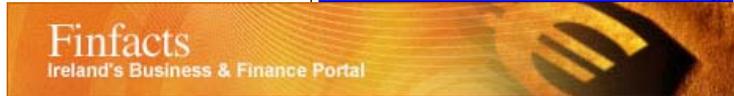




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Last Updated: Apr 24, 2009 - 5:31:05 PM

**Nestlé Chairman calls on European policymakers to reconsider opposition to genetically modified (GM) crops; Says 10,000 liters of water required to produce as little as one to two liters of biodiesel**

By Finfacts Team  
Jun 23, 2008 - 8:04:41 AM

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Nestlé - the world's biggest food company - has called on European policymakers to reconsider their opposition to genetically modified (GM) crops, as surging commodity prices put basic foodstuffs such as wheat and rice out of reach of the world's poorest.

*"You cannot today feed the world without genetically modified organisms," Peter Brabeck, Chairman of Nestlé, told the Financial Times. "We have the means*

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to make agriculture sustainable in the long term. What we don't see for the time being is the political will."

Brabeck said Europe's opposition to such biotechnology had encouraged African policymakers to reject GM crops. South Africa is the only country on the African continent to commercialise them, growing GM maize, cotton and soyabeans.



**The European Commission says biotechnology could help to solve the food crisis and officials say they are frustrated that national governments often block their recommendations for GM approval.** "Their resistance stems from how Europe feels about GMOs (Genetically Modified Organisms)," said a spokesman to the FT.

Only 21% of Europeans will eat genetically engineered food, according to a Commission survey.

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Barbeck **wrote** recently in The Wall Street Journal that the world's agriculture and water crisis is only going to get worse. As China and India grow, their populations are demanding more and wider varieties of food stuffs, competition for arable land is intensifying and freshwater withdrawals of agriculture are soaring. Food prices are rising, in large part because agriculture suppliers can barely keep up with today's demand. So what is the world doing? Reorienting land away from food production and toward plants cultivated for energy needs.

Brabeck wrote: *If there's one certainty, it is this: The production of biofuels has stimulated a massive, and destructive, reorientation of the world's agriculture markets. The US Department of Energy calculates that every 10,000 liters of water produces as little as five liters of ethanol, or one to two liters of biodiesel. Biofuels are economical nonsense, ecologically useless and ethically indefensible. This year, the U.S. will use around 130 million tons of corn for biofuels. This corn was not available as human food, nor as fodder to animals. Is this the right strategy, for a product that won't satisfy even a small percentage of our energy needs?*

The chairman says that *the biofuel madness is contributing to water shortages that are already endemic. Stretches of the Rio Grande, which partly separates the U.S. from Mexico, have dried up in regular intervals since 2001. China's Yellow River ran dry in 1972, in 1996 and in 1997. Worse yet, we are overusing ground water in large*

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parts of the world. Water levels are sinking rapidly both in China as well as in India's Punjab state. Great aquifers, whether in the Sahara or in the southwestern U.S., are being depleted rapidly. This is water that dates from thousands of years ago. Like oil, once gone, it is lost forever.

**"Then there will be nothing left to eat"**

This is an English translation of an interview with Peter Brabeck-Letmathe in the leading Swiss newspaper, NZZ am Sonntag. Interview by Charlotte Jacquemart, Daniel Hug.



Nestlé chief Peter Brabeck warns against meeting the rising demand for fuel with bioethanol. The prices of agricultural commodities are climbing anyway – because of financial investors and demand from Asia.

**NZZ am Sonntag: Nestlé has just revised its forecast for the current year and announced sales growth of 7.4%, although the prices of commodities are constantly rising. How do you manage to pass on the higher prices to consumers while maintaining the same level of demand?**

Peter Brabeck: By improving the products. We increase their value and constantly renew them. Therefore we can increase prices. On average we reinvent, as it were, at least 20% of our existing products every year.

**Do you also change the recipes at Nestlé? Do you replace raw materials that have become more expensive with cheaper ones?**

Of course. This plays an important role in developing countries. A traditional wheat-based milk powder product is unaffordable for many people in Africa today, given the high prices being demanded for wheat. If we replace wheat with a local commodity, such as rice, we can keep the price steady. But the secret lies in the right combination. For example, today we have a series of products in which we have replaced the milk to some extent with other products, thereby obtaining a more nutritional milk powder. We replace high-price commodities with cheaper ones, while at the same time renewing our products. The result is acceptance of our higher prices.

**What direction does this product innovation take?**

Internally, we are guided by the formula 60/40 plus. We continually review all our products to establish whether they are preferred to competitor products by 60% of our buyers. That is the yardstick. The plus means the products have to be of greater nutritional value than those of other suppliers. Products that do not achieve this are placed on the medium-term hit list. We have detached ourselves, for example, from the pasta and tomato business.

**How are the financial markets influencing the prices of agricultural commodities today?**

Enormously, and that is a huge problem. The hedge funds are shifting increasingly from financials to commodities. Before, we could estimate approximately how the harvests would turn out – and could adjust prices accordingly. That's a thing of the past. Today what is more important than the harvest is whether Calpers, the Californian pension fund, decides to enter the commodities market with USD 750 million – because then all the other pension funds in the world will do the same and invest USD 5 billion in the agricultural market at a stroke. It has all become very speculative.

**Do you have to study the behaviour of pension fund managers now?**

In a way. With various commodities we are already seeing the signs of a bubble, for example with coffee and cocoa – prices are a lot higher than they should be. But wheat will remain expensive.

**How does Nestlé react to this? With longer supply agreements?**

Three years ago we predicted commodity prices would rise – which no one believed at the time, because we had not seen any increases for 15 years. This is why we were better prepared than others for the rocketing commodity prices.

**There are chocolate producers who practically have their own farmers in**

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### **the producing countries. Does Nestlé also do this?**

We buy the bulk of our milk direct from the milk producers. Altogether, we have 600,000 farmers worldwide who work directly for us, and 100,000 of them supply cocoa and coffee beans. This can help to reduce the speculation. But if you go to a coffee farmer in Costa Rica or San Salvador today, then he will be sitting high up on the hill in a hut, where he will show you on his computer exactly where the price of coffee stands in New York. The farmers today are happy, and that's also good for us, because behind every farmer are around six family members who are in turn our consumers.

### **Do the massive commodity price increases not concern you then?**

From a global point of view it certainly worries me. The population will grow to at least 9 billion people. Yet we are already having difficulty producing enough food for today's 6.5 billion. This is due to new eating habits and the production of biofuels.

### **Why is a change in eating habits a problem?**

People on higher incomes eat more meat. If 600 million of 1.3 billion Chinese switch from a rice-only diet to rice with chicken or pork, basic nutritional needs are multiplied as a result. To produce one calorie of meat, we need about eight times more grain than for the manufacture of a vegetarian calorie – and ten times more water. Hundreds of millions of people have recently emerged from poverty into a more pleasant lifestyle and suddenly have access to industrial products. And we are happy about that. What makes me unhappy is the boom in biofuels.

### **What is bad about that?**

If the USA uses 138 million tons of sweet corn just for biofuel this year, this sweet corn will not be available for food production and will intensify the struggle for land. This leads to a situation where not only the price of sweet corn rises, but also that of soya and wheat. Arable land is becoming a scarce resource. The same is true of water, which is threatening to peter out on us. To produce 1 litre of bioethanol, you need 4000 litres of water! Water is a greater problem than CO2 emissions. Today, we are already tapping not only renewable water supplies, but also the fossil water reserves. These fossil reserves were created millions of years ago, like oil. That is not a problem for Switzerland with its rain-based agriculture. But the big producers today are irrigating almost all their fields artificially.

### **Where do the fossil water reserves lie?**

In the south-west of the USA, India and China. There are also large subterranean reserves in the Sahara. For this reason, Gadhafi has built a gigantic pipeline to pump this water to the north of Libya and irrigate the fields there. The Mandara lakes in the middle of the desert are visibly draining away. In India and China, water levels today are already falling by 1.5 metres a year. In the Indian Punjab, you already have to drill 100 metres down to find any water.

### **What are the consequences?**

These countries no longer export wheat, but have to import grain because they are running out of water. The week before last, Saudi Arabia announced it would no longer be exporting wheat. Kazakhstan, a traditional "bread basket" country, and Argentina want to restrict their wheat exports. On the back of these announcements, the price of wheat rocketed 24% in a single day.

### **Is the wheat trade a kind of virtual water trade?**

That's right. This is why it is irresponsible and morally unacceptable to pay enormous subsidies to make biofuels out of foodstuffs. To meet 20% of the rising demand for oil through biofuels, as planned, will leave us with nothing to eat. That is political madness.

### **Europe vehemently rejects gene technology – why?**

Europe is not dependent on it because there is enough water in many places. But we must not view the world only from our Alpine viewpoint. We can feed the few million Swiss and Austrian people for a long time to come. But not the remaining 9 billion. What is astonishing, however, is that gene technology was developed in Switzerland. It could have become one of the big economic pillars of the country. Today, the technology is in the hands of the Americans and Chinese.

### **Bill Gates propagates organic farming in Africa instead of gene technology. Does Gates not understand it?**

I have never spoken to him about it. I'm a great organic food fan myself, and I buy organic bacon and schnaps. But the fact is we cannot feed the world with organic products. But for farmers in Switzerland, organic products are the right

strategy, because they can charge higher prices for them.

**Nestlé is one of the world's largest sellers of water. Will you not profit when water becomes scarce?**

We are global leaders in the water business, but we only use 0.0009% of all the water that is consumed. If you want to save water, you should drink more water and less coke, beer or wine, because it takes 1.5 litres of water to bottle 1 litre of water. You need 3 to 4 litres to produce 1 litre of a carbonated drink, or as much as 6 to 7 litres for one litre of beer.

**What should we do about it?**

Water needs a price. It is only because it costs nothing that people today use 4000 litres of water to produce 1 litre of biodiesel.

**Is water not a human right?**

Definitely – the 5 litres I need to live and the 20 litres for hygiene is. But water is not a human right if I use it to fill the swimming pool. South Africa provides every family with 6000 litres per person every month free of charge; anything over and above that is paid for. But a Spanish farmer or golf green operator pays only 2% of the effective water costs, and they are correspondingly carefree in their use of water.

**40 years in the service of Nestlé**

Austrian Peter Brabeck-Letmathe has worked for Nestlé since 1968 – and is its Chairman and CEO. The company, with headquarters in Vevey, achieved sales of CHF 108 billion (€66.8bn; \$104bn) and a profit of CHF 10.7 billion in 2007. Brabeck, 63, handed over to Belgian Paul Bulcke as CEO on 10 Aprilth, while retaining his position as Chairman.



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