

# Why is agribusiness restructuring? – The value chain in agri-commodities



**BNP PARIBAS**  
CORPORATE & INVESTMENT BANKING

| The bank for a changing world

Antalya, 14<sup>th</sup> March 2014  
Alain Butler , Senior Advisor Soft Commodities  
[alain.butler@bnpparibas.com](mailto:alain.butler@bnpparibas.com)

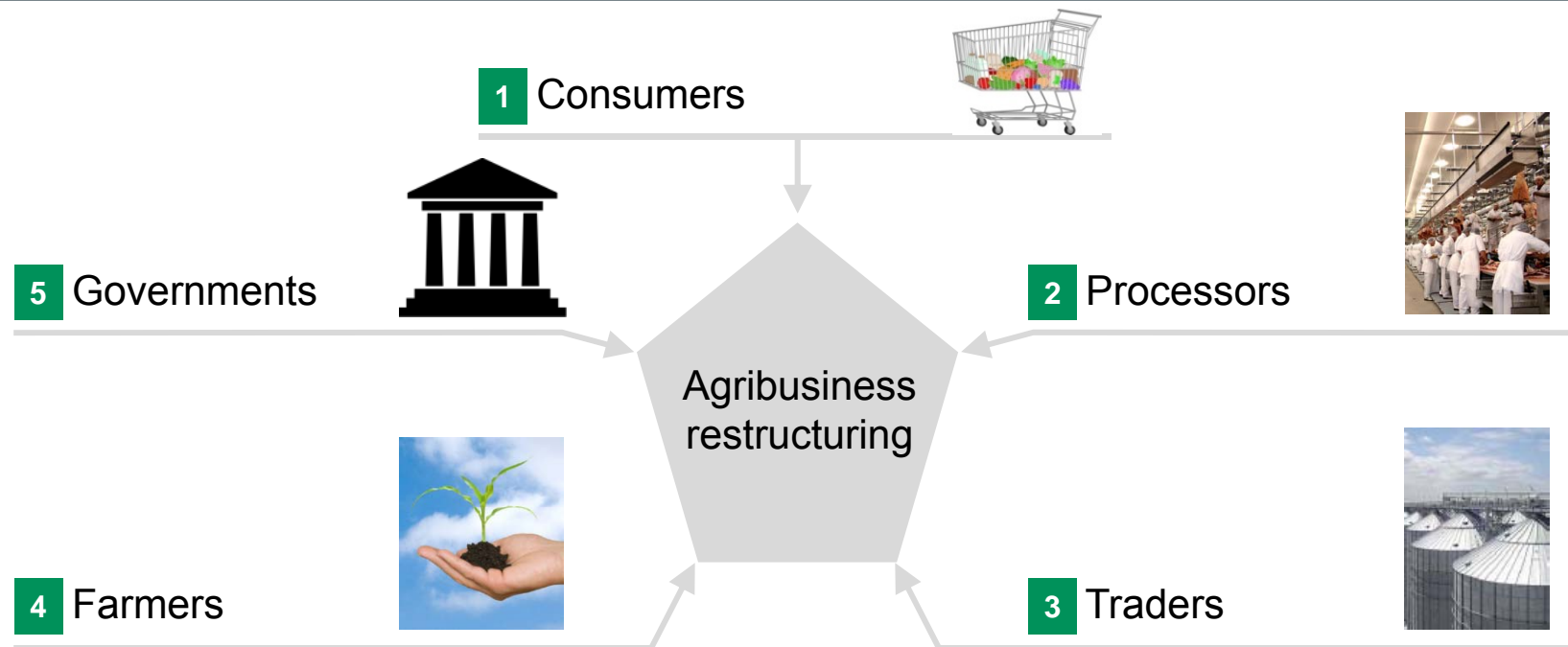
# From field to fork – agribusiness restructuring

TFIF Congress and Exhibition 2014

## Content

- The agribusiness is restructuring, as it is adapting to a changing environment
  - What do consumers and other stakeholders value?
  - What are the opportunities and challenges in the supply chains?
  - How are operations going to be re-organized?

## Stakeholders considered



Source: BNPP



**BNP PARIBAS**  
CORPORATE & INVESTMENT BANKING

The bank for a changing world

Alain Butler | 5-Mar-14 | 2

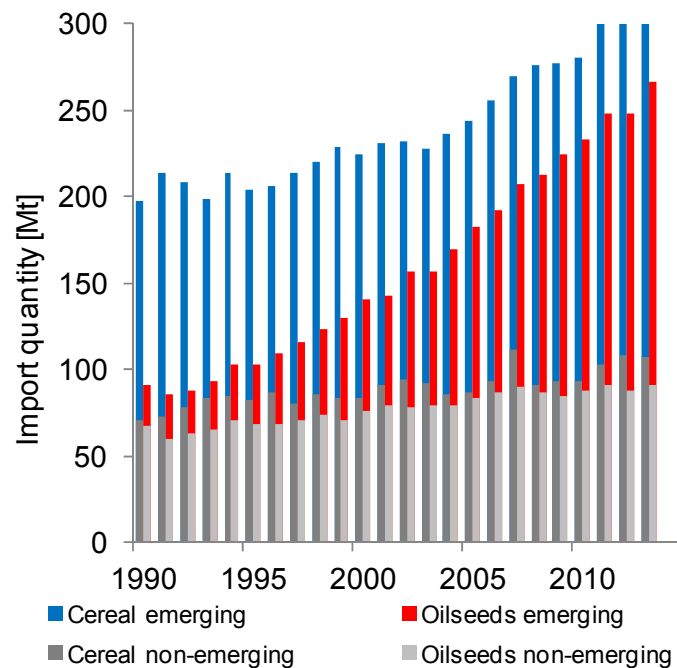
# Consumption appears as if it bi-polarizes

## 1 Consumers – trend



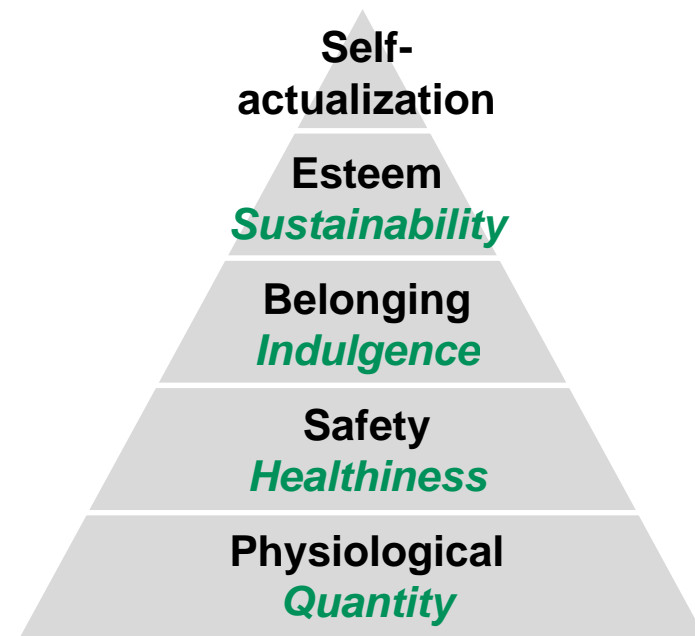
- Markets sophisticate from commodities to value added products as they mature
  - Volume growth in emerging markets driven by demography and new eating habits
  - Value growth in mature markets (higher grades, certified origins, sustainability...)
- Food safety is today a prerequisite in any case

### Emerging markets



(\*) emerging defined as annual GDP per cap. < 12000USD  
 Source: USDA, World Bank, BNPP

### Market maturation



Source: BNPP



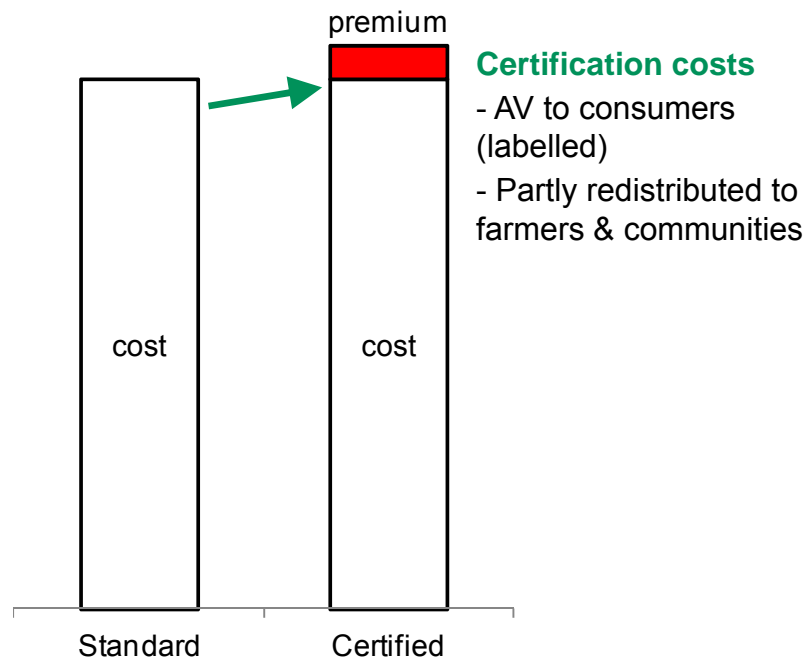
# More value sharing models are serving mature markets

TFIF Congress and Exhibition 2014

## 1 Consumers – case

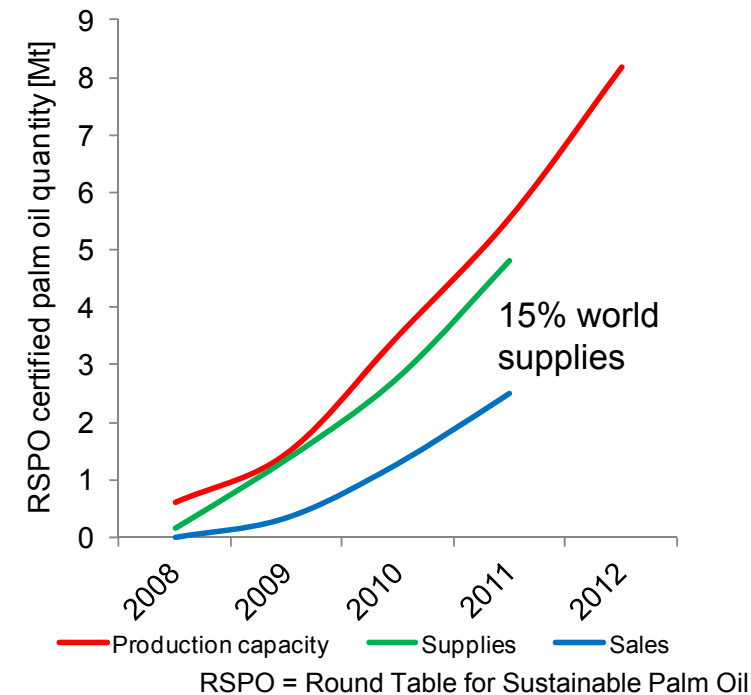
- Sustainability is becoming a standard for some markets, no more an add-on option
- 3<sup>rd</sup> party (Rainforest Alliance, Fairtrade, UTZ...) certification (environment, social...)
- Starting from indulgence products (coffee, cocoa, tea...), extends to bulk commodities (palm oil...)

### Value added niches



Source: organizations websites, BNPP

### Core markets



Source: RSPO, BNPP



# Physical actors need to master volatility and risks

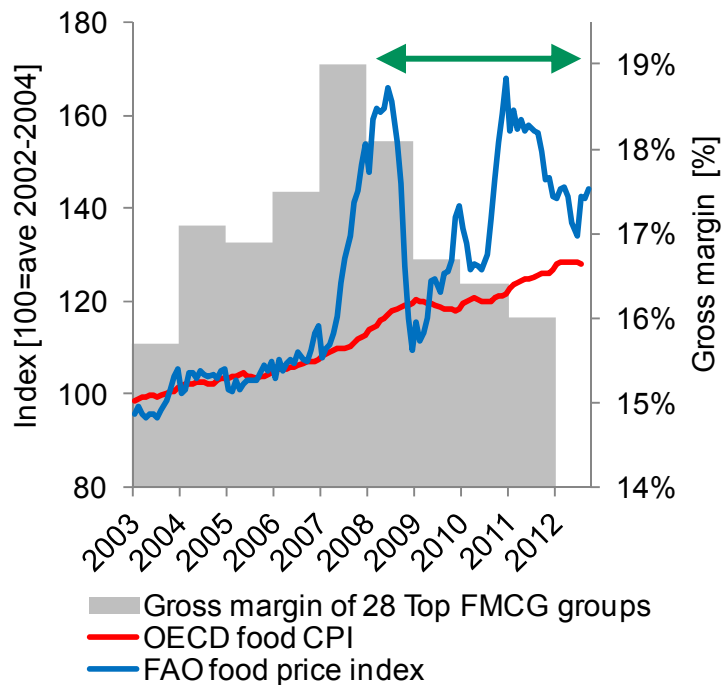
TFIF Congress and Exhibition 2014

## 2 Processors – trend



- Physical actors (farms to industries) have common interests to secure prices/volumes
- Markets are more volatile: climatic risks, regulation changes, shorter cycles, etc.
- Stakes grow with brand value and financial markets reactivity

### Exposure of food processors to commodity price volatility



#### Margin of leading FMCG groups eroded since 2008

- Increasing raw material prices, which cannot be offset by selling price or product mix

(\*) 28 permanent champions in the Top 50 FMCG groups

Source: FAO, Datastream, OC&C, BNPP



**BNP PARIBAS**  
CORPORATE & INVESTMENT BANKING

The bank for a changing world

Alain Butler | 5-Mar-14 | 5

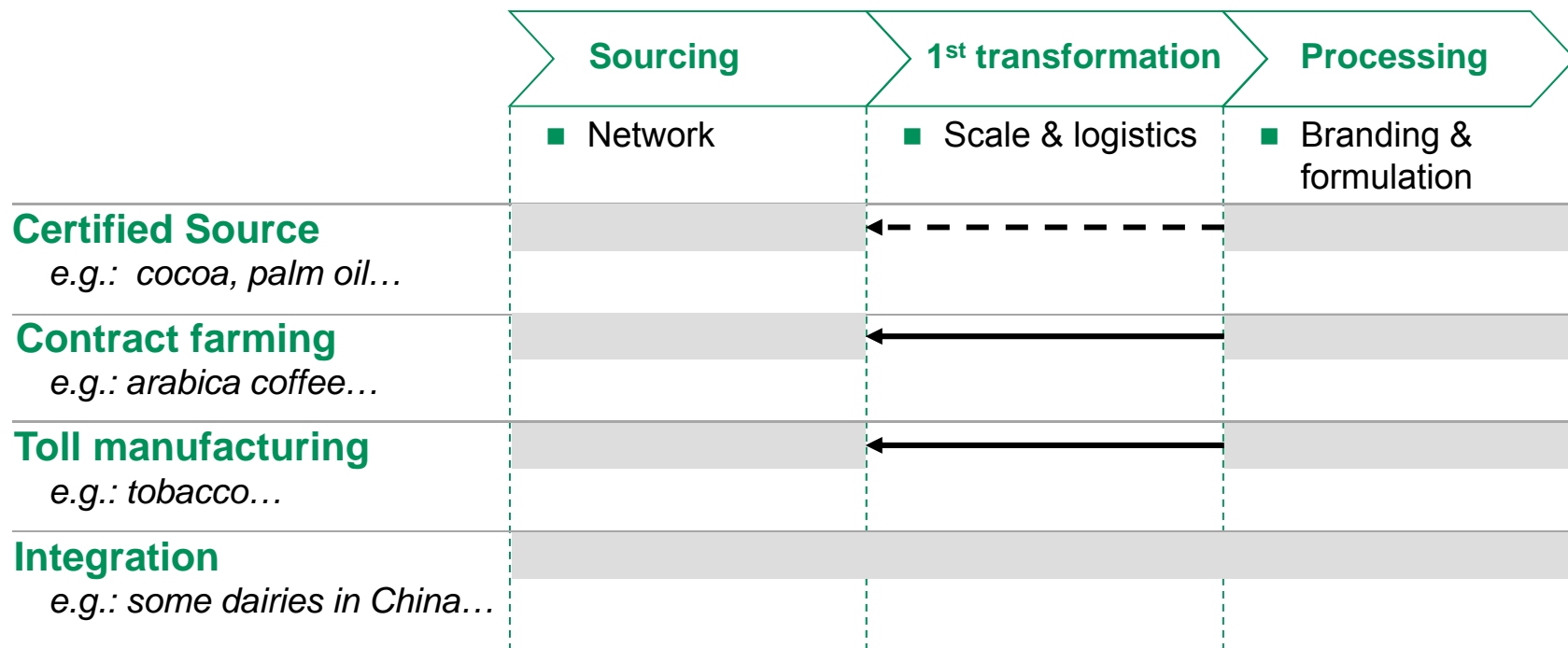
# The food chain is integrating upstream through alliances

TFIF Congress and Exhibition 2014

## 2 Processors – case

- Manufacturers & retailers secure their upstream supplies (cost, quality, quantity)
- First in areas with marketable AV: differentiating origins, higher grades, GMO free...
- Intermediates adapt their offer (and sometimes need to overcome conflicts of interest)

### Upstream integration of processors



Source: BNPP



# Agri-trading consolidates and diversifies to serve the market

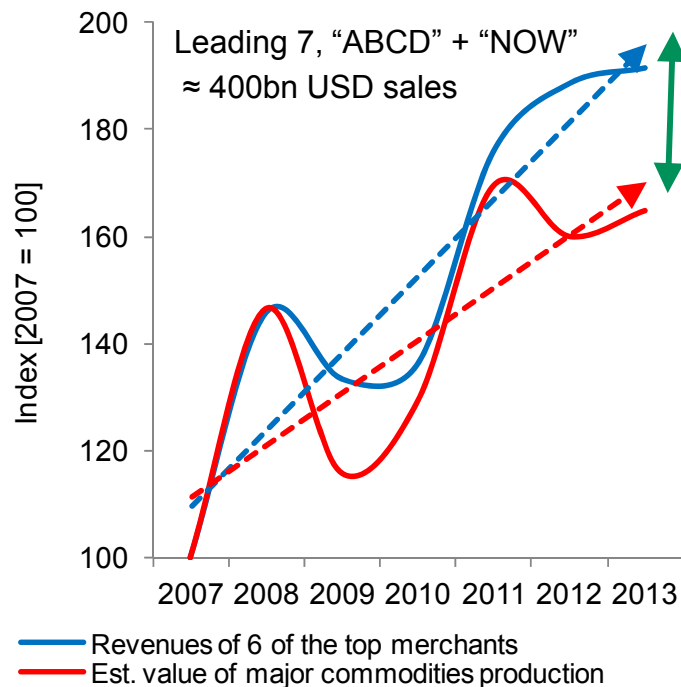
TFIF Congress and Exhibition 2014

## 3 Trading – trend



- Scale drives competitiveness in supply chains and provides services to a consolidated global client base
- Diversification (products, geography) mitigates part volatility risks in trading
- Some small players may lead in some products and/or regions segments

### Market share of leading traders



Source: USDA, Datastream, companies websites, BNPP

### Portfolio of market leaders

Maj. activity	Agri						Non-agri	
	ADM	Bunge	Cargill	Dreyfus	Olam	Wilmar	Noble	Glencore
Grains	+	+	+	+	+	+	+	+
Coffee				+	+		+	
Cocoa	+		+		+		+	
Sugar	+	+	+	+	+	+	+	+
Cotton			+	+	+		+	+
Palm	+	+	+	+	+	+	+	
Rubber					+	+		
Other agri	+	+	+	+	+	+	+	+
Services	+	+	+	+	+	+	+	+

Source: companies websites, BNPP

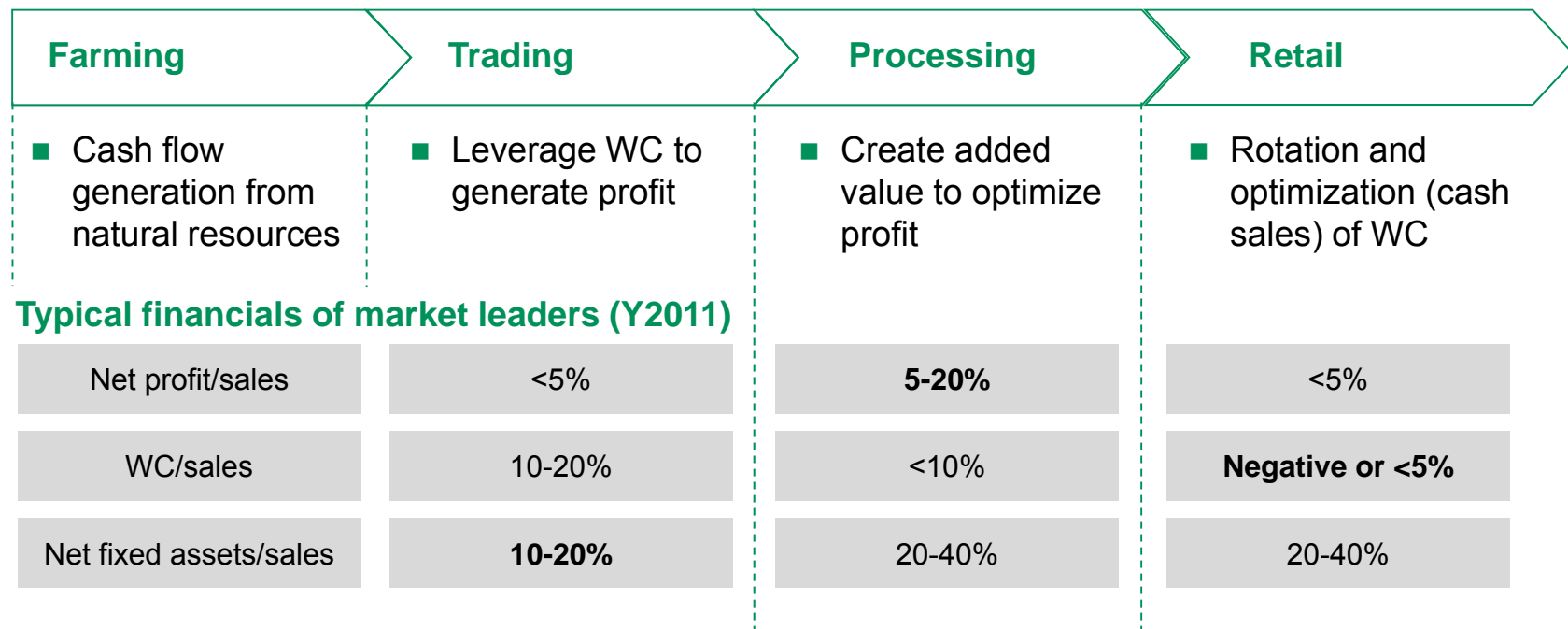


# Traders need to attract more capital

## 3 Trading – case

- Assets driven activities tend to bring higher sustainable margins (e.g. given globalization of information technologies) and multiple “options” in trading
- Agri-trading has greater financing needs and increasingly gets financed from debt to equity

## Business models across the food chain



Source: Bloomberg, BNPP





# Resources in farming are getting scarcer

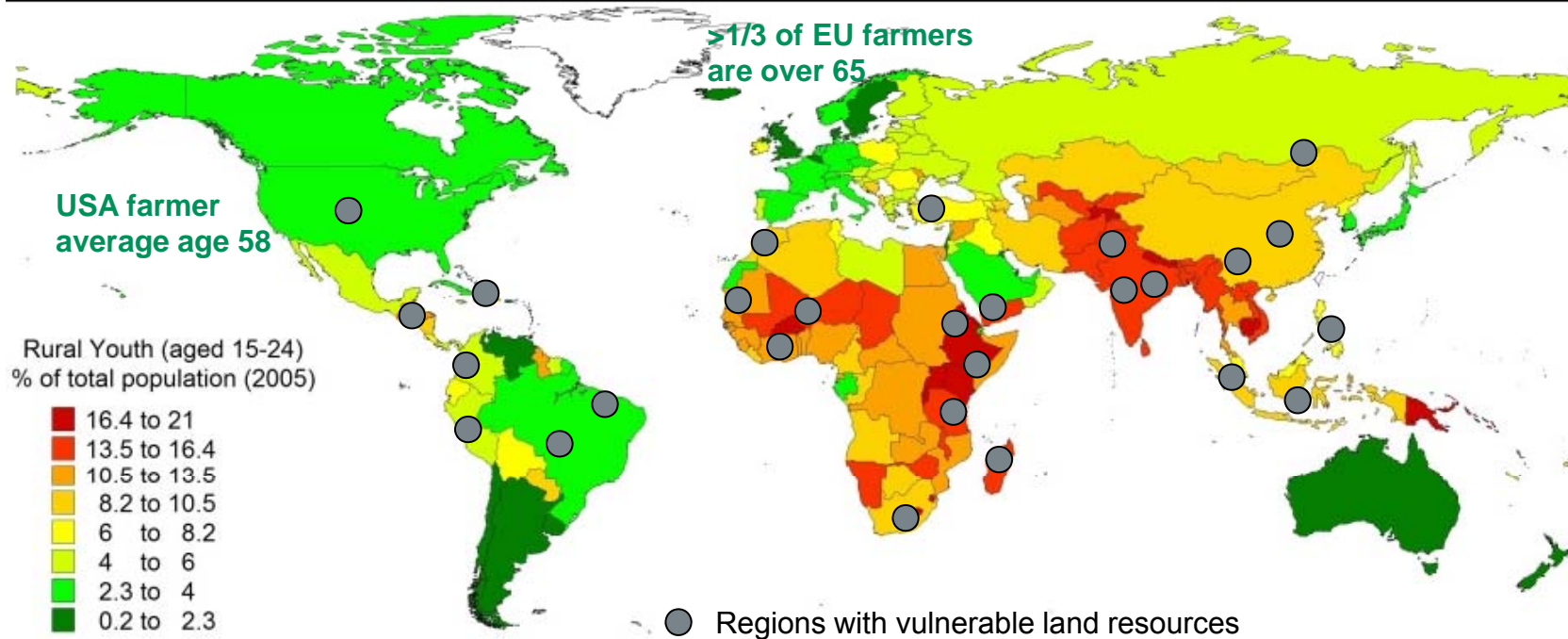
TFIF Congress and Exhibition 2014

## 4 Farmers – trend



- Farming needs to attract the Y generation (ageing farming population, rural flight...)
- Arable land and water resources cannot be expanded without limitation
- Investments are needed into infrastructures and technologies

## Land and human resource



Source: IFAD, FAO, USDA, BNPP



**BNP PARIBAS**  
CORPORATE & INVESTMENT BANKING

The bank for a changing world

Alain Butler | 5-Mar-14 | 9

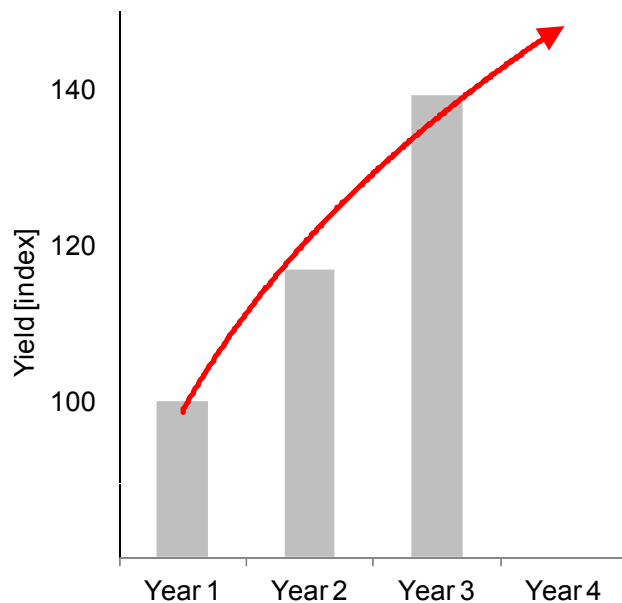
# More land will be grown by specialized agri-holdings

TFIF Congress and Exhibition 2014

## 4 Farmers – case

- Agri-holdings develop activities in both development and management of land
  - Primarily in regions structurally attractive for their land resource and climate
  - Productivity brought on field crops with farming methods (seeds, precision farming...), scale (consolidation and mechanization), access to markets and distribution infrastructures

### Development of land



Yields for cerrado (soy), black soil fallow (cereals )

Source: Field research, BNPP

### Management of land



Source: BNPP



**BNP PARIBAS**  
CORPORATE & INVESTMENT BANKING

The bank for a changing world

Alain Butler | 5-Mar-14 | 10

# Some states will take measures to control agri-business

TFIF Congress and Exhibition 2014

## 5 Governments – case



- Governments develop policies based on their development and agricultural resources
- States are likely to promote national champions to control their international flows
- Nevertheless, multilateral initiatives are maturing (e.g. market information, crisis task force, regulation...)

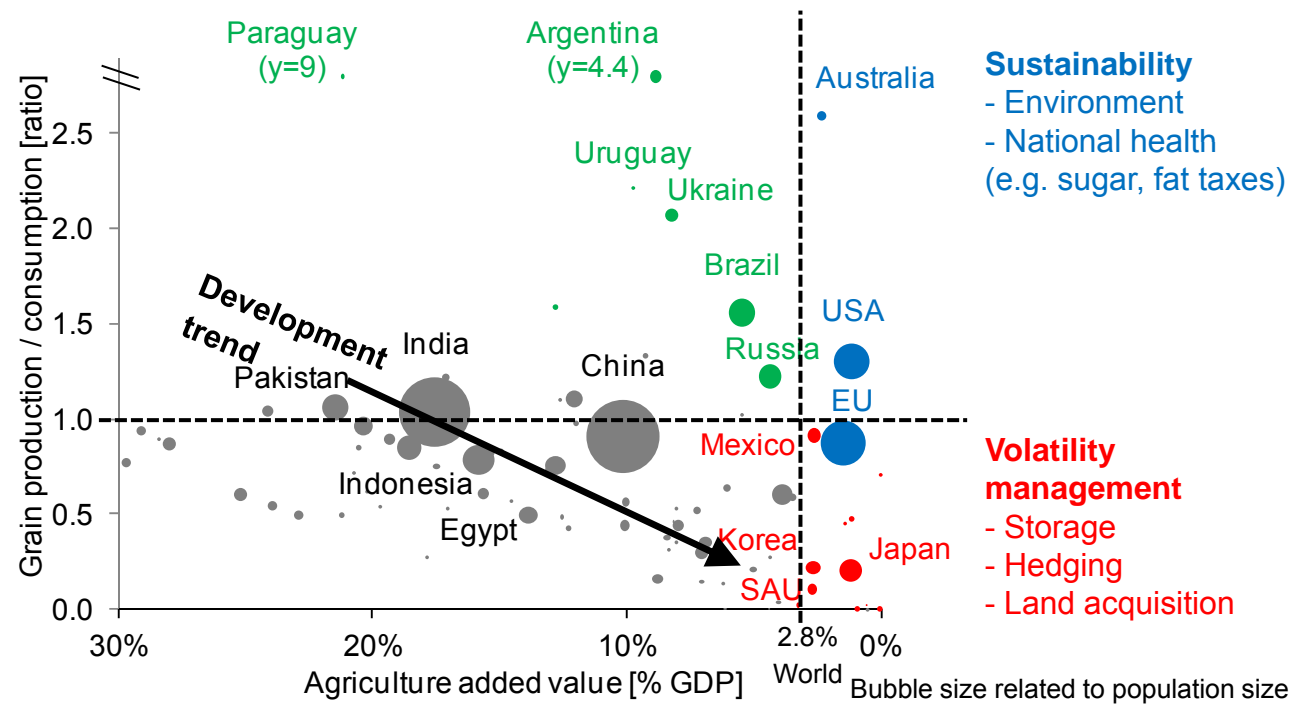
## Agricultural policies and resources

### Increase AV

- Productivity
- Downstream processing

### Food security

- Development & urbanization
- Staples self sufficiency
- Flexible sourcing (crushing)



Source: USDA, FAO, World Bank, BNPP



**BNP PARIBAS**  
CORPORATE & INVESTMENT BANKING

The bank for a changing world

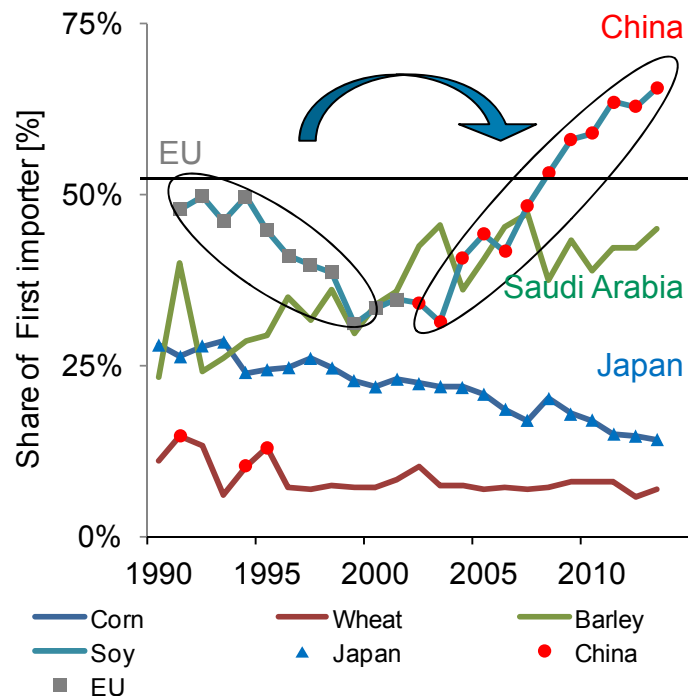
# Bilateral negotiations on agri-trade could gain weight

TFIF Congress and Exhibition 2014

## 5 Governments – case

- China is gaining sufficient weight to establish bilateral agreements with its suppliers
  - Commodities are a good hedge against huge USD resource
  - Capability to coordinate actions with non-agri. sectors (financial, infrastructures...)
- Need to contain volatility (e.g. cost plus model) to protect its domestic market

### Leading importers of grains



Source: USDA, BNPP

### Examples of bilateral agreements

- Argentina: 1.5bn USD Beidahuang investment in Patagonia
- Russia: 1bn USD Russia-China investment fund on agriculture, consumer products, green energy
- Brazil: 2.5bn USD agreement by Chongqing Grain to produce soybeans in Bahia
- Ukraine: 3bn USD loan-for-corn

Source: press, BNPP



# The agribusiness is going to restructure

TFIF Congress and Exhibition 2014

## Conclusion

- The agribusiness is challenged by a changing environment
  - Rapid access to broad information
  - Y generation of employees, consumers, farmers and investors
  
- As a result, new factors will have to be taken in consideration
  - With raising transparency, CSR considerations will have to be widely integrated
  - Food producers and retailers are moving up the supply chains
  - Sustainable growth will rely on the AV created, in particular through assets
  - Simultaneously, governments and the public sector will have greater attention and participation in the agri-sector
  
- Leadership will rely on capabilities to adapt business models
  - Progressive shift from integration strategies (consolidation, diversification...) to strategies of alliances and networks
  - Rise of new players
    - Some of which interrelated with the public sector
    - Others specialized in short / long cycles (e.g. land development / management)

Source: BNPP



THANK YOU



**Disclaimer**

**The views expressed are of the author's personal views and do not necessarily represent the views of BNP Paribas**

The information published in this document has been obtained from Source believed to be reliable. BNP Paribas does not make any representation or warranty, express or implied, in connection with the accuracy of the opinions or statements contained herein. The information provided by this document is only indicative, not to be relied upon as substitution for the exercise of judgment by any recipient, and subject to change without notice. BNP Paribas shall not accept any liability whatsoever for any direct or consequential loss arising from any use of material contained in this document.

This document is not intended as, and does not constitute, an offer or a solicitation to buy or sell any instrument or to enter into any transaction. Any reference to past performance should not be taken as an indication of future performance.

This document should not be reproduced (in whole or in part) without BNP Paribas' written consent.

© BNP Paribas (2014). All rights reserved.

