

**ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM**

**JUNE 16–18, 2011**

**INVESTMENTS IN AGRICULTURE AS THE BASIS FOR ENSURING GLOBAL  
FOOD SECURITY**

**Securing Global Growth**

**JUNE 17, 2011 — 14:00–15:15, Pavilion 8, Conference Hall 8.3**

**St. Petersburg, Russia**

**2011**

The increase in food prices is considered one of the main factors behind the recent political instability in the Middle East and other regions of the world. The anticipated growth in the global population from 6.3 billion to more than 9 billion by 2050, climate change, growth in energy prices, manmade disasters as well as increased consumption in developing nations all dictate the need for structural reforms in global agriculture in order to satisfy growing demand.

Russian agribusiness not only has serious potential to cover the country's domestic demand for staple foods, but can also make a significant contribution to ensure global food security. Russia is home to 9% of the world's arable land and 25% of its fresh water. Capitalizing on this potential will only be possible if the sector is able to actively attract investment for the modernization of production and processing with the use of modern technologies.

**Moderator:**

**Donald V. Almeida**, Vice Chairman, Clients and Markets, PwC

**Panelists:**

**Peter Brabeck-Letmathe**, Chairman of the Board, Nestlé S.A.

**Dr. Ngozi Okonjo-Iweala**, Managing Director, World Bank Group

**Dr. Supachai Panitchpakdi**, Secretary-General, United Nations Conference on Trade and Development (UNCTAD)

**Sergei Yushin**, Chairman of the Executive Committee, National Meat Association

**Viktor Zubkov**, First Deputy Prime Minister of the Russian Federation

## **D. Almeida:**

Welcome to 'Investments in Agriculture as the Basis for Ensuring Global Food Security'. And let me just quickly, I think they do not need really to be introduced but let me introduce them anyway.

At my far right is Yuri Ognev who is the CEO, International Grain Company. To his left is Dr. Panitchpakdi who is the Secretary-General of United Nations Conference on Trade and Development. The First Deputy Prime Minister, I don't think needs to be introduced.

To my left is Dr. Okonjo-Iweala, who is the Managing Director of World Bank Group; Peter Brabeck, who is the Chairman of Nestlé. And to his left, Sergei Yushin, who is the Chair of the Executive Committee of the National Meat Association.

So with that as an introduction, let me just put an opening focus on the area that we are going to talk about.

The topic of food security is an area that few think about day-to-day. However, environmental issues and market stresses are intensifying around the world with significant repercussions for agriculture, politics and business.

The global food system is entering a new period of unprecedented and intensifying stresses. Supply side stresses include the impending water shortages, climate change, desertification, declining investment in agriculture around the world, and food waste and loss.

On the demand side, the stresses are new sources of demand, which include bio-fuels, increasing population and growing affluence, and also market factors, in particular, excessive speculation.

The prospect for greater food insecurity creates new risks for business. Farmers face increased risks of production. Companies involved in food production, distribution, processing and sales face an increase in supply chain vulnerabilities. Financial companies that provide credit or insurance to any of the above face increased exposure.

Rising demand and increasing scarcity of water creates a water security risk for a wide variety of companies, food, beverage, apparel, power production, etc. And companies operating in a developing world, regardless of their business, will face increased risks of political instability that may affect their operations.

The prospect for greater food insecurity also creates new opportunities. The private sector has tremendous capabilities to apply to the food security challenge, expertise, logistics, technology, and research capacity. Some of the primary opportunities that exist are in clean water, agricultural research, improvements to the distribution infrastructure, forestry, agricultural education, and the sharing of best practice.

Russia is impacted and affected by all of this. Russia also has 9% of the world's arable land and 25% of the fresh water. Russia is a significant player in this area today. And Russia has a significant impact on agriculture going forward.

So with my comments as some background, I would now like to ask the First Deputy Prime Minister to make his observations on this area.

**V. Zubkov:**

Ladies and gentlemen, colleagues, first of all, I would like to welcome the discussion participants to one of the most beautiful and hospitable cities in Russia—St. Petersburg.

The line-up of events at the St. Petersburg International Economic Forum every year includes the most pressing development issues of the day, among them the development of agriculture. Today's session will focus on the role of investments in ensuring food security.

We all know very well that with the high rate of world population growth and a rise in demand for agricultural products, ensuring global food security is becoming a priority issue for the world economy. According to predictions, the world population will exceed 20 billion people by the year 2050. As a consequence, it will be necessary to increase agricultural production by 70%.

In recent years, the disparity between demand and supply has caused high volatility in the prices of basic foodstuffs. It is clear that in the face of new challenges and threats, the efforts of the international community must be consolidated in order to develop a range of adequate measures to meet the emerging risks. With the aim of ensuring the stable development of agriculture globally, major, coordinated work among governments is underway on various levels to create regulations and principles for the international trade of agricultural products. Our country is an active participant in this process. Russia is putting forward new proposals to hold forums for addressing agricultural policy issues. In 2009, as a part of the St. Petersburg International Economic Forum, we held the First International Grain Forum. The Forum, according to participants, was a success. The Forum saw issues in the grain market and approaches to their resolution being discussed. We are planning to hold the next Grain Forum in 2012.

The only way to ensure global food security is to expand the scale of production of high-quality, safe products, and also the range of products. Russia possesses unique potential in that regard: no other country has the kind of possibilities Russia has. We have natural competitive advantages: our country contains one-tenth of the world's arable land, one-fourth of the world's freshwater supplies, and more than 8% of the world's reserves of mineral fertilizers. In the medium term, our country plans to significantly increase the size of our share of global food production, specifically in the areas of grain and processed grain products, oils, sugar, and, naturally, meat, poultry, pork, and other products.

It must be said that even a few years ago, not to mention in Soviet times, numerous different resolutions were passed for the development of agriculture that, unfortunately, were never implemented. There is one single reason for this: the decisions were made without taking a comprehensive view of things; and moreover, the central figure in agricultural production, the producer, was not defined. In 2006, the law 'On the Development of Agriculture' was passed in

Russia, and in that law it was clearly defined who the actual producer is. The government proclaimed that the producer can be any legal entity, any organization: they can be large, medium-sized, small enterprises; individuals; small private farms; personal plots. Having proclaimed that to be the range of actual agricultural producers, the government set out government support measures. Those measures were formalized in the State Agriculture Development Programme, and subsequently the Food Security Doctrine was adopted. Just in the last three to four years, the passing of such comprehensive strategic resolutions has allowed production volumes to increase by 15%, moreover production of such types of meat as poultry increased by 84%, pork by 43%. That is to say that very good, large volumes have been reached. Food imports have decreased by a third, by 32%.

Today Russian agribusiness is growing successfully. For example, in the last two years, more than 250 livestock facilities have been built or reconstructed. What is more, the livestock facilities being built today are modern, cost-efficient, and technologically advanced. These kinds of facilities produce competitive products. In addition, built-up demand on the Russian and global markets ensures high profitability for investors in Russian production. The Russian government is implementing a wide range of measures aimed at creating a favourable investment climate. We are implementing a prudent macro-economic policy; lowering—or at least trying to lower—the administrative barriers and costs of doing business; decreasing the number of licensable activities; instituting the practice of having the Ministry of Economic Development evaluate the regulatory impact of legislative acts; and developing an effective model for coordination between the government and industry associations. There are many industry associations and organizations here today that are becoming significant players in the agro-industrial complex. For investors in the in the agro-industrial sector, we are mapping out additional areas in the new plan that we are currently developing for the period of 2013–2020, including high-level processing of

agricultural products using non-waste technologies, introducing innovations, advancing agricultural science, creating logistics infrastructure, and implementing resource-efficient crop management, which is very important in terms of developing the export potential of, first and foremost, grain and meat.

Russia is a reliable partner, both in terms of ensuring the integrity of investments and in terms of guaranteeing delivery of its products to the world market. We guarantee delivery of safe products, which is extremely important for the world market today. We should talk more about this and take real measures to ensure that agricultural products are safe.

A year ago we made the unpopular decision of barring exports, beginning August 15 of last year. I called around to all my foreign colleagues, who had always been reliable importers of our grain, and warned them that we would be implementing this measure. We acted in that way for one simple reason: to ensure our national security. Nonetheless, if any countries bore additional costs or losses as a result of that, I want to underline that even while recognizing the necessity of those measures, I also at the same time understand the situation those countries are in. We acknowledge a full measure of responsibility for ensuring global food security and, as part of that, for the export of grain to other countries, which is why we have opened grain exports, beginning July 1 of this year. This year, as before, importers that have traditionally bought our high-quality grain will receive as much grain they need, as a good grain harvest is expected. I think that things will continue this way for years to come.

I would like to express my confidence that today's session will serve as a good means for discussing food security issues and Russia's role in its security. I could say a lot more about what kinds of government support measures are being taken and what we plan to do this year, in 2012, and in 2013, and what kind of role we see for Russia regarding its export capabilities, but unfortunately my speaking time is up. Thank you.

**D. Almeida:**

I think, going forwards, when we go to the audience, for questions, we are going to have to ask for a three-minute limit. But with that said, let me proceed the following way.

Mr. Zubkov mentioned a number of areas where the Russian Federation is a very active participant in developing solutions for sustainable development in agriculture.

What I would like to do now is ask three of our panellists to deal with the following question: what in your view are some of the most important areas that the world should focus on? But in particular, Russia should focus on in this area? I would like Dr. Panitchpakdi, Dr. Okonjo-Iweala, and then also the chairman from Nestlé to respond to that. And we will start with Dr. Panitchpakdi.

**Dr. S. Panitchpakdi:**

All right, thank you very much, Donald. I have four points to make. One point, one minute each, so I will try to be within the four minutes.

But before I go over to the four points, let me say that humankind has been totally failing in one of the basic needs for human beings, which is to achieve food security.

Ten years ago, we had 800 million people going to bed hungry every day. 10 years ago. Today, we have a billion. So, there has been an increase of 200 million in one decade and if we leave things like this for the next decade it will be 1.2 billion. This is just unacceptable, intolerable.

And if you look at the circumstances around the world, the frequencies of natural disasters, the changing in the tastes of people, the limitations of arable land, all of these will limit the supply of food.

So, the fine balance between the demand and supply of food is getting tighter and tighter. We are becoming more vulnerable to the kind of failures that could have strong implications on food prices.

So, I would say that the era of cheap food prices is gone. It is no more. So, I fully agree with Deputy Prime Minister Zubkov that we have to find ways so that we can maintain the productivity of the land and find ways so that government can help to support the way we induce investment to meet the problems of food security.

Four points: first point is international commitments. There was the G8 L'Aquila International Commitment to support international investment in agriculture at the level of USD 20 billion in three-years' time. 20 billion in three-years' time.

L'Aquila was already two years ago so this is into the third year. I think only one or two billion has been delivered. Twenty billion was committed three years ago and has not been delivered. There has been the Madrid Agreement, so that would be a partnership between countries, those which are advanced, less advanced, so that we could set up some funding arrangement, that we can attach to this financial commitment, not yet delivered.

We have the UN system, a High-Level Task Force chaired by Ban Ki-Moon, Secretary-General, that will deal particularly with smallholding farmers, to supply them with finance needs, transportation means, investment, and things like that. On and off, this has been an exercise that the UN has been very serious about but it is not always supported by the international system.

The ODA, Overseas Development Assistance. Ten years ago, 12% of ODA was given to agriculture development and infrastructure development. Now, it is only 4%. So, first international commitment is not up to par. Commitments are not being met and this will have to change. Otherwise, we cannot achieve the sustainability that we have talked about.

Second, we need transfer of technology. UNCTAD has recently produced a report, which I recommend you to read, which is called 'Africa's Agriculture Development and Technology Transfer'.

We have made sure that there are simple technologies, low hanging fruits, institutional arrangements, and technologies, like mobile telephony have helped

African farmers to become more sustainable producers, because they can source the best inputs from around the world and also can locate the best prices for their products.

We need multicropping technology, multicropping because the top soil will have to be turned over year after year. We need the kind of irrigation technology, the drip system that could be very cheaply introduced in Africa. We need seeds; like new seeds for Africa.

So, technology is one area that we need to be able to sustain our agriculture development.

The third one, doing all these things on the basis of public money, governmental participation, is not enough. We have calculated that for Africa, we need more than USD 200 billion every year to meet with the requirement to produce food, and I would say only one-quarter of this is being met in Africa.

A few years ago, African leaders promised each other that each African country would put up 10% of their budget for agriculture development. Only five countries have met that target out of the 50 countries.

So, we need to have Foreign Direct Investment, FDI: private investment as we have been talking about. But Foreign Direct Investment normally goes there for its own profits, so together with G8 and G20, and next week I am going to Paris because there will be a meeting of G20 Ministers of Agriculture, we will be discussing the principles, the guidelines of what we call, 'Responsible Agriculture Investment', or RAI.

This has only been discussed in the G8 and next week, in Paris, Agriculture Ministers will discuss these issues, under principles that we would like TNCs, transnational corporations, to accept that when they go abroad to invest either here, or in Asia, or in Africa, or elsewhere in the world, that they comply with a set of principles, particularly, in dealing with the land to avoid land grabbing, in dealing with environment, dealing with the indigenous population, in dealing with

food security, that it is not produced to export, and that they have to produce partly for domestic supply as well.

So, the third part is a principle for responsible agriculture investment, which will have to be accepted at the international level.

And the last, the fourth point is the need to deal with the commodity exchanges. Commodity exchanges have become not only a place where people buy and sell into their futures to cover their spot positions. There are more and more speculators who come into the market to do what we call financial speculation. They do not have any spot position to cover. They are those money market operators, the index funds operators, they are banks, they are university funds, they are money market funds, and they look for a return.

So, commodities have become another financial asset and this kind of financialization of speculations has led to all sorts of volatility on the exchanges in the future prices for commodities, and has actually put pressure on all these countries that produce food.

Because of the situation that Russia has been in, because of the national disasters, the whole situation has been exacerbated at the international market level because of the speculators.

And the fourth point that I would like to make, is that we need to put in some rules and regulations to render this more transparent, and to have all these speculations in the futures market to be under certain control. Let us say, margin requirements and some control on their position.

Thank you very much, Mr. Chairman.

**D. Almeida:**

Dr. Iweala, can you speak next?

**Dr. N. Okonjo-Iweala:**

I will stick to the three-minute rule. Let me try to add or expand on some of the points that have already been made.

The first is that we think that food price volatility is here to stay and uncertainty is here to stay. So, the question is how do we really deal with this? You know, we made some estimates at the World Bank in the 80s and 90s, there used to be a hundred and fifty crises per year. Now it is 370 crises of all types, including natural disasters.

So, it means when you wake up in the morning, you do not know what is going to happen in any part of the world and what impact it is going to have, and that includes impact on the production and the pricing of food. And so what we need to prepare for is how to deal with this.

The last crisis we had, just recently, threw 44 million more people into poverty, and if food prices were to increase another 10%, another 10 million people will fall into poverty, living on under USD 1.25 a day. So, this is a key issue.

The second point is that this food price crisis and the food price volatility could be one of the threats emerging that could really derail recovery in the world economy today. And that is why it is important that we pay attention to that.

The flipside of this is there are some structural factors underlying the increase in the volatility of prices and the need for food security. There is a long-term demand where the population is increasing, so the demand for food is getting higher, and on the supply side, there are constraints that are emerging.

Over the last decade demand for food increased by 26%, but on the supply side production increased by only 20%. So, there is already a gap and the issue is that we need long-term investment to be able to deal with this gap. Long-term investment in agriculture has to take place.

The good side of the story is that the potential to do this exists, and Russia can be part of that equation. Russia, Ukraine, and Kazakhstan have now emerged as some of the biggest suppliers of grain in the world. And Russia has the clear potential to improve yields and to improve productivity both for itself, to ensure its

own food security, because Russia has imported up to USD 12 billion a year in agricultural products. It has the potential to be one of the big players in the world. In addition, the other parts of the world, as Dr. Panitchpakdi referred to, 50% of the arable land that has not been used in the world is in Africa. And investments in irrigation, in fertilizer, in improved seeds can also lead to a huge increase in supply to where the continent can not only feed itself, but to export.

So, I just want to summarize that there is a structural problem. We have issues with climate change, we have issues and constraints on the supply side, but there is the potential that exists to improve by investing long-term.

We, at the World Bank Group, are planning to increase our investments from USD 6 billion a year to USD 8 billion a year in agriculture, and this should support an increase in supply in countries all around the world. I think that is where we need to push.

**D. Almeida:**

Peter, can you maybe speak for a businessman who leads a major global agribusiness?

**P. Brabeck-Letmathe:**

Yes, thank you very much. I would like first to refer to what Deputy Prime Minister mentioned before. I think Russia has gone a long way from where it was in the agricultural side, to where it is today. But in the same sense, I would say, it still has a long way to go in the future.

I think Russia is, and should be increasingly so, a critical part of the global agricultural and food security system. As it was mentioned before, with 10% of arable land and 25% of the water reserves, it is predestined to be a critical part of this food system.

But in the food system, we need three things: predictability, we need transparency and we need stability. And if you alter any one of those three

things, you have an immediate impact on the prices of agricultural raw materials. So that is what has happened over the last couple of years now. And I think is very important that anybody, who is part of the supply chain, takes into consideration those three things: predictability, transparency, and stability. They are very important.

Now, the other part was already mentioned, in order to be a valid partner, you have to be sure that you have productivity in the sector. And I think in this sense, there are still great opportunities for productivity through the investment into new technologies.

I think also, that qualified professionals are very important. This would also help people to stay on the farms and not migrate into the cities, which is I think is a long-term problem. So, this would be also helping. One has to think about how one can add more value to basic production. Today, a lot of export is fundamental agricultural product, but there is a huge opportunity for adding value to that.

When we talk about the United States, for example, you know the United States' biggest export is not high technology, or airplanes, or whatever. The biggest export item from the United States is agricultural product, and I do not see any reason why this could not be a very good opportunity also for Russia. Agricultural export should be one of the thriving export activities of Russia.

So, I would say yes, huge opportunity; a lot has been done, but I think there are huge opportunities ahead.

**D. Almeida:**

Mr. Zubkov, with the three inputs that you have just received, any comment you would like to make?

**V. Zubkov:**

I would like to hear some more comments and presentations, if you will allow me to.

**D. Almeida:**

OK, so, with that, I think I am going to ask for two questions from the audience and then I want to move on to another, and we will go back to the audience.

So, the gentlemen in the back?

**From the audience:**

Thank you very much. I have been investing in agriculture for the last five years, primarily in South America, but also in Africa and here in Russia as well.

One of the things that struck me about the food security debate is there is absolutely no discussion about how the food gets produced. It is actually extraordinary, we do not think about it, but the principal entity through which businesses is conducted are corporations. In the agricultural sector, there are very few farming corporations.

I can tell you, you are absolutely right. We have increased pricing volatility, increased weather volatility, which makes it extraordinarily difficult to be a farmer today, particularly a farming corporation. And one of the things I wanted to suggest or ask the panellists about is, if we are going to give USD 20 billion to small farmers, that is not going to solve our situation in the near-term.

And one of the things I think we can do is help reduce that volatility and think about using some of that USD 20 billion as an insurance fund. In South America, none of the corporations, none of the countries, provide any kind of insurance to mitigate weather risks.

And so, I think it is fascinating that it's an industry that's tens of thousands of years old, but we are really looking for new corporations in the future. Those corporations, by the way, are in Russia: Razgulay Group, and Rusagro; in South

America, there are five or ten emerging corporations of a 100,000 hectares or more; in Africa, there is a future for that.

So, the future production has to come from these large-scale corporations but they are very new and very emerging. And I think some of the support might come from the global insurance of some nature. Thank you.

**D. Almeida:**

Sergei, would you want to respond to that?

**S. Yushin:**

It is very true that it will be difficult to pin our hopes only on small and medium-sized business to reduce these swings, because their financial stability is not always sufficient to survive difficult, crisis situations. Moreover, changes in the demographic situation and in people's living habits will have an influence on their ability to satisfy rising demand, as will the urbanization that is taking place in many countries. If we do not create better living conditions in rural communities, then Russia could be faced with a labour problem.

It must be said that a lot has been done in recent times to make it so that big business could enter the agricultural sector in our country. Outsized companies are emerging in Russia—outsized in scale, competitiveness, and efficiency—that are able to withstand price explosions or, conversely, sharp declines. Mainly these are Russian companies at the moment, and investments by them currently amount to more than USD 10 billion in primary production alone, and just over a period of the last five or six years, if you take the timber industry, poultry, and hog farming. That is not counting investment in logistics, infrastructure and, within the latter, rural infrastructure.

Certain projects that are currently underway in the meat market are receiving financing from Russian—mainly state-owned—banks at preferential rates, and even at a rate of 0%, which raises their competitiveness. That amounts to

hundreds of millions of dollars, including project financing, because companies do not always have enough collateral to receive those kinds of loans. In Russia there will be, without question, large-scale agricultural production; however, considering our geography, history, and particular, rural culture, we must not under any circumstances forget about the need to support small and medium-sized farms. They can find their niche and be reliable suppliers for larger companies as well, as is the practice in many countries around the world, including in the USA. Thank you.

**V. Zubkov:**

If I understood correctly, the question asked by my colleague referred to the need to create insurance funds of some kind. It is true that each year can see a different situation take shape in every country. Take 2009: world grain prices were at their very lowest levels, a little over USD 100. This year, which has become one of crisis for all countries, the Russian government allocated a large sum of money—RUB 43 billion—to buy up grain from our farmers and agricultural producers. That grain was not able to make it onto a single market because prices on the global market were even lower than prices on the domestic Russian market. We allocated RUB 43 billion, bought up 9.5 million tons of grain and have been storing that grain up till now—spending federal money on it, and in that way helping our farmers. What would have happened if we had not bought that grain from our producers? They would have all collapsed. You correctly stated that the price for grain is rather high this year—USD 301 as of yesterday. It was USD 118, 130, 140—and suddenly it was USD 338, 336; now it is USD 301. The government must monitor the grain market, as it determines prices for both foodstuffs, and for feed in the country. We are discussing the possibility of creating some kind of financial fund that would be able in any year—favourable, or unfavourable—to act as a kind of regulator of

the price situation in the country. Doing so is not so simple, but we are looking for avenues of approach and will implement this idea.

As regards types of farms, for historical reasons people in a number of different regions of our country have traditionally raised piglets, chickens, ducks, and geese—and let them do that if they like. The popularity of very large farms, even mega farms, is currently rising in Russia. I am often approached by our Russian businessmen who have already 'arrived', built a good business and are standing solidly on their own two feet, but they see that the Russian and world markets demand still more production, and they make proposals to the government, and we help them to create projects that are larger, I believe, than any that exist even in Europe. Right now we have a project at the initial stage of development where enough cattle will be raised to produce 30,000 tons of meat. There are projects raising enough turkeys to produce 180,000 tons of meat. These are vast, mighty, modern projects. We supported them and we will continue to do so. We have large hog-farming projects, dairy-farming projects, and we believe that there should be everything: large, medium-sized, small, and personal plots.

**D. Almeida:**

I know you like also to make a comment Dr. Iweala.

**Dr. N. Okonjo-Iweala:**

I just wanted to come back to the point about both the fact that there are few corporations, and small farmers predominate. I think there is room for both the large corporations as well as medium and small sized farmers. In many parts of the world, the small and medium farmers dominate so we still have to support them in order to get production. And just to reassure you that the investments to reduce volatility in terms of weather-based insurance systems and other types of insurance to help farmers is on-going.

In this global food security programme that the G20 approved which I actually have oversight over, you know, so I can tell you about the USD 925 million that so far has been committed. We have actually received USD 520 million for 12 countries, and part of what they will be using some of these resources for is indeed to look at this weather-based system.

The World Bank is donating to the Caribbean. And one of the first things that happened when Haiti had the catastrophe was they got a pay-out for part of that. We have been donating to Malawi and in different parts of the world. So it is on-going. We need to scale it up because it is still in two few countries.

**P. Brabeck-Letmathe:**

Yes, if you will allow me. I think it is a very important question. But I think we have to understand exactly what we mean by food security because food security is not only reducing the necessary quantity and quality because they have the macronutrient security and the micronutrient security. That is why, for me, food security is vital to generate reliable income, especially for the rural population.

Out of the extreme poverty of this world, more than 80% is in rural areas, we cannot forget them. And the worst thing that can happen is continuing to push them in to the big cities. So food security includes, for me, taking care of the small-scale farmers, which is extremely important. The other thing is that it has to be affordable. That is why I put so much emphasis on productivity. It is not good enough to produce it at any price. We have to be able to make it affordable to lower-income people.

And access: we have to have it at the right time and the right place and therefore investment into rural infrastructure, which is certainly an area where there is still a lot to be done in Russia, is extremely important. In Africa and emerging countries 30% to 50% of food production is being lost because it has no infrastructure in the whole communities. So just by fixing this, we would have an

improvement in food security. So I think for food security we must always look for a holistic approach to everybody, not only one aspect.

**D. Almeida:**

Thank you very much. You know we have talked about food security and Mr. Yuskof mentioned grain a number of times. I know we have a grain expert on the panel, so Yuri, can you maybe deal with grain as a global commodity and what Russia's potential is for supplying global needs?

**Y. Ognev:**

Just 10 years ago, no one took Russia seriously as a grain exporter. Land under cultivation was decreasing, export was irregular, the grain harvest did not meet domestic needs, and Russia was practically an importer.

In recent years the situation has undergone fundamental changes: investments have gone into grain production, modern technologies are being adopted, land under cultivation is expanding, and crop yield is growing. In the southern regions of Russia—in the Krasnodar, Stavropol, and Rostov Regions, from which up to 90% of Russian exports are made—grain production in recent years has reached record levels. In recent years there have also been major changes in Russia's export infrastructure: new terminals were constructed at the ports of Novorossiysk, Tuapse, and Rostov; a new terminal is being built at the port of Taman; and there are plans for the construction of a new terminal in the Far East. Russia is currently capable of handling up to 30 million tons of grain for export.

You will recall that in 2009 Russia held the First International Grain Forum in St. Petersburg, at which such issues as Russia's place in the world market, and food security were discussed. Two years have passed since then, and last season we endured a harsh drought and were unfortunately forced to temporarily exit the

world market, though at the same time Russia was able to supply itself with foodstuffs, grain, thanks to its own resources, without imports.

A decision was recently made by the Russian government to allow exports. The majority of agricultural producers supported that decision, which will not only help Russia to regain its position on the world market but will also enable producers to receive fair world prices for their products, and that will provide an impetus for attracting new investments. With the exception of last year's lean season, Russia has always been among the world's top five biggest grain exporters. In the upcoming new season, by expert estimates, total domestic grain production could amount to 85–90 million tons. If those predictions prove accurate, then Russia's export potential could be around 18 million tons, and in that case we will regain the same positions we had before: third largest in the world in terms of wheat exports and fourth in the world in terms of barley exports.

This week two tenders were held by Egyptian and Algerian state corporations, and milling wheat was purchased for delivery in July. Unfortunately, Russian wheat was excluded from those tenders. I would like to use this Forum to appeal to you, Mr Zubkov, on behalf of the National Association of Grain Exporters, to assist once again in explaining to the governments of those countries that Russia has lifted the export ban; that they can rely on us; that we will supply grain, and if there will be any changes, then all market participants will be notified in advance. Russian grain is in high demand on the world market; Russia's capacities are much broader than was assumed. We have a very big competitive advantage—we are geographically close to stable and large buying markets: the countries of the Middle East and of North Africa. This season we can meet more than 40% of the demand of these countries, but it seems to me that our potential is much bigger. Currently there are around 50 million hectares of grain in Russia, while 30 years ago there were 80 million hectares of grain. I think that we have a large capacity, and with an increase in land we can increase production by 40% and more if you factor in increased yield. By expert estimates, the prospects for grain

exports from Russia are very good, and I hope that next season Russia will be able to retake its position on the world market. Thank you very much for listening, and I wish everyone success in the new grain season.

**V. Zubkov:**

This week I was in Tatarstan, in Tataria. Last year there was an immense drought there, and the republic produced less than a million tons of grain. I have been in the fields this year—there is wonderful wheat, wonderful grains; they are getting rain. It is projected that they will harvest 4.5 million tons of grain, meaning this year the picture is a positive one.

**D. Almeida:**

What I am going to try to do now is I will go to questions. I am going to pick two people from the audience and talk briefly on the topic of investment and in particular, investment in Russia. And so I know we have—let me make sure I have it right here—Zein Abdalla who is the CEO of Pepsi Europe, who obviously has just made a major, major investment in Russia. And so Zein, I do not know if you can—can we get a microphone? And obviously, Zein would have a very interesting perspective on investment in Russia.

**Z. Abdalla:**

Yes, Mr. Zubkov, panel. I guess just for the audience you would be wondering why Pepsi would be talking about food and agriculture. Of course, it is what PepsiCo does, which is a much more diverse company than the brand we are most famous for.

More than half of our business is food: Quaker Oats, Tropicana juices, and our snack food businesses. So as a result, we have significant agricultural investment and agricultural capability. Over the last few years, and decades, we have built the largest food and beverage company in Russia. And one of the

reasons that encouraged us to invest here is the significant agricultural capability of this country.

And where I can probably help this discussion is offering a couple of proof points on both Russia's agricultural capability and how private-public partnership can improve productivity. Now in Russia, we are very diversified—our dairy business, our foods business, and our beverage business. And those agricultural imports are very, very important to us.

And the proof point that I offer you is on our snack food business, our potato chips. When we started up a decade ago we had to import all of the potatoes we use in our production. A decade later, as a result of partnership with the government, and partnership with the university institutions in Russia we have improved yields 80%.

We have done that by investing in seed, pulling cooperatives of small and medium scale farmers to work together. Showing them better harvesting techniques, better irrigation techniques, better storage techniques but also to your point, Peter, transparency and access to markets so that they have security of a crop from year to year.

Now with that 80% improvement in yield we are now virtually self-sufficient on potatoes. And now we are looking to take that capability to fruit. We are the largest juice business and we know that we can localize a lot of imported fruit sources to Russia, including yields on tomatoes, carrots, and apples. So there is no doubt when the government and private sector come together they can make this significant impact.

I would like, though, to go back and emphasize the point about them also broadening your input as the main food and beverage company on the basis of social responsibility. Because we have to find ways of leveraging those capabilities to improve yields around the world and we must address, as your point Peter, the small-scale farmers. I think out of a billion people that you quoted, Dr. Panitchpakdi, 80% are farmers.

So out of the billion people that go hungry, 80% were involved in farming and we have to improve their lot in life again by using those resources and capabilities to improve. Improve their capability, broaden the bottom of the pyramid, slow down our urbanization, and so improve rural capacity, and for us bring new consumers onto the market.

So I think there really is a basis for a very good public-private partnership. But Russia, unquestionably, can become a significant part of the agricultural supply chain to the world.

**D. Almeida:**

Thank you very much. I think that was right on target. We also have another gentleman here and I think Valerio has some views on how to improve the investment environment in Russia. I think Zein has mentioned some of them but I am sure you would like to hear others.

**From the audience:**

My esteemed colleagues noted in their remarks that the level of small and medium-sized business could become a significant factor in solving the global food problems that face the world today. I would like to point out a few concrete issues on the level of microeconomics that investors carrying out investment projects in Russia encounter.

The first serious limitation is one of infrastructure, when in many regions an investor either cannot gain access to one resource or another—electricity, gas, water, sewage treatment—or ends up with the kind of technical requirements that make projects much less economically attractive. I can cite examples of when an investor who needs a gas line connection was forced not only to design and build his own facilities, but also to put in an inter-town gas line; or when, after receiving a price estimate for getting utilities connections, getting electricity, the investor was forced to look at alternative, temporary options for supplying electricity by

using diesel generators. All investors expect consistent efforts on the part of the government to eliminate these barriers. We are currently seeing them eliminated effectively on the federal level, and everyone is waiting for when they will begin to be eliminated on local levels as well.

The second limitation is one felt particularly by small and medium-sized business, by farmers: limited access to information about new technologies, about new projects. Naturally, it is much more difficult to gain access and carry out such projects on a smaller level than it is for large investors, and most of the burden for solving this problem should probably fall on the shoulders of those industry organizations that can create effective information resources and share that information. Currently, this work is being taken on even by loan organizations, which are not specialists in this work—the Russian Agricultural Bank, Sberbank—and which are forced to provide information about these things.

Finally, there is the problem that is likely being discussed at many sessions of this Forum, and that is the problem of personnel, the problem of training modern personnel in the agricultural sector. Despite the fact that more than 30% of Russia's population works in agriculture, the sector is in second-to-last place in terms of wage levels, and the quality of education must also be seriously improved. Thank you very much.

**V. Zubkov:**

I want to support what the speaker said. All the large projects we have implemented in recent years are carried out by the government in accordance with the following practice: I invite the governor, the investor, the banks, and we sit down and calmly discuss the investment that each side will make—the investor brings in money, and the bank sets an interest rate. If you need more than eight years, we pass a special governmental resolution extending funding to 10 years. We discuss which infrastructure issues will be financed by the regional

budget. Many of the recent large projects of this kind have been implemented more successfully because there are agreements on the federal level and the responsibilities are defined for each party.

With regard to medium-sized and small business, of course we cannot reach every project. Therefore there can be delays in getting utilities connected and in issuing loans from the bank. I think it is the right idea that in every region, perhaps under the supervision of the governor, medium or even small projects be reviewed with the participation of associations, investors, banks, and our Russian Agricultural Bank. If we issue instructions to that effect to the bank leadership, we will really be able to influence the speed at which these projects are implemented, just as we currently do on the federal level.

**D. Almeida:**

Dr. Panitchpakdi?

**Dr. S. Panitchpakdi:**

Just a brief comment, I was encouraged by Zein's comment on PepsiCo's experiences in Russia. And I was wondering whether PepsiCo could replicate this somewhere else in the world, particularly in poorer countries, like in Africa, where you do not have many large corporations working, but just small holders. And in the same breath, also Russia, whether Russia could also help to transfer some of these technologies that have been developed on housing, storing, and irrigating, to countries in the poor parts of the world and this will be a great achievement and contribution. Thank you.

**Z. Abdalla:**

Dr. Panitchpakdi, I could not agree more and in actual fact, we have a project now that we are looking at in Ethiopia to see if we can take some of these techniques, but to use them in chickpea production.

Because that also gives, as a way of producing a product, it will provide a nutrient product for the base of the pyramid, so we can add more value locally within the economy. Because the worst thing you can do is to assume that, we are going to do potatoes everywhere, because it is going to be different and relevant to the country in which you operate.

But I think that something that the private sector really can, and should, do is to leverage those capabilities, it does not cost as much. But if you got that intellectual property and know-how, how do you use it more expansively.

**Dr. N. Okonjo-Iweala:**

Just wanted to comment on the issue of logistics and rural infrastructure that was raised. Sometimes, you know, even within the same country, you could have a food surplus in one part of the country and a food deficit in another.

Internationally, that is also the case that you have food available in one country and then you do not have it in the other. Sometimes, this has to do with logistics, getting food from one part to the other, so we really need to look at that.

Sometimes, it has to do with information that people just do not know. And we saw an example of this during the food crisis of 2007–2008, how thin the food markets became. You know, it was not really clear where there was food, there were export restrictions that were put by certain countries, which also made it a little more difficult.

So, I think some of these issues that Peter has raised in terms of information, in terms of logistics, in terms of the appropriate policies that do not exacerbate already difficult food situations. I think those are some of the critical issues we need to look at.

**D. Almeida:**

All right. Covering this topic in an hour and 15 minutes is impossible, but I think we have about five minutes left. We are going to take questions. One from the gentleman on the left. The gentleman over here.

**From the audience:**

I represent the agricultural holding Russkoe Moloko, which produces high-quality dairy products; anyone who lives in Moscow or the Moscow Region is likely to have tried them. And I would like to add that there is also very strong potential in the export capabilities of Russian agriculture in the area of high-quality organic produce. The condition of the soil and the condition of agriculture in Russia make it possible to produce extremely high-quality products, and though it is not yet the convention to call them organic, they are organic products, in which mineral fertilizers are practically not used, only natural fertilizers, and in the production of which all the techniques that are accepted internationally are adhered to. For example, in the next three years, our company plans to seize a significant share of the market for organic dairy products in Western Europe, and many agricultural producers in Russia have that same potential. Thank you.

**Dr. Caiani:**

My name is Dr. Caiani. I am from Australia. We in Australia, our agriculture, we have a lot of drought problems, but I am surprised that among the members of the panel we do not have a bank, because agriculture finance is—we run a hedge fund which invests in agriculture, and I know a lot of hedge funds around Asia, I am based in Hong Kong. They would like to invest in agriculture but they do not know how. There is only a limited amount of funds which understand agriculture. We do not know where we are going whether we go to a hundred thousand farmers and say, "we want to invest in you". I don't think it can be done. So, it is very difficult from an investment point of view. On the other side, the farmers really need money, and in Australia now we have got covered incentives

where some farmers can go to some investors and those investors will buy 10, 20% of their farm and allow them to buy the tractors and buy or invest in the infrastructure storage and be able to increase and optimize their farms.

I believe that in China now, the biggest issue was tractors. So, the government subsidized 50%. In a nutshell, I do not know how it is done in Russia, but around the world we seem to be bereft of providing farmers with really, really good banking and investment vehicles unless, we solve that—even issues on land ownership is an issue for a hedge fund, if we want to invest in land.

Is it ours? Who manages it? But I am just surprised that we do not really have proper banking facilities around the world for the farmers. And I would love to know the Russian perspective, because I have heard it is the same in Russia. They cannot get proper access to credit, to be able to buy fertilizers, seeds perhaps tractors. So, they cannot get that, they cannot even get the investors to invest in infrastructure. It is like a vicious cycle. Thanks.

**V. Zubkov:**

First of all, just two years ago, loans for farmers were at rates of 18–20%, while today the rates are at 7.5–12%, and they are all subsidized. Secondly, we certainly do help farmers purchase equipment. We either provide the farmer a discounted option to use any equipment of the highest grade available through the Rosagroleasing system and grant him a large discount—he pays nothing for the first year—or we subsidize the sale of equipment to farmers. For example, this year we sold farmers 6,000 units of equipment with 50% discounts. Does such a practice exist in Australia, or in other countries, of providing a farmer a good tractor for 50% of its cost? Probably not. Many regions subsidize the purchase of equipment by farmers from their own budgets every year, to the tune of 15–50% of the cost of the equipment. Therefore, I would not say that things are completely terrible in Russia today with regard to support: credit is relatively cheap; subsidies are given out and will continue to be given out; all these loans

are subsidized; we help out with equipment and will continue to do so; we also help with mineral fertilizers; POL is 30% cheaper than the market rate. Today, if a farmer has drive and good technical agricultural knowledge, he has the opportunity to receive land, since the farmers' association AKKOR is working very effectively to secure the support of the government.

I call on all funds in Australia and other countries to participate in our agricultural programmes. If you have the ambition to bring about large projects, come and see me. Medium-sized and small projects are handled by governors, many of whom are present here. They are big enthusiasts. Right over there is the governor of the Tambov Region, Oleg Betin, and over there is governor of the Kaluga Region, Anatoly Artamanov, and many others. We are all here—come and speak to us.

**O. Betin:**

Distinguished guests, please allow me to make a comment on behalf of the regions. It was said here that infrastructure is not being created, gas lines are not being built. Those kinds of things are said by people who have not reached us, who got lost along the way. There are currently no problems with connecting gas lines. Small and medium-sized projects, not to mention large ones—Mr Viktor Zubkov already spoke about that here—that is a sphere in which the government has influence. 100% of infrastructure needs are met here. As Mr Zubkov said, small farms are subsidized at a rate of 25% to 75%, since a small farm, for instance one with 20–25 milking cows, does not earn enough to cover a farmer's expenses. Equipment is also subsidized.

The first problem lies in the fact that there is not enough qualified personnel, and the second in the fact that neither domestic nor international market channels are well-established yet in Russia. I enjoyed listening to the head of PepsiCo speak, and I can say that we are ready to supply them fully with carrots, potatoes, and

fruit. Currently we need help with technologies and modern market channels—everything else we will do ourselves. Thank you.

**V. Zubkov:**

First of all, allow me to thank our host, Donald Almeida, who did a very professional job in leading our session today. All the topics were very interesting, though I would have liked for there to have been more questions from our foreign colleagues regarding which aspect of the agriculture business their companies would like to take part in. PepsiCo, for instance, cited potatoes. If anyone has interest in the area of grain or in the area of cattle-raising for meat production, in orchard management, or grape-growing, we are ready to collaborate. The government made a decision to extend government support to all forms of agricultural activity: raising pedigree stock, sheep farming, goat farming, reindeer farming, growing flaxseed, grain seeds—we extend support from the federal budget to around 20 different areas. We grant subsidies, which is very important for those who are starting a business in Russia. The Russian Agricultural Bank and Sberbank give loans with relatively low rates. While just three years ago we issued only RUB 800 billion in loans, over the last year that number totalled RUB 1 trillion 130 billion, and those loans were subsidized with federal budget money. Therefore I invite you to collaborate with us; I invite you to come to Russia and invest in this country. Where else will you make the kind of good profits you get in Russia?