Green shoots

No matter how bad things get, people still need to eat.

Eyevine

At a time when much of the global economy is falling apart and demand both for consumer goods and the firms that make and finance them is collapsing, the notoriously cyclical world of agriculture is holding up remarkably well. Prices for grains and meat are down from the peaks of mid-2008, but are 30-50% above their averages over the past decade. There is reason to believe that this strength is more than just another of the many bubbles that have recently inflated, only to pop.

Higher prices are hardly a universal blessing: they are good for farmers, many of whom are poor, but bad for consumers. Some of the increase can be blamed on the shift of crops from food to fuel, prompted by wildly inefficient subsidies. But high prices are also a sign of progress because their single largest cause is the steady increase in demand from poorer countries, as people there eat more food—especially more protein. More people are better nourished thanks to a bit more grain, a lot more meat, and much more milk.

China's role has been profound, reflecting its enormous economic progress and huge population. In the past decade, says Carlo Caiani of Caiani & Company, an investment-advisory firm based in Melbourne, the consumption of milk has grown seven-fold, and that of olive oil six-fold. China is consuming twice as much vegetable oil (instead of less healthy pork fat), 60% more poultry, 30% more beef and 25% more wheat, and these are merely the obvious foods. Scores of niches have expanded dramatically: people are drinking four times as much wine, for example.

And yet even with all this growth, people in China still, on average, consume only one-third as much milk and meat as people in wealthy countries such as Australia, America and Britain. The gap is even larger with India, which is also growing fast. Overall, protein intake in Europe and America is unlikely to expand much, but a combination of rising incomes and population in developing countries could increase demand by more than 5% annually for years to come. "Once people are accustomed to eating more protein, they won't take it out of their diet," says Mr Caiani.

Expanding supply at the same rate will be difficult, because the amount of arable land under cultivation is growing by only a fraction of a percentage point each year. In China and India

many of the most fertile areas are the ones being developed for roads and factories. That means existing land is becoming more valuable, and must become more productive.

The consequences stretch from one end of the food chain to the other, as higher food prices prompt a response. BASF, one of the world's largest producers of agrochemicals, saw 9% growth last year in agricultural sales, including 16% growth in Asia. It expects the industry to grow by 17% this year, which has begun well, the global economic tumult notwithstanding.

Its competitors are also prospering. The share prices of Agrium, CF Industries, Bunge and Syngenta spiked last year along with food prices, then tumbled (along with the shares of nearly every other company), but then stabilised, even as the rest of the stockmarket continued to tank. Monsanto, which a decade ago had been praised and then trashed for selling highly efficient genetically modified seeds, has seen its popularity restored for exactly the same reason. After years of strong growth, and with the prospect of more to come, its shares are valued at 20 times trailing earnings, nearly double the market average.

Interest in the industry is still growing. A conference for fund managers tied to agriculture held annually in Sydney by Austock, an Australian broker, attracted a few dozen contrarian souls three years ago. This year's event, which began on March 16th, had to be restricted to several hundred ticket-holders, with many others turned away. Deals are also being done. On March 13th Terra Firma, a private-equity firm based in London, announced it would buy 90% of Consolidated Pastoral Company, the vast Australian cattle holdings of the Packer family, which encompass 5m hectares (12m acres) of land.

In February Nufarm, an Australian agrochemical maker, won approval for its acquisition of AH Marks, one of Britain's oldest chemical companies, which has a valuable portfolio of herbicides. Nufarm itself only barely avoided being acquired in 2007 in a joint bid by an American private-equity firm and a Chinese state-owned company. Shares of Mosaic, a maker of fertiliser, have been swept by one acquisition rumour after another. Last year COFCO, China's state-controlled food conglomerate, bought 5% of Smithfield, the world's largest pork producer. Al Qudra, an Abu Dhabi-based investment company, said it had bought big tracts of farmland in Morocco and Algeria, and was closing in on purchases in Pakistan, Syria, Vietnam, Thailand, Sudan and India.

In November China Agri-Industries, a subsidiary of COFCO, established a partnership with Wilmar, the world's largest trader in palm oil. Landkom, listed on London's AIM market, and Black Earth Farming, listed in Stockholm, have each made big investments in farming in Ukraine. And reports are circulating in China about local investors buying 50,000 hectares of farmland in Argentina, and considering other investments in Argentina and Brazil.

Even China is finally opening up to private agricultural investment, in part because new laws allow farmers to lease land, thus making possible economies of scale. Asian Bamboo, a company that is listed in Frankfurt, leases 27,000 hectares in Fujian province. It announced profits for 2008 of €21m ($30.4m) on sales of €44m, reflecting how, at least for the moment, agriculture can be an extraordinarily high-margin business.

There are limits to what can be done, however. By far the most ambitious of all the land deals in the past year was Daewoo Logistics' contract with the government of Madagascar to lease 1.3m hectares, almost half the country's arable land, to produce corn for Daewoo's home country, South Korea. But after riots and a coup in Madagascar, the deal is off. These tensions are not unique. In response to local concerns about the loss of critical food supplies, several governments have imposed taxes or other restrictions on exports: on a key ingredient of fertiliser in China, on grain in Argentina, on rice in India. That sort of meddling undermines

some investments and businesses. But in a strong market, it makes the businesses that can operate freely all the more lucrative and valuable.

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