

Sustainable large scale agriculture – Lessons learned from the forestry sector

Rome, 24 January 2010

EBG Capital

Environmental Investments



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Agriculture sector faces currently several constrains

**Lack of crop /
regional diversification**

**Inefficient use of
management techniques**

**Lack of
operational scale**



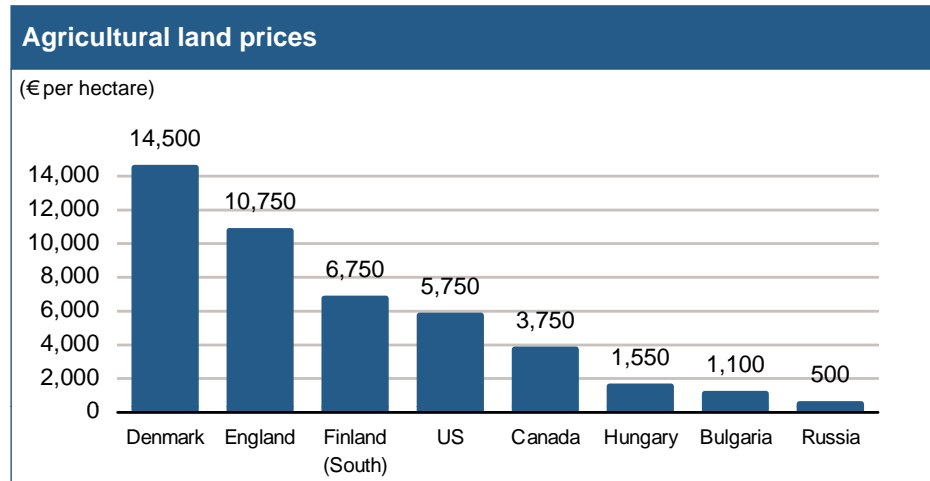
**Lack of
Capital**

**Insufficient use of
latest ag technologies**

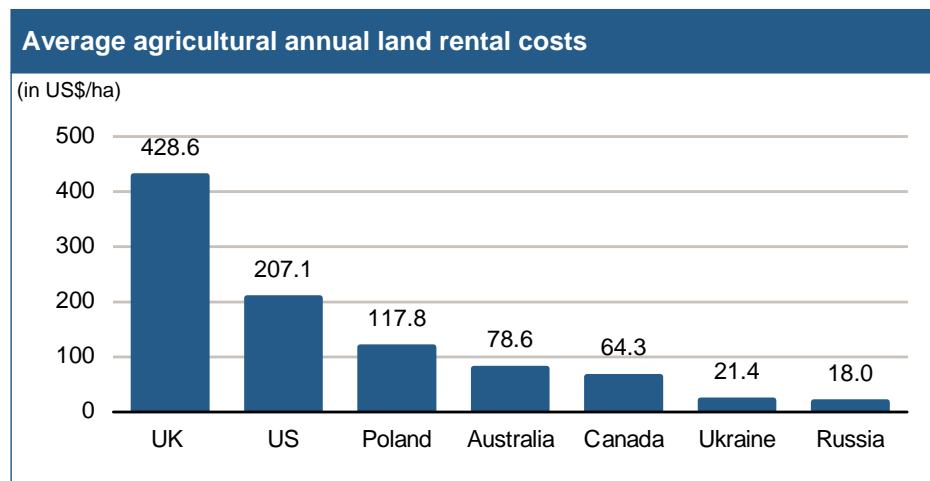


Significant disparity of farmland prices among regions - Opportunity to acquire land at significant discount

- Land trades at a significant (factor 30x) discount comparable to international price levels
- Sector often overlooked given difficulties in acquiring land and scarcity of local expertise in managing large scale agriculture enterprises



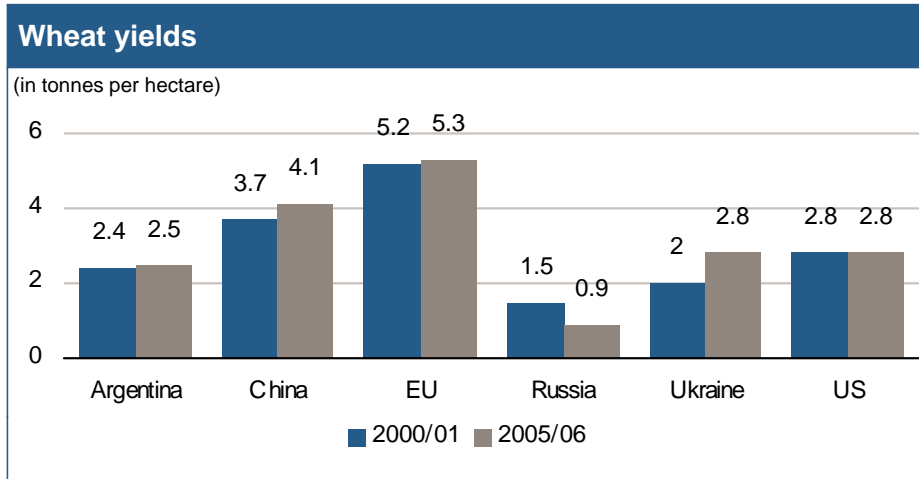
Source: Trigon Agri



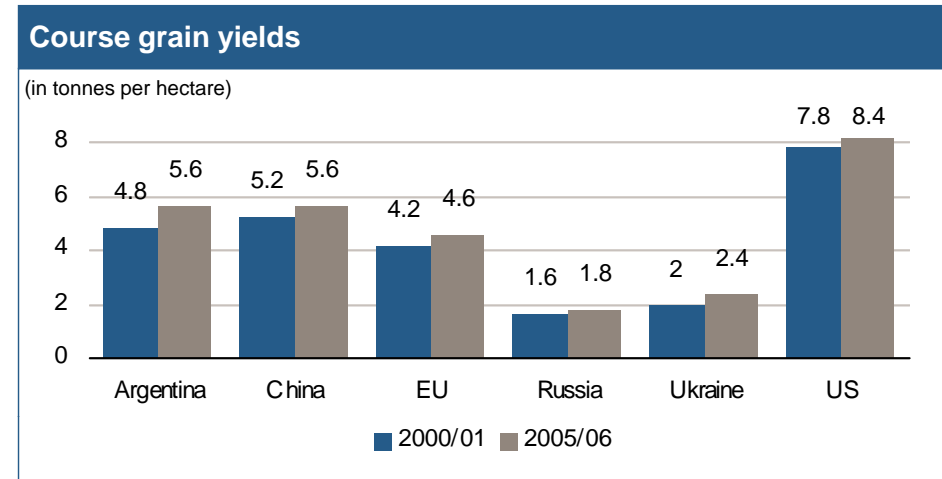
Source: Data for UK, US, Poland, Australia, Canada and Ukraine from Scottish Agricultural College (SAC). Data for Russia from "Agricultural land market in Russia: living with constraints".



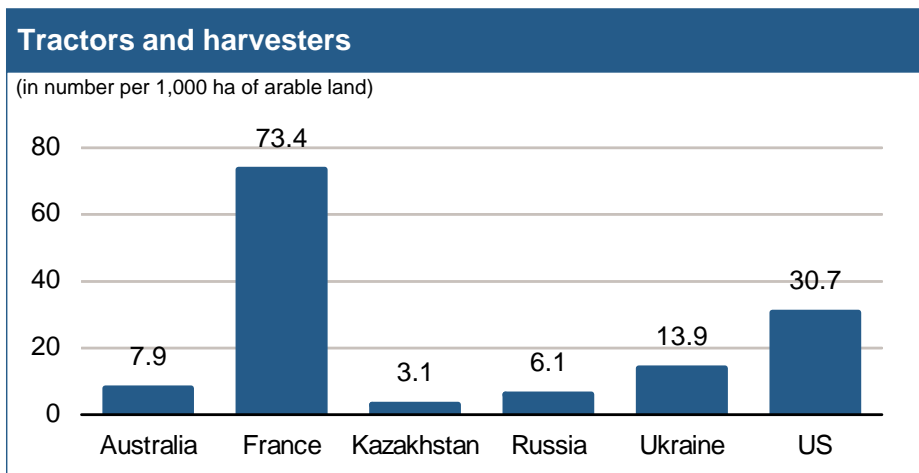
Appropriate soil management and modern machinery can significantly improve currently achieved yields



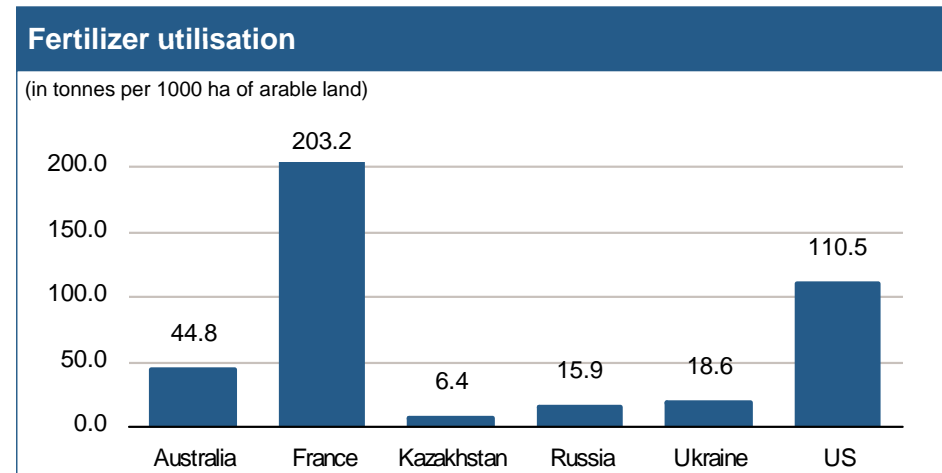
Source: USDA



Source: USDA



Source: FAO

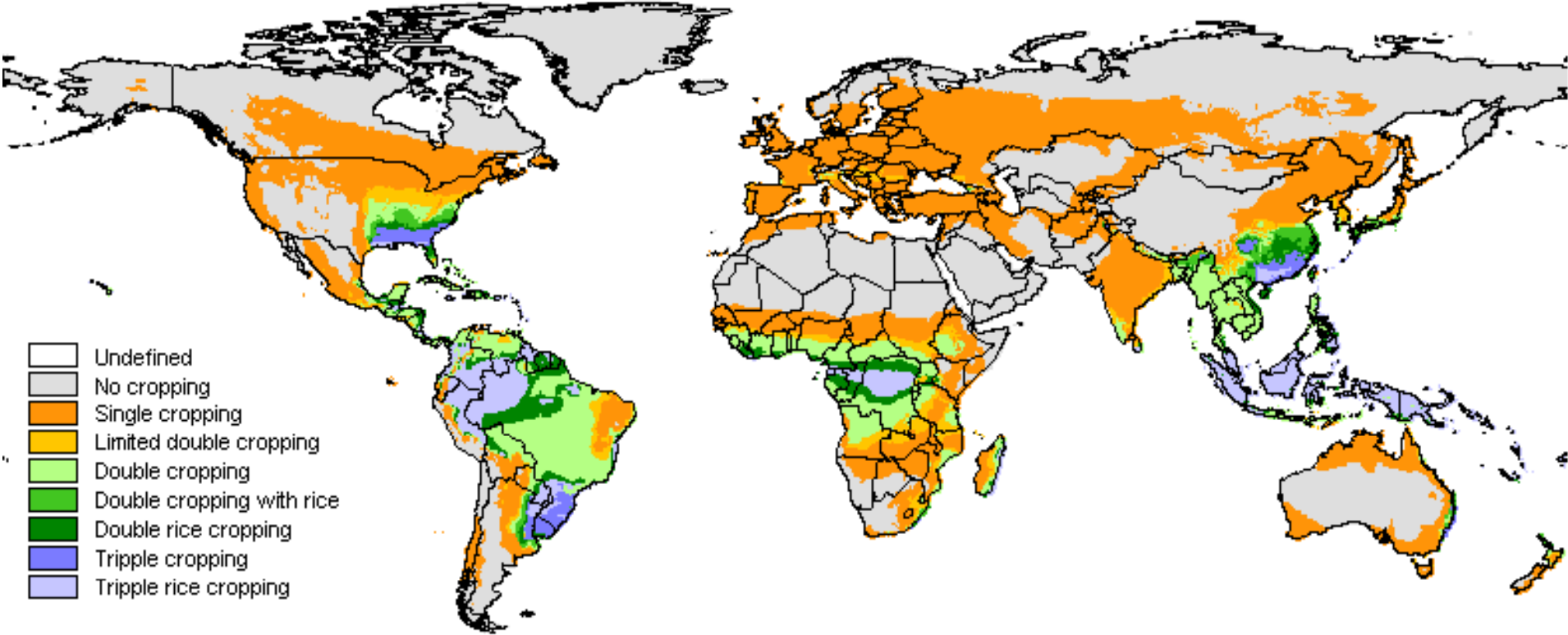


Source: FAO

Note: Average fertilizer consumption in 2005 divided through total arable land area



Cropping zones for rain-fed cultivation...



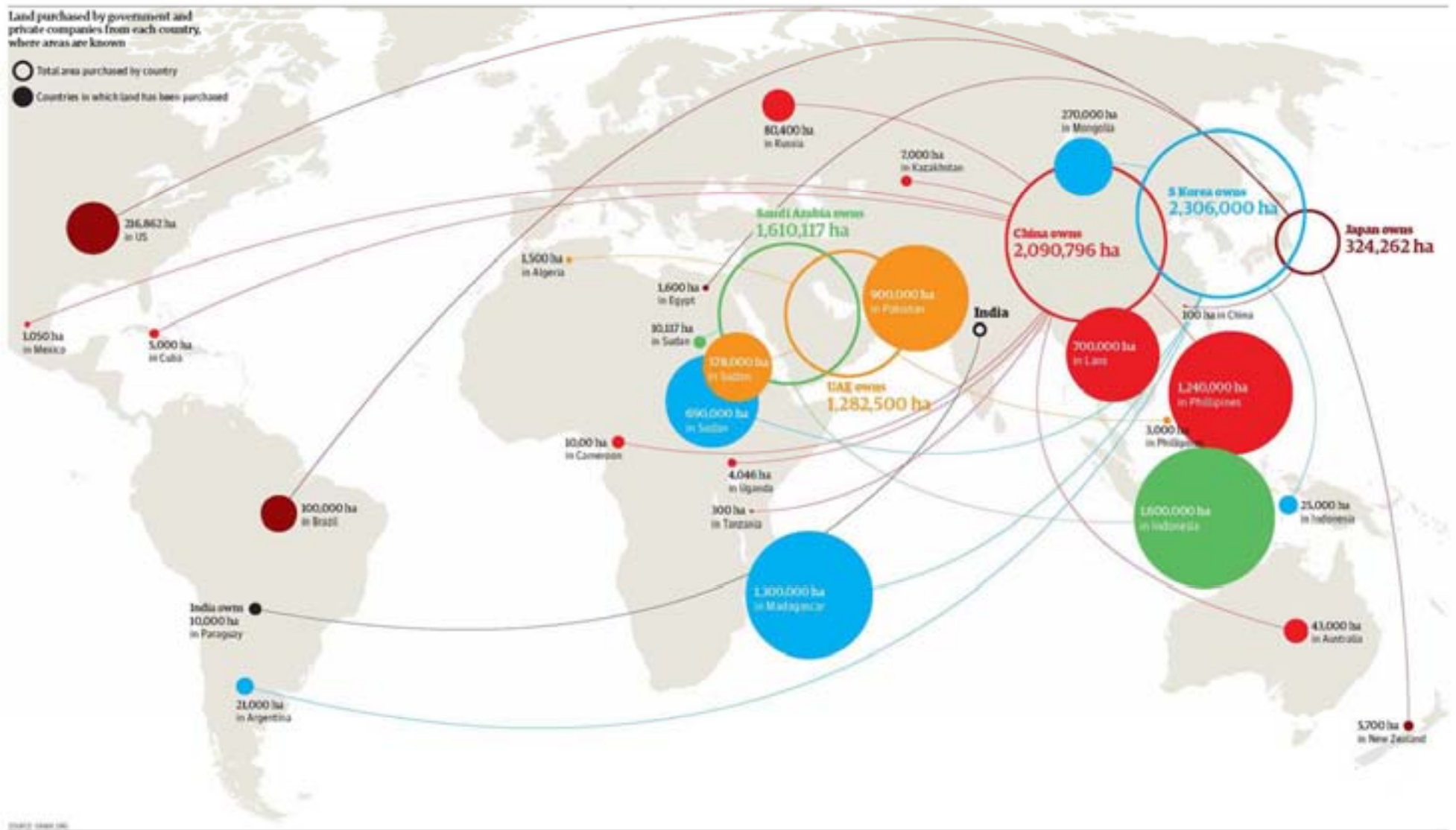
Source: IIASA

...coincide with flow of capital into the respective regions

World land grab

Land purchased by government and private companies from each country, where areas are known

- Total area purchased by country
- Countries in which land has been purchased



Investors are increasingly entering the agri investment space, including new players like SWFs and hedge funds

Governments / Sovereign Wealth Funds (SWFs)

Institutional Investors / HF/PE Funds

Largest SWFs include:

- Abu Dhabi Investment Authority (ADIA)
- Sama Foreign Holdings, Saudi-Arabia
- Safe Investment Company (SIC), China
- Kuwait Investment Authority (KIA), Kuwait
- Korea Investment Corporation (KIC)

Examples of Hedge Funds offering Farmland Funds:



Different players with different strategies

	Governments / SWFs	Inst. Investors / Hedge Funds
Objective	Strategic / Food supply	Financial returns
Duration	Long term	Short term (4-10 years)
Geography	Emerging Markets	Today OECD / Brazil
Ownership	Long term leases	Preference for land ownership
Deal size*	10.000 - 2m ha	Up to 10.000 ha
Risks	Accepts high political risks	Favors low political risk countries

* Refers to size of individual deals – aggregated size of ha under management by funds or investment companies can also reach 1m ha and above



Sustainability issues associated with large scale agricultural investments and production

Environment

Habitat / Biodiversity

Soil quality / soil erosion

Water (scarcity / pollution)

Social

Property rights

Human rights / indigenous people

Labor issues (child labor, compensation)

➤ **Magnitude of the challenges depend on a number of factors and vary from location to location**



From biodiversity rich forest to palm oil...



Trends in timberland investment: from industry-owned US assets to global institutional and high-net-worth investors

Development stage		Pioneer	Expansion	Institutionalization	Globalisation
Timeframe		1980's	1990's	2000's	2008+
Geography		US South US West	US	US Oceania Brazil, Paraguay, Chile	US, Oceania South America Central America, Europe, Southern Africa, Asia
Main players		Forest product companies, mostly public	US institutional funds and private investment vehicles enter the space	Private non industrial players own 53% of assets. TIMOs, T- REITs and other institutional buyers had US\$50bn+ under management in 2008	Emergence of private equity international funds
Operational model	Income streams	<p>Timber 100%</p>	<p>Non timber 10%</p> <p>Timber 90%</p>	<p>Non timber 25%</p> <p>Timber 75%</p>	<p>Non timber 35%</p> <p>Timber 65%</p>
	Industry standards	Limited regulation	First certification organizations (e.g. FSC, PEFC, SFI)	Growth of certified projects. Illegal logging still accounts for 10% of global production	Standardization of certification in the industry, including tropical markets

Source: GFP, Dana.



Instruments to address critical sustainability issues of large scale agricultural investments

Legal / regulatory regimes

- National laws, policies, secure property rights...
- Best way to ensure the envisaged result
- BUT: Governance and enforcement remains a challenge
- Long and bumpy road where it will take a long time to ensure a positive outcome

Voluntary agreements / industry standards

- Principles, guidelines, labels...
- Market based instruments
- Also apply if national laws are absent or not enforced
- Governance / free-riders are challenges
- Development and implementation can be very fast



Voluntary Commitments, Standards and Guidelines

„Sell Side“
Operator Level



„Buy Side“
Financial Sector



UN Global Compact

- Launched in 2000 by Kofi Annan: Voluntary broad commitment targeted towards private sector participants across all industries and geographies
- 10 Principles covering human rights, labor, environment and anti-corruption
- 4200 business participants and 160 FT 500 companies are signatories
- UN Global Compact is broadly supported by a number of UN Agencies, Governments and NGOs

⊕ Broad but still covers relevant aspects

⊕ Annual reporting on progress mandatory: non-reporters are taken off the list



UNEP Finance Initiative (UNEP FI)

- Started with voluntary commitments for Banks and Insurance Companies spearheaded by UNEP in 1992/1995
- Today global partnership between UNEP and the Financial Services sector
- The 170 Signatories of the UNEP FI Statement promise to integrate ESG issues in their daily business
- Focus on cooperation and development of workable tools and solutions

⊕ Widely accepted amongst financial institutions

⊖ Some large players are absent

⊖ Lack of enforcement



Equator Principles (EPs)

- “A benchmark for the financial industry for managing environmental and social risks in project financing”
 - Spearheaded by the IFC and launched in 2003 more 70 banks have now signed up to the EPs
 - By adopting the EPs a bank promises to adhere to the 10 Principles of the EPs
 - Backbone of the EPs is the fact that Banks need to apply the World Bank environmental and social guidelines for any project finance transaction
- ⊕ Rapidly emerged as “industry standard” for project finance
 - ⊕ World Bank / IFC guidelines provide clear guidance and leave little room for interpretation
 - ⊖ Public reporting mandatory but lack of enforcement



Principles for Responsible Investments (PRI)

- Voluntary commitment for Asset Owners and Asset Managers, spearheaded by UN in 2005
- Six principles addressing Environmental, Social and Governance (ESG) issues where signatories commit to:
 - Integrate ESG issues in investment analysis and ownership policies
 - Seek disclosure of ESG issue by entity in which they invest
 - Promote the PRI within investment industry and collaboration on implementation
 - Reporting about implementation
- ⊕ Adopted by largest asset managers and owners
- ⊖ Focus is very much on public equities. Only small number of signatories for PE/HF companies and SWFs



Forest Stewardship Council (FSC)

- FSC is an independent, non-governmental, not-for-profit organization established to promote the responsible management of the world's forests
 - FSC has developed over the last 15 years into the most well known and highly regarded certification scheme for sustainable forest management
 - FSC certified timber operations must comply with 10 principles that cover environmental and social issues
-
- ⊕ Many voluntary commitments and policies refer to FSC as best practice
 - ⊕ High credibility in the market because of certification by accredited certification body



Voluntary agreements – Pros and Cons

- + Voluntary commitments can develop to industry standards (eg Equator Principles for project finance)**
- + Often spearheaded by some highly respected industry leaders – increases acceptance**
- + Seen as a „market based instrument“ – less resistance and faster implementation amongst industry**
- + First step in right direction – high flexibility for further improvements**
- Challenge to get the laggards on board / some players remain absent which is a challenge if these are significant players in the industry**
- Usually very general, devil is in the details**
- Controlling / measuring success?**
- Enforcement, enforcement, enforcement**



Safeguarding sustainability for large agri investments



Thank you



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