

2006 Norman E. Borlaug/World Food Prize International Symposium
The Green Revolution Redux:
Can We Replicate the Single Greatest Period of Food Production in All Human History?
October 19-20, 2006 - Des Moines, Iowa

| |
|---|
| <p>SESSION THREE: Linking the Public and Private Sectors October 19, 2006 – 3:00 p.m. – 4:45 p.m. Panelist Hans Jöhr</p> |
|---|

Moderator

John Ruff

We were going to do some questions at this point, but given that we are running a little bit late, I'm going to ask the last two speakers to come up now. We'll have their presentations, and then you will have a chance to ask questions of all of the panel. We do have a hard stop at 4:45, just for those people with plans.

So let me introduce our third speaker of this session. Hans Jöhr is the Assistant Vice President and Corporate Head of Agriculture for Nestlé. Mr. Jöhr is also the cofounder and the current president of the Platform for the Sustainable Agriculture Initiative of the Food Industry. He's a member of the Board of the International Policy Council on Agricultural Food and Trade, and a member of the Advisory Council of the Swiss State Secretariat of Economic Affairs; also an expert on agribusiness and agricultural economist and the food business in Brazil. He served as President of the International Food and Agribusiness Management Association and President of the Swiss Brazilian Chamber of Commerce in São Paulo, Brazil, prior to joining Nestlé.

His presentation today will discuss how the food industry can engage in the challenge of sustainable agriculture. Hans.

Sustainable Agriculture and the Food Industry

Hans Jöhr

Assistant Vice President and Corporate Head of Agriculture
Nestlé Ltd.

Ladies and gentlemen, good afternoon. I'm really delighted to be here with you and to share some views out of the private sector. And I think I do have a very tough challenge now, changing, let's say, a little bit the course of my two previous speakers that are going from an approach of – I would call it, rather, charity to solve the problem, towards now a business approach, aiming exactly at the same goal.

And I'm often faced with the question – what do you do – you, out of business – to address this poverty alleviation problem? And I think I do have a very simple response. It's trying to generate more jobs, new jobs, and to better and widely distribute income.

So let me start with putting you at the starting point, to give you an overview, by setting up the scene of where we are, where we are coming from, to tackle this theme, sustainable agriculture. Then I will talk a little bit about the challenge of food industry, how does a company engage, summarizing and concluding by the end.

Now, if you're looking into setting the scene, it's interesting to have an idea about where we're coming from and where we are heading towards. So you see, in fact, GDP developments of many countries, the old economies – and it's not only about old Europe, it's about old Japan or old U.S. economies – will definitely decline. And the new, emerging markets are going to arise, and they're going to grow. And this is going to give us a totally new, positive supply shock, also to the old economies.

And I think here we will probably see the biggest shift in relative prices and incomes in both worlds on labor, capital, commodity prices, consumer goods prices, and also in assets. And having said this, you're looking to where we expect that people are going to spend their money. And definitely you see that in the emerging economies there is much more money being spent for consumer goods. And pay attention to the fact that today 70% of the world's foreign exchange reserves are not anymore with the old economies.

Now we're looking into population dynamics. And a lot of things have been said this morning, but the most important thing is that probably, last year, we have seen something that is now new – that more of the global population is living in urban centers. And this is going to be even more in percentage for the future. Those people living in urban centers, they rely on processed food, processed and storable foods; and they will be provisioned out of their hinterlands, the rural communities. However, the rural communities today is not the national hinterlands, it's the global hinterlands, as we have seen that in many cases now production and consumption are geographically decoupled.

And here you get on that slide an insight on the development of the income categories we're looking at to serve as consumers for the future. And there is a widening up, getting more purchase power, and this to me is really the driving forces for rural development for the future.

Now, if we are looking into the constraints or limiting factors, then definitely we have to understand that the natural resources, which today operate food systems worldwide, they do have limits and in many cases, in many regions, we are already overexploiting those. It's about land, it's about water, it's about energy. We see, due to the demand, more and more caloric food demand increase. We expect to have more or less a demand in twenty years from now that is in calorie terms probably double of the today's values. And as I mentioned, geographical decoupling of supply and consumption means that we have also to watch into logistics, into infrastructure, into legislation.

So what does it mean for the food industry? Definitely the food industry relies on long-term supply of safe agricultural raw materials. However, we have limits of the natural resources,

and in many parts of this world, it's not any more attractive to stay, if there is a choice, to stay back in rural communities if there is a choice to move out. We're losing a lot of people and we are losing a lot of knowledge, and therefore there is a threat we are carefully watching throughout all our sourcing regions.

Consumers' confidence – and I think that's the most thing for all of us, because that's the reason we, all of us, have a job, because we are all engaged in the food system somehow. And that's the very simple reason why we see that we do have to give an answer to mainstream agriculture and to look at what it means to really develop sustainable agriculture or what we call sustainable agriculture.

And that's the very simple reason why, in 2002 together with Danone and Unilever we started to set up this organization, the sustainable agriculture initiative platform. You see I mentioned here the objectives, and you can also read the definition, what we do understand about sustainable agriculture. However, I have to say clearly that sustainable agriculture, this theme, is not core business to the food industry. You, many of you present here, you have much more to deliver to that theme than the food industry.

But what we try to do with this initiative is to create the awareness that a lot of things can be done much better and should be done together in order to really supply the future demand. And you see that in the meantime we have got now more than twenty really world players onboard. And I can tell you this is the unique association. It's based in Geneva, operating out of Brussels where you have companies that are headquartered in Northern America, in Europe and also in Australasia, tackling with the same with the same problem in a very precompetitive way – including all the valuable concepts and initiatives that contribute to sustainable agriculture.

And some of the activities we have developed so far, by developing guidelines, now are being tested in pilot markets. And you see that we are looking into the chain approach. And you have here, for instance, some coffee pilot projects we have rolled out since 2003, together with our competitors but in a meaningful way with our coffee traders also. And we do have now about, only in coffee, for instance, twenty projects around the world.

How does a company engage? My company, we have developed this concept of shared value creation where we say: If we will delight consumers in nutrition, health and wellness through our products, then we have to deeply understand what it means to link back to sourcing of agricultural materials, and also to look into the production systems and methods we are sourcing agricultural materials from.

And this is then leading into new, innovative sourcing practices, good agricultural practices, Best Practices at farm level. And as we are growing and as we see big growth out there, we have also to think into building the context for growth. Thus, it means to develop our supplies, to develop the farmers, and not only commercial farmers but a lot of very, very small holders, as we do have in many countries, mainly in Latin America or in Asia – hundred thousands of smallholders delivering their materials to our factories.

It is an all-inclusive value chain approach, so think in the food value chain to please the consumer. The consumer is the foremost important target we all have to have in mind, to please by the end of the day someone who wants to drink a cup of coffee, linking back to a coffee tree.

Corporate social responsibility is absolutely part of the business model. It's part of the game. And sustainability is not any more something that is not accepted at business level. How do we do it and how does it work in practice?

The most important thing, to make it short here, is really to link farmers to markets and to be able to generate a regular cash flow. If you can achieve this, then you really link rural communities to the market. And today someone said, well, if we are putting one dollar into a rural community, then we may generate one or two. We have scientific evidence that in milk districts in India or in Pakistan where we're sourcing fresh milk, if we are putting one dollar back into rural communities, this dollar generates an additional factor of three to four in local GDP. That then starts really to improve the livelihood of those farmers. So once you can generate a cash flow back to rural areas, then definitely you are in business with these people, and these people, they do have a future.

Well, talking about the impact before we started and we created this Sustainable Agricultural Initiative platform with many of our peers, we already started the sustainable agriculture initiative at Nestlé. And just to give you an idea of what it means to be linked to rural communities, we are purchasing something like \$13 billion in value of agricultural materials around the globe. We interact almost on a daily basis with more than 400,000 farmers, and we have some 800 agronomists out there, much more than many of the development corporations and development agencies. And we have more than 150 different sustainable agricultural projects ongoing.

But do we live in a perfect world? Not at all. Could we do better? Absolutely. Because summarizing, I tell you that all these different keys, these different approaches, these different standards and guidelines for tackling sometimes with the same issues, maybe for the same goal, definitely is causing a lot of problems for all of us and mainly the farmers who cannot comply with all this regulatory or the private initiative requirements. And definitely for the consumers it's a nightmare because consumers do not understand what's all behind all these labels and all these different approaches.

So therefore I think that standardization is absolutely urgently needed, and standardization is done only if we have an approach throughout the value chain with research, with input suppliers, with primary processors, with the farmers, with the processes, but also with the retailers, and not excluding with these, the consumers.

So I think that there are so many inefficiencies still in our today's food systems that we should really focus on those things and trying to work together and to understand what, in fact, we do have to gain and to make out of strategic alliances. However, if we are looking into the so-called strategic alliances, we also have to understand that, if you want to go being successful, that the first thing is really that you trust each other and that you have the credibility and that you have a certain agreement on what you really want to achieve.

This is a problem we sometimes face with these public-private partnerships, because we have different agendas. And if we do not have a clear agreement on what we want to do, instead of talking to each other, we better look out there to the clients, to the consumers.

If we do have the same goal to serve these people out there – maybe in Africa and in Asia or somewhere else – I think being aligned, having a clear agreement on what we want to achieve with a common goal, then, yes, public-private partnerships, they really make sense. And we do have in my company many of them, and we have learned a lot, but we have also had a lot of failures because we were simply not on the same page.

Even those who in the past addressed a lot of critics about sustainability have at least now learned that sustainability is definitely a business case. We're not talking just about charity or about a nice talk. We're talking about hard facts and figures where we measure the impact, or the costs and benefits, and where we get foreign investment a payback, period.

So sustainable agriculture, to conclude, leads definitely, in our understanding, to an enhanced food safety, quality assurance, and also to regulatory compliance. As I mentioned before, the supply chains, they are not only international supply chains, transnational, they are transcontinental supply chains. So regulatory compliance is becoming more and more an issue. But sustainable agriculture approaches also address – and that's the most important thing – the world food needs for the future. And they create business opportunities, and they match with the consumers' expectations.

However, the big challenge – and I think this is something I would like to address to you to take home from this conference – the big challenge today is to break the link between economic growth and negative environmental impacts. Because there are clear limits to the old natural resource capabilities. And if we have understood that one, then we have to ask ourselves – what can I do to be part of that? Because definitely just having more economic growth by not taking care of the natural resources this growth is coming from, may lead definitely into a dead-end road.

And with that I thank you for your attention.

John Ruff

Thank you, Hans. As Hans said, his company and mine compete in areas like coffee, but as you can see, this is an area where we believe we can work together successfully. And I think your remarks kind of illustrate the challenges of finding the win-win here, both economically and environmentally, as well as for companies, and look forward to thoughts and questions that you have in a few minutes.