

Current Situation of Agricultural Investment In Perspective of Private Investors

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1. Current Situation of Agricultural Investment by Japanese Companies



1.1 Recent Agricultural Investment by Japanese Companies (1)

Itochu Corp.

【Jun 2009】 Agreed to build a largest grain exporting terminal on US West Coast in cooperation with Bunge North America and a Korean biggest bulk carrier STX Pan Ocean.

Sumitomo Corp.

【Dec 2011】 Integrated its subsidiary ABA and Sumitomo's affiliate Emerald Group Australia to strengthen the export grains (wheat, oilseeds and feed grains) from Australia to Asia and Middle East.

【Apr 2010】 Acquired all of the shares of an Australia-based grain storage and distribution company Australian Bulk Alliance (ABA) to make it 100% subsidiary.

Sojitz Corp.

【Mar 2013】 Its 100% subsidiary Sojitz Food started contract farming of non-GM soy in Ukraine for shipping to Japan in cooperation with Ukrainian and US companies, aiming at diversifying supplying sources which depends on North America at present.

【Nov 2010】 Established 100% subsidiary Sojitz Buenas Tierras del Sur S.A. in Argentina to produce and sell grains (soy bean, corn, wheat) in cooperation with major local agribusiness company Cazenave y Asociados S.A.

→ *【Aug 2013】 Announced it would withdraw from the business in Argentina and shift to the other countries in South America.*

Toyota Tsusho Corp.

【Apr 2012】 Made a 10% capital injection into PentAG NIDERA Pty Ltd., a grain company in eastern Australia, to enhance grain procurement and supplies to Japan and Asia.

Sources: press announcements and information

1.1 Recent Agriculture Investment by Japanese Companies (2)

Marubeni Corp.

【Jul 2013】 Purchased all businesses of the US third biggest grain trader Gaviion Holdings LLC. Marubeni's annual grain trading will be 35 million ton or the world second next to Cargil.

【Nov 2011】 Acquired all shares of Brazilian grain elevator operator Terlogs Terminal Maritimo Ltda. to enhance export from Brazil to China and South-East Asia.

Mitsubishi Corp.

【Jun 2013】 Announced it would acquire 80% shares of Brazilian major grain company, Los Grobo Ceagro do Brasil S.A. to strengthen its grain procurement system in Brazil.

【April 2012】 Acquired 20% stake in Brazilian coffee producer Ipanema Coffees for securing a stable supply of high-quality coffee for consumers around the world.

Mitsui & Co, Ltd.

【Sep 2013】 Established a joint venture company of large scale agricultural production named SLC-MIT Empreendimentos Agrícolas Ltda S.A. with SLC AGRÍCOLA S.A. ("SLC", head office; Brazil), a Brazil-based Major Agricultural Producer. Will launch soybean and cotton production in the northeastern state of Bahia in Brazil.

【Jul 2012】 Acquired 10% share of Russian largest oilseed crusher Sodrugestvo Group S.A. that has good logistic infrastructures such as an ice-free port on Baltic Sea and grain hopper wagons. They also agreed to have strategic alliance and cooperate in grain export business.

【May 2011】 Acquired 100% share of Brazilian grain producer/distributor Multigrain AG.

Sources: press announcements and information

1.1 Recent Agriculture Investment by Japanese Companies (3)

Kanematsu Corp.

【Dec 2102】 Announced it would purchase US soy trading company owned by Japanese Honda Trading. It would start in 2013 the businesses of Non-GMO soy processing/sales, grower's acreage contracting, and research & development. Kanematsu's share of imported non-GM soy to Japan will rise from 10% to 20% in 5 years.

EBISTRADe, inc.

【Aug 2012】 Started contract farming of buckwheat with local farmers in Primorsky Region, in the Russian Far East aiming at diversifying supply sources, which depends on China at present. The company plans to import 10% of buckwheat demand of Japan from Primorsky Region.

National Federation of Agricultural Cooperative Associations (Zen-Noh)

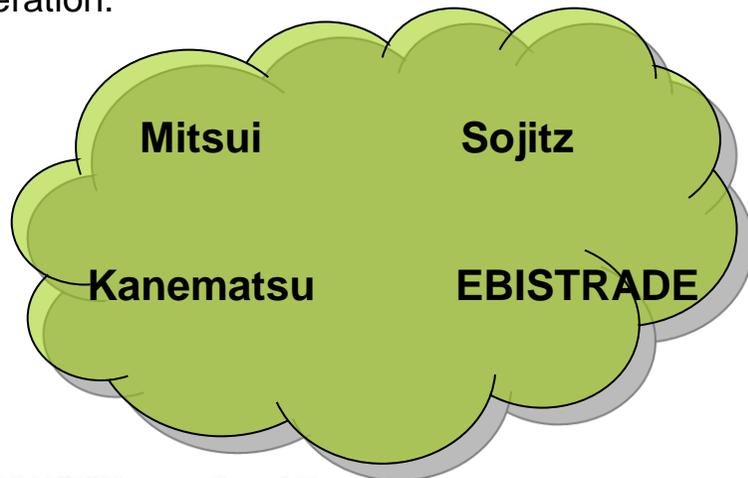
【May 2012】 Announced to establish a joint venture with US largest grain cooperatives' association CHS to deal with wheat and barley shipped to Japan. The deal gives Zen-Noh more depth and better access to export facilities in the Pacific Northwest that serve Asia.

Sources: press announcements and information

1.2 Strategies of Japanese Companies' Agricultural Investment

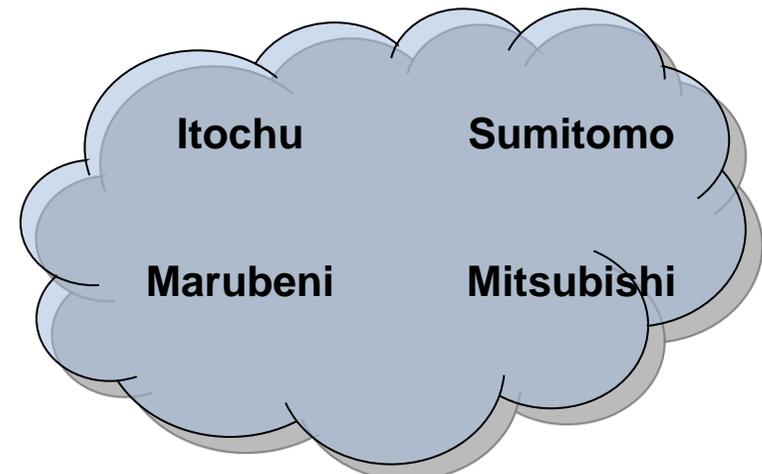
Farmland Investment

- Achieving safety and security of food and stable food supply through building consistent supply chain, from production through to distribution.
- Accumulating know-how of agribusiness including cultivation management, farming, risk management, etc., to utilize it to expand operation.



Logistics Investment

- Aims to increase “dealing volume” with strengthening consolidating and selling capacity through investment in logistics assets such as grain silo, elevators and other facilities.
- Securing long-term supply of food with substantive “buying power”.

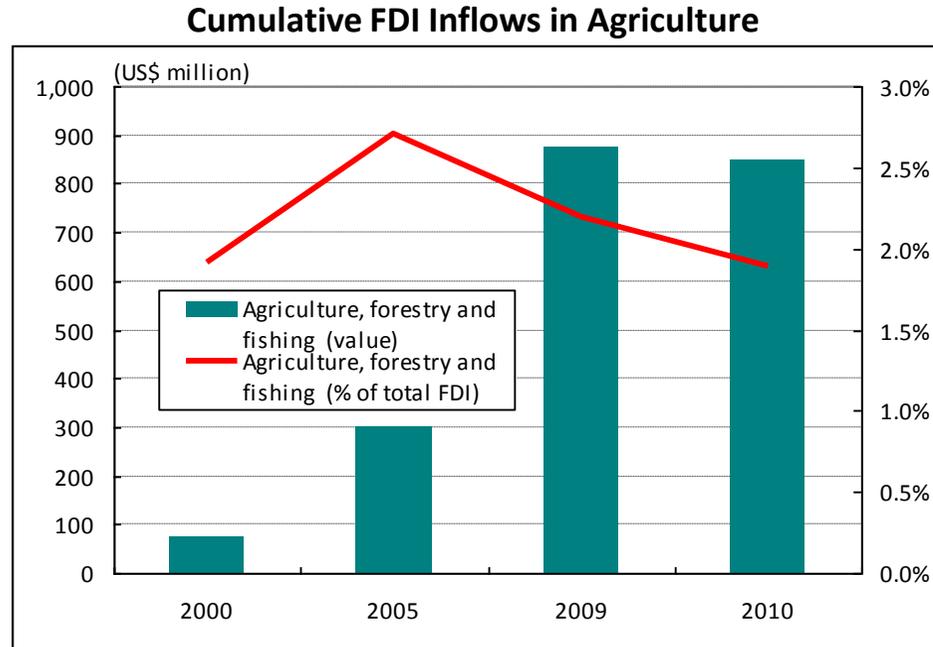


2. Agricultural Investment in Several Countries (Case Studies)



2.1 Ukraine

- FDI in agriculture sector has increased in the late 2000s, but its share in the total FDI inflow has remained low.
- Due to the Land Code of Ukraine, the sale and purchase or transfer of privately-owned land for the purpose of commercial agricultural production is prohibited.
- More than eighty “agroholdings” (agri-business conglomerates) lease farmlands and operate farming. (soybean, corn, sunflower, wheat, etc)
- Major constraints on agricultural investment include:
 - Risks associated with farmland lease (burden of managing huge numbers of lease contract, rising leasing cost, etc.)
 - Lack of finance
 - Capricious and inconsistent policy change by the government including export quota
 - Poor implementation of plant protection inspection and IP (Identity Preserved) handling
 - High transportation cost (to export to Japan)



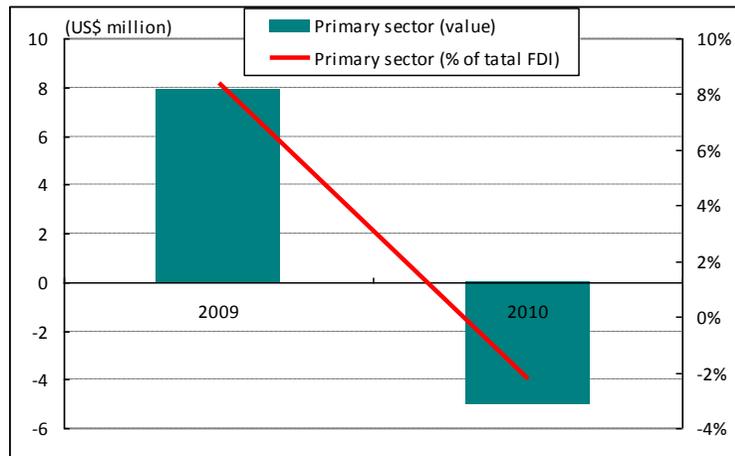
Source: Oleksiy Kononov, “Inward FDI in Ukraine and its policy context, 2012”

2.2 Paraguay and Uruguay

- As Paraguay and Uruguay have no legal restrictions on agricultural investment and farmland acquisition by foreign companies/individuals, major multinational grain companies and Brazilian/Argentine companies are proactively acquiring land and operating farming (soybean, corn).

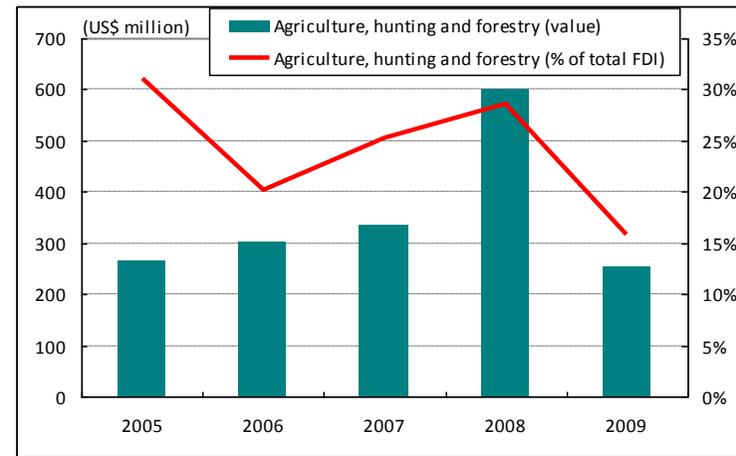
FDI (net) in Primary/Agriculture Sector

【Paraguay】



Source: Central Bank of Paraguay

【Uruguay】



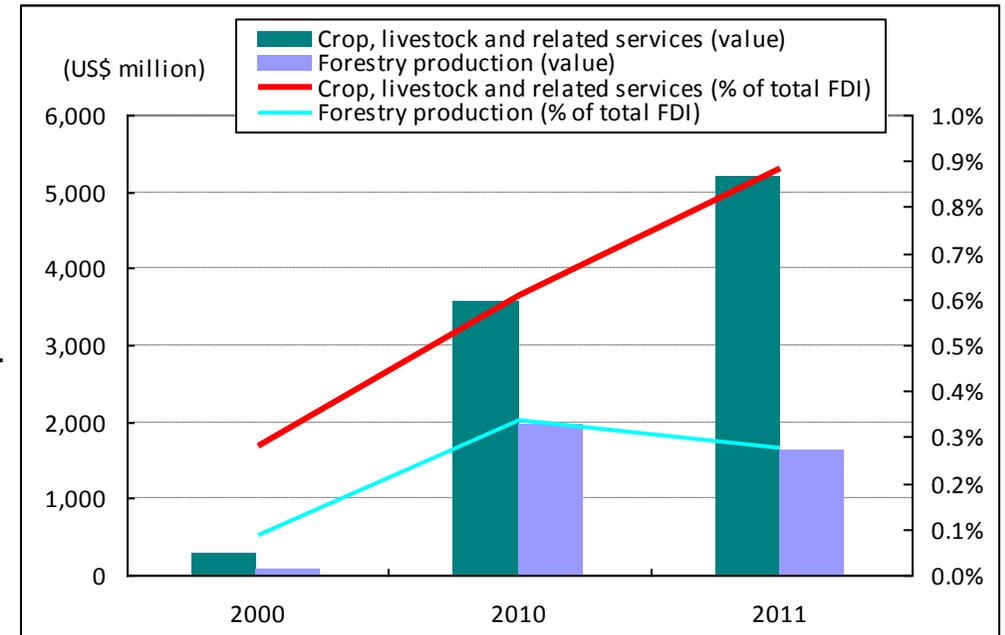
Source: Central Bank of Uruguay

- Major constraints on agricultural investment include:
 - Possibility of imposing export tax on major crops (Paraguay)
 - Illegal land occupation by “landless farmers” (Paraguay)
 - No national standards on controlling residual pesticides, heavy metal, mold, etc. (Paraguay)
 - High transportation cost (to export to Japan)

2.3 Brazil

- In Brazil, FDI stock in agriculture sector has increased during the 2000s, but its share in the total FDI is quite low.
- Investments by local and Argentine investors are dominant, particularly in the large scale agriculture land development. They raise finance from all over the world via investment funds to develop land as well as processing, storage and distribution facilities*.
- Land acquisition by foreign individuals/companies is regulated by the law, which is recently applied more rigidly. But its impact on the large scale agriculture investment seems to be limited*.
- Major constraints on agricultural investment include*:
 - “Brazil cost” in many areas including employment, tax, social security, public safety, finance, environment regulations, and transportation.
 - Undeveloped distribution infrastructure (river transport, rail, port)
 - Creation of indigenous reserves (native reserves)
 - Illegal land occupation by “landless farmers”

Foreign Direct Investment Stock in Crop, Livestock and Forestry



Source: Central Bank of Brazil

*Based on the study by the Promer Consulting in 2012.

2.4 Russia

- Current investment projects (both Russian and foreign) in agriculture and food production concentrate in the western part of the country (Central, Southern, Volga Basin regions).
- In the Siberian region, which is one of the major production area of spring wheat, there has been the plan of “Far East Grain Corridor” to export grains to Asian countries. The plan drew a lot of attention from Japanese companies*.
- Far Eastern region, where soybean production and the regional development are promoted by the Federal Government, has been attracting investments from China and Korea*.
- Major constraints on agricultural investment include*:
 - High cost to bring seeds and samples due to “administration risk” (regulations and licenses are applied/provided by the discretions of individual officers)
 - High transportation cost (from Siberia to Asia)
 - Frequent export restriction
 - Labor shortage

Current Investment Projects in Agriculture, Fishing, Pisciculture and Food Production



Source: Invest in Russia

*Based on the study by the Promer Consulting in 2012.

3. Issues on Agricultural Investment in Perspective of Private Investors



Issues to be Addressed on Agricultural Investment in Perspective of Private Investors

Product

- Soybean, corn
 - 【Targeted Country】 US>> Brazil, Argentina >> Ukraine, Russia >>> Paraguay, Uruguay
- Other grains, oilseeds and agricultural products

Market

- Japan
- Asia (China)
- Europe and other market (middle east)
- Domestic market

Risk

- Farmland (lease or purchase)
- policy change (export tax, export restriction)
- Safety standards / regulations and their implementation
- Landless farmers and nativism

Cost

- Transportation cost (associated with infrastructure and/or location)
- Administration cost (“Brazil cost” and Russian “administration risk”)
- Farmland lease/purchase cost
- Financing cost
- Labor cost

...and others.

Thank you for your attention.
