory Coast we purchased cocoa beans from more than 250,000 farmers through their cooperatives, and in Mexico we're an investor in the sugar-milling business that purchases sugar cane processes, and Cargill acts as the marketing arm for more than 12,000 smallholders.

This morning Dr. Hatibu and Sarah (and I apologize, Sarah from Zambia — I did not catch her last name) made what I think is the most important statement in that they said, "It all depends on price. If you give us the right price, we can do it ourselves." And I think that's an important thought to carry through these comments.

Cargill's business model cannot succeed without successful farmers at every level of production. For today my remarks will focus on smallholders in countries where the Green Revolution has not yet occurred. These are the farmers who are growing crops to sell into the markets, not subsistence farmers — smallholders who by increasing their productivity can help feed their continental neighbors.

We believe increasing their productivity is essential to ensuring food security and particularly to do that without increasing the amount of the world's land mass committed to cultivated agriculture.

So first the question — Where are the world's hungry? Of the 10 countries with the highest prevalence — not the largest number but the highest prevalence of the population living in undernourished circumstances, eight of those 10 are in Africa. But at the other end of the spectrum, of the largest populations of undernourished people, India and China have the most — more than 360 million of the 950 million undernourished people are in India and China.

So the fact that one of these countries has structural wheat surpluses and the other one has financial reserves of two and a half trillion dollars points to the complexity of this undernourishment challenge. It's a very diverse and challenging issue.

Does the world have the capacity to grow enough calories to nourish all of our current inhabitants? You ask this question week after week, day after day, and my answer always is the same — yes now and yes in the future. There are clearly enough calories produced in the world today, but they don't get distributed in a way that alleviates hunger.

The FAO has wonderful statistics — country by country they list the number of undernourished people, and in another table they list the number of calories that the average individual in that group is undernourished per day. So you have the population and you have the number of calories per person per day of that undernourishment.

If you extend those numbers and convert those calories into whole-grain equivalents, it comes to about 30 million tons, which is about one-sixth of the amount of grain that we convert into fuel. So in a global sense, we do not have caloric famine. And I would describe caloric famine as the absence of enough food regardless of the price. The calories simply don't exist.

In point of fact, we do have enough calories, so what we are left with is economic famine, the inability of people to purchase sufficient calories to meet their needs. So we either in those cases need to grow more calories where these people live, to bring in food on a free-market basis through trade or, where food emergency exists, to bring it to them through philanthropic efforts.

So my comments today are directed towards those parts of the world food system and the smallholders in those countries that must bear simultaneously the dual burdens of caloric famine and economic famine.

These smallholder farmers are at a level of production that can be price sensitive, and they will respond to those price signals. The prosperity of these smallholders is often the underpinning for more and more impactful economic development. But it is also necessary for those very same economies who benefit from improvements in agricultural economic activity to have nonagricultural economic improvement as well, to provide the purchasing power that will then feed back into agriculture and sustain that very virtuous loop.

What does a smallholder food crop farmer in developing countries need to prosper? Cash. Director-General Annan this morning highlighted in his remarks the importance of reliable markets. And to the degree that “reliable” is a synonym for “stable,” I think we live at a very interesting time, and I would argue a more treacherous time versus the time of the first Green Revolution.

Agriculture increasingly is in a constant state of disequilibrium, and to speak to that, I will talk about the fact that very small, incremental changes in the stocks to use ratio, which is probably one of the best indicators of our food security, lead to enormous changes in price. This summer we have observed it in a way that’s very beneficial to Iowa and many other places where we saw the drought in Russia take out of global production an amount of grain equal to 0.07 of 1% of global production. It led to price increases of nearly 100 percent for wheat, 70 or 80 percent for corn.

And so we live in this period of disequilibrium where small increases in production lead to a kind of complacency that drives prices down very rapidly and small, negative trends in production, and reductions in our stocks to use ratio lead to rapid and very large changes in price.

So four basic things, besides cash and certainly besides rain, that are required for smallholders to be successful: First, the opportunity to plant the right crop on the right land. Property rights, increased revenue, certainty and adequacy, and finally and eventually and hopefully, access to open markets.

So first I’ll start with comparative advantage, or ensuring that smallholders grow the crop that makes the most sense, that captures their greatest comparative advantage.

The world will always raise the most food economically and most environmentally responsibly if we raise the right crop on the right land and, I believe, use the right technology to do so. So we have the technology today. It’s an over-exaggerated example, but we could grow all the orange juice consumed in Iowa in Iowa. We just shouldn’t. So the following example might be more realistic and certainly more applicable and certainly very real in the world today.

China has a comparative advantage by soil and climate in the production of starch crops — wheat, corn, rice — and they have a relative disadvantage in the production of soybeans. So the Chinese government has, in my opinion, very appropriately directed their greatest efforts towards the production of rice, wheat and corn, and they’ve continued to buy soybeans from Brazil, amongst others.

The Brazilians, in turn, import much of their wheat from Argentina and much of their malt for their beer. They could, but they have no advantage in growing wheat and barley, and rather they commit those acres to producing soybeans.

So you have a situation where the Chinese grow what they’re best at, the Argentines grow what they’re best at, the Brazilians grow what they’re best at. And by trading with each other, the wealth of all three countries is raised.

So if China, as a result of a reduction in their trust and comfort with their counterparties, were to seek to be more self-sufficient, you would actually reduce the aggregate supply of food in the world, and you would raise its aggregate cost.

In addition to choosing the right crop, innovations will also help smallholders prosper in the future and increase their productivity. And certainly over the course of the last two days we've heard about a number of those opportunities that we can take to the farmer.

The recent news that scientists have decoded the genome for wheat could bring in a whole new breed of disease-resistant crops that can produce higher yields, lower costs, and increase food security. Basic farmer training can also have a dramatic impact on productivity.

In China during the time of Cargill's participation in agriculture, we have conducted training schools for more than 2.4 million farmers on crop production, crop nutrition, animal breeding and feed technology.

So to the second thing that smallholders need in order to be successful is property rights. For the smallholder to prosper, they must be able to rely on the ability to own land, have access to it and the ability to transfer it to their children. Again, Director-General Annan made this point very clearly this morning about the importance of clear and reliable rural property titles. This is a first order requirement to establish medium- and long-term investment in agriculture.

It's not possible to build the important agricultural infrastructure needed in developing countries without clear property rights. Property is used as collateral for credit, and with property farmers are better able to get the working capital needed to farm successfully.

I spent a fair amount of time in my career living in Thailand in the area of the country that we selected to build an export-oriented poultry production facility, was in a part of Thailand that was the center of the Communist insurgency during the sixties, during the Vietnam War era. And in that area homesteading was allowed, and clear titles were given, and roads were built on a grid that looked a lot, but on a smaller scale to the area of North Dakota where I lived.

And so the combination of clear titles, homesteading and the creating of infrastructure allowed Thailand to weather that storm and more importantly to have what today is an extraordinarily vibrant, export-oriented food production system, no doubt enabled by property rights.

Helping smallholder farmers develop more sustainable farming practices is an important goal, and farmers are more likely to take sustainable actions when they clearly own their own property. In Vietnam we have trained more than 3,000 farmers on how to grow sustainable cocoa, and we will train more than 25,000 cocoa farmers this year in the Ivory Coast on similar practices to gain certification from worldwide organizations promoting sustainable agriculture.

The combination of these learnings in the Ivory Coast has led to more than a 30 percent increase in productivity as well as an increase in the sustainability. You combine their behavior, their productivity with the fact that we have outstanding global prices for cocoa today, and you can see the power of property rights and good prices in the actions being taken by our cocoa customers in the Ivory Coast. These are a very energized group of people.

Higher incomes also allow their families to send their children to school. In Indonesia we have smallholders at our palm plantation in South Sumatra. 8,800 of them have been certified by the Roundtable on Sustainable Palm Oil, the first group of smallholder farmers to receive that designation, a designation that's critical to having markets in Europe for the biggest-branded food companies.

The third thing that smallholders need is a reliable market into which to sell their crops. And here I'm going to take a little step out of the box probably for a Cargill executive who has long preached the value and importance of free trade and free markets.

The reality is that today many smallholders in developing countries lack sufficient revenue certainty. Because of that, they don't have the confidence to do what's required to invest in their properties over the medium and longer term.

Most of the countries with significant numbers of smallholders and better agriculture infrastructure, the people that did participate in the Green Revolution — countries such as India, Mexico and China — created to an important degree a revenue certainty for their farmers as they deployed and encouraged this technology. Their actions moderated the downside risk of increases in productivity and certainly encouraged the elimination of huge caloric famine in those three countries.

In developing countries today one of the biggest obstacles many smallholders face is in years of good crops they're forced to sell at harvest when prices are depressed and because the supply is high, take inadequate prices, which further discourage investments going forward.

These farmers are cash-flow destitute with limited access to rural credit, and selling at these depressed prices has a nonvirtuous circle of discouraging further production in future years. In the long run, the private sector can play a role in solving these problems, but first the legal and political environment must evolve to support that kind of private investment.

Private sector needs in this regard are much the same as for smallholders — reliable legal system based on the rule of law, a predictable banking and fiscal system, and a reasonable stable political environment.

In the interim until this legal and political framework exists, we need to acknowledge that there can be a role for a public financier providing sufficient capital to take crop inventories across the post-harvest dip. Beyond harvest loans on crops, governments can also help farmers band together and invest cooperatively in storage and other infrastructure.

So now to a trickier issue. As governments attempt to pick that very wise price that balances the needs of farmers for adequate revenue to encourage ongoing medium and long-term investment, they have to balance it against the needs of urban consumers and others who will pay those prices.

For the system to be sustainable, I think it is critical that the prices paid to farmers and the prices paid by consumers be the same, and it puts an enormous, and, I would describe as, solomonic burden on the political infrastructure to pick that price — fair to farmers and one that will encourage the absence of caloric famine and fair to consumers.

In the past, governments have pursued these patterns, sometimes successfully and in other times with unintended consequences, and we should learn from some of those.

One approach has been to split the price, to have a high price to farmers and then to buy down the price for consumers — obviously, a strategy that quickly becomes politicized as everyone seeks to widen the spread to the greatest degree possible and draining the national coffers.

A sustainable agriculture needs to have its revenue coming from the consumers who consume those farm products.

Even more perversely we have observed times when extraordinary interventions have been called for in the short term to deal with excess supplies, and there have actually been restraints on production allotments. Or we have seen support limits imposed on the size of farm that can receive a given price or a given target price. On the other side we've seen where there are no limits and there is a rapid consolidation of the size of farms, there is a rapid increase in the price of land, and inevitably a dramatic impact on the rural sociology of that country.

So the burden of selecting this price is not small, but the benefit of some adequate and reliable price certainty has certainly been an important element in those countries who have benefited from the Green Revolution. And I would suggest that as we go into the second generation of Green Revolution some attention must be given to this issue.

A combination of modest and early public policy followed by private sector investment can help moderate revenue volatility — key word being “modest,” of course, but who's the judge?

Allowing supplies of food to increase in the median term and until in the long term smallholders can travel down a more natural free-market path. History shows us that this can be a painful journey, but to evolve as a sustaining and sustainable agriculture, we believe attention must be given to the whole issue of revenue adequacy.

The fourth and final item is to create smallholder prosperity through physical connectivity to the world markets. A positive outcome for smallholders in Africa, for example, would be to experience a more reliable price, first by connecting with their regional markets. And this morning we heard comments about the price-depressing effect of the inability even within the Sub-Saharan African region to ship across national boundaries.

Once smallholder farmers are more of a competitive force of food production in their own economies, they will be better positioned to tap into global food trade. Governments must encourage open trade in a fair, transparent and rule-based and rigorously enforced system so that food surpluses can reach areas of food deficit.

Providing open markets is obviously an advanced solution that requires substantial infrastructure. And as we sit here in the state of Iowa, a state whose agriculture has so enormously benefited from the logistical advantages afforded by the Mississippi River, I think it's easy to visualize the importance at one extreme a powerful tool such as the Mississippi, and in other markets where we do business, the huge burden that falls on farmers as they try to market their crops across inadequate bridges and dirt roads. Without these investments, these isolated markets cannot increase food security, and the prices received by their farmers will remain inadequate.

The food crisis in 2008 was exacerbated by countries closing their borders, and that's certainly happening again in 2010. Given the increases we have seen recently in food prices, especially in wheat, and the civil strife it's caused in places such as Mozambique and Egypt, it is worth stating again that short-term trade restrictions by government are not only harmful in the immediate term but run the risk of reducing people's confidence and trust in each other.

Interesting to watch one of the debates going on today is — Is it a good thing, all the food imports in China? And is it good for Africa? There is a group on one side of this debate that had said the huge food demands for an ever more prosperous China is Africa's great opportunity to serve. And there have been others who say the high prices of food commodities as a result of enormous imports by the Chinese have caused more people to enter into a situation of economic famine — again pointing out the on the left hand, on the right hand challenge of this issue between economic and caloric famine.

I mentioned earlier that Cargill has direct connections with many smallholders in a variety of commodities and countries. And working with smallholders has been an important part of the company's legacy for more than 145 years. Our businesses on the ground in developing countries provide technical know-how, training and practical support for smallholder farmers to help them increase their productivity and most importantly raise their standard of living.

A year ago at this meeting Bill Gates said, "Food companies need to provide markets for smallholder farmers by turning them into suppliers." Companies like Nestlé are doing just that, helping to develop the dairy sector in Kenya, Uganda and Rwanda. And one of our neighbors in Minneapolis, General Mills, is working to help small and medium-size food processors and mills in four African nations. Cargill helps turn smallholders into suppliers in many of the countries where we do business.

But we cannot do this alone. We work with our NGO partners, people like CARE and TechnoServe and the World Food Programme, to help address social issues as well as education, nutrition and healthcare. And throughout our supply chains we are working with a number of NGOs, like the World Wildlife Fund and the Nature Conservancy, to improve those agricultural practices that convince the world that we in fact have sustainable agriculture.

At Cargill we take these actions of our own freewill, and we do it to build a sustainable business and to be responsible citizens.

Collectively, the world has the know-how. It has the spirit of innovation and the capacity to feed a growing population and to feed it better. The economics, the cash flow of the smallholder, are the key part of that equation. Arguably, it is the condition precedent for all of the other things to take place.

The problems are daunting and bigger than any one actor. We all — civil society, governments, academia, and the private sector — must work together towards the solutions.

If we respect the law of comparative advantage, clarify property rights, create improved revenue certainty for smallholders, and, finally, allow for the opening markets and free trade that will benefit their productivity, we can feed the world's population and do it on our current land mass.

It will be a long and sometimes difficult journey, but we must continue our efforts if we are to honor Norman Borlaug's legacy and strive to feed the world's people.

So I will close, quoting Dr. Hatibu from this morning: *With sufficient price, we can do this ourselves.* I believe that is true.

Thank you.