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INTERVIEW

“Investors that get into agribusiness and successfully stay in the business have been those that know how to weather its cycles.”

How do you view the sudden emergence of farmlands globally as a latest investment asset class?

Stephen Johnston: Farmland as an asset class has been around for a long time, particularly in the portfolios of very High Net Worth Individuals and institutional players with longer investment horizons. What is changing is the interest of the mainstream investment community which has been creating the demand for vehicles that allow for efficient investment by a much broader range of participants.

Gary R Blumenthal: The value of the land is related to the value of its productive capacity. Farmland productivity is highly correlated to scale, thus an investment infusion enables the consolidation necessary to boost the underlying value of the asset.

Suresh Chandra Babu: The emergence of farmlands as an investment asset class brings both opportunities and challenges. At the global level, it provides opportunities for increased mobility of capital resources and investments abroad. For example, in the early 1980s, Japanese investors invested heavily in American real estates. Currently, Chinese investors are investing in the real estates in the West. Within the countries, investment in farmlands has the benefit of increasing the value of the farmlands over time, thereby reducing the inequality of income among rural and urban populations.

Investment in farmland by the corporate sector, particularly in farmlands that are located with good infrastructure, provides opportunities for rural employment when these lands are used for establishing corporate offices. In addition, the increasing demand for farmland as a source of investment

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provides opportunities for the rural households to diversify their portfolio, thereby investing part of their income from land sale on nonfarm activities.

Yet, increasing demand for land in rural areas also brings challenges for long-term food security. As more and more rural households get out of farming by selling their farmlands to corporate and other investors, they increasingly become dependent on non-farm activities in rural areas. Without adequate growth of such activities,

they may not have a sustainable livelihood unless their income from the sale of farmlands is invested wisely. In addition, valuable agricultural land is lost to non-agricultural use, resulting in low levels of food production.

Due to reduced number of farm operations, a few farmers may be responsible for feeding the rest of the nation. In the Indian case, the size of the farm holdings are going down, while the number of smallholder farmers owning such lands is increasing. This is a trend that needs to be addressed through policy and institutional changes. In addition, technological changes are required to address the productivity issues of small farm holdings.

Do you think this is the best long-term, sustainable approach to agricultural development?

Stephen Johnston: Absolutely, private sector investors are profit maximizers. In the same way, that operation/consolidation by large-scale private sector investors is viewed as a positive in every other sector of the economy, farming is also a business and subject to the same market forces. For example, the minimum efficient farm size for Canadian dry land wheat

South Korean and Chinese multinational firms, with help from their governments, are entering in a big way to invest in farmlands in Russia, Burma, Laos, the Philippines and Africa for growing rice, corn, sugarcane, cassava and rubber. According to the Lao Committee for Planning and Investment, China already has become the second largest agriculture investor in Laos and Burma. It is providing seeds, fertilizers, pesticides and farm

machinery to the formers in those nations. China, under pressure to feed its 1.3 billion population, wants to enforce high tariffs on food imports from developed countries. With food grain stocks exhausted and prices at an all-time high, the poor nations too are turning their back on the old ideas and opening doors to investors. This has encouraged businesses and investors to channelize billions of dollars into farmland and food production.

The prudence to foresee mounting demand for food has led to investments in facilities involving food production such as farmlands, fertilizer, grain elevators (buildings for storage and shipment of grains), barges (flat-bottomed boats built mainly for river and canal transport of heavy goods) and ships. Even though the equity markets have not completely come to terms with the enormity of this growing demand, private equity and hedge funds around the

farming is approximately 5,000 acres, yet the average farm size is around 1,600 acres. Clearly consolidation at the farm level to increase unit sizes would benefit both farmers and consumers; now with greater interest in this sector, the capital and appetite are present to drive this process.

Suresh Chandra Babu: In the long-term, the prices of farmlands will stabilize, particularly in remote areas. However, as more farmlands are assimilated into the investment plan for industrial infrastructure as well as by the service industries, rural households may benefit from such expansion of non-farm activities in the rural areas. However, such expansion normally occurs only where the farmlands are connected to rural roads which have good reach to national highways.

Agriculture in these areas will benefit partly because investment in farmlands in those areas will bring additional infrastructure benefits through the investors themselves. Yet, the agricultural sector has to change to meet this changing reality. Agricultural research has to become relevant for the smallholders who will grow in number but own less and less land per capita. Unless the productivity of these smallholdings is raised, these farms may not be viable and profitable in the long run. Thus, the sustainability of these lands is also in doubt.

In what way will the farmers in poor and emerging nations benefit from this trend?

Stephen Johnston: Low-cost, efficient producers everywhere will have improved access to capital and be able to grow more quickly. As prices continue to rise, these same operators will find that they can expand operating margins faster than their less efficient competitors.

Gary R Blumenthal: Subsistence farmers are trapped in a low-productivity profession. It would be better to lure them out of agriculture with more attractive manufacturing or service sector jobs. They will benefit from any economic dynamic that forces them to better maximize their human potential. Technology and capital have historically worked to shift labor



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to other pursuits where it is better utilized. Keeping them down on the farm avoids the uncertainty of change and serves the interest of the politicians, but it is a horrible waste of potential human talent.

Suresh Chandra Babu: Farmers who are in areas that are marginal and depend on rainfall for producing crops will benefit by getting out of agriculture if the resources gained from selling of the farmlands can be invested in other non-farm activities. Such investments require education, which currently is lacking among the farm communities. On the other hand, if the farmers in the areas where farmlands are in high demand are trained to become part of the growth process, it may benefit the farming community to come out of agriculture. The increased demand for farmland in marginal areas and the associated price increase of farmlands bring in windfall profit for those who sell their lands. This may reduce the inequality of income among the rural population as well as between rural and urban population.

Will it provide solution to the global food crisis?

Stephen Johnston: Investment will maximize efficiency, allow for proper allocation of scarce resources and reduce waste. Whether this solves the global food crisis remains to be seen, that will depend to a large degree on the magnitude of potential supply/demand imbalances.

Gary R Blumenthal: If investors consolidate farmland into units of production that can fully exploit the currently available technology, yields will increase substantially. If all farmlands were utilized at economies of scale, there would be more than enough biomass for both food and fuel demands.

Suresh Chandra Babu: It is not clear whether the increased investment in farmland will provide a solution to the global food crisis. The loss of land from farming community to the investors, who may or may not use the land for productive purposes, will reduce the supply of food in the aggregate. If the lands acquired by the investors are effectively used for production agriculture, it can increase the level of production if adequate investments are made towards irrigation and mar-

world are making huge investments in farmlands. College endowments, pension funds and real estate fund managers are buying farmland, even as home construction companies are deserting thousands of undeveloped parcels in the US. They are aggressively placing bets on agricultural commodities like corn, wheat and soybeans. Fresh from the sting of the subprime catastrophe and the credit squeeze, banks and investment companies are also begin-

ning to add farms to their more conventional investments. A majority of them believe that although the current surge in food prices is partly due to transitory factors like drought and biofuel subsidies, the demand for food is likely to rise in the long run, which presents a potential investment prospect. In fact, the value of farmland has been increasing at rates greater than the residential market growth over the past decade.

Untapped potential

According to Agcapita GP Corp, a Canadian farmland investment partnership, in addition to providing a potential hedge against inflation, an investment in farmland provides returns with less volatility (approximately 60% less volatility) than stock and bond market returns. Investment funds have already started pouring in billions of dollars into frontier lands (land that has not yet been cultivated for production) in less devel-

ket infrastructure. In addition, if the farmlands acquired by corporate sector are used for producing high-value crops, such as the case in some of the private companies investing in high-value agriculture chains in India, it may increase the availability of food commodities in the market at a better price for the consumer.

On the other hand, if the agricultural lands are acquired by investors and these prime lands are not used for cultivation, there is going to be reduction in the production of food in the aggregate. The impact of farmland investment on food security at the national level depends crucially on the type of land that is being purchased and the availability of existing infrastructure and productivity of the lands that are currently being acquired for investment purposes.

Several people who worry about this trend argue that institutional investors might not be committed to staying with farming in bad times and farmland could become subject to speculative bubbles. Comment.

Stephen Johnston: Without exception, Agcapita's experience has been that the new investors moving into direct farmland holdings have long-term mindsets. Also, the typical farmland fund partnership resembles a private equity vehicle with longer hold periods and limited redemption rights. Of course, in order to provide liquidity many institutional investors are creating listed holding companies as conduits, but this does not change the long-term nature of the underlying investment vehicles.

Gary R Blumenthal: This assumes that bubbles are only bad; I would contend that the opposite, a bust, is far worse. Bubbles infuse capital, which funds technological advancement. This bubble may well burst and institutional investors will scramble to exit the business. A major oil company invested in farmland during the agrifood bubble of the early 1970s, and then exited the business. But what is left behind is a better rationalized system. When the tech bubble burst, its excesses may have been exorcised, but the benefits it wrought did not disappear.

oped nations in Eastern Europe, Southern America and Africa for cultivating commodities like wheat, corn and soybeans. Some have bought several ethanol plants and farmland in Canada and adequate storage space in the Midwest to keep millions of bushels of grain.

The UK-based Braemar Group was the first to spot an opportunity in the potential of farmland investment. Europe is under pressure to increase biofuel production, and the farmland close to the northeastern England will be the first source of supply of ethanol.



Dr. Suresh Chandra Babu
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Suresh Chandra Babu: As mentioned above, if the investors do not use the land for agriculture, it may result in inadequate supply of agricultural land for agricultural purposes. Yet, this can be overcome by increasing the productivity of land per unit of land available for cultivation. However, increase in productivity has to come from investment in agricultural research in various crops that are suited for the areas where farmlands are being acquired by investors.

Any other issue?

Stephen Johnston: No industry can survive or flourish without access to sufficient amounts of cost-effective capital. Current interest in agriculture and farmland as an asset class is increasing capital flows to this sector, and in the final analysis, the positives will vastly outweigh any conceivable negatives.

Gary R Blumenthal: Investors that get into agrifood and successfully stay in the business have been those that know how to weather its cycles. It requires a long-term, big picture view that is missing in most investors who prefer to shift from one bubble

to the next, regardless of industry. The long-standing players in agrifood are currently stockpiling cash and will purchase the eventually devalued assets of the bubble chasers for a song, knowing that they will rise again someday.

Suresh Chandra Babu: In general, the increase in prices of farmland due to increased demand for farmland investment has benefitted a large number of farmers who have not effectively used the land partly due to low productivity of technology and partly due to inadequate connection of their farms to the markets. The benefits that accrue to the farmland owners due to increased demand for farmland investment can revive rural non-farm economy if adequate opportunities are created for investing in such resources through organized resource mobilization for productive purposes. In the absence of such policy and institutional support, the gains from increased value of farmland may not benefit the rural economy in the long run.

BlackRock, a company partly-owned by Merrill Lynch, is planning to invest in farmland in sub-Saharan Africa to the English countryside. In 2007, the London branch of BlackRock launched the BlackRock Agriculture Fund, seeking to raise \$200 mn to invest in fertilizer production, timberland and biofuels. Presently, it stands at more than \$450 mn. Calyx Agro, a group of Louis Dreyfus Commodities, is purchasing vast stretches of farmland in Brazil in a big way with help from large institutional investors like AIG Invest-

ments. Emergent Asset Management, a UK-based, award-winning investment management firm, is raising \$450 mn to \$750 mn to invest in farmland in sub-Saharan Africa. The fund has chosen Africa because of inexpensive land values and accessible labor compared to other agro-based economies. Moreover, Africa's micro-climates are conducive for cultivating a wide range of crops. These investors are getting positive response from institutional investors like insurance firms and some Sovereign Wealth Funds.

Speculative investments?

The long-term implications of the sudden surge in farmland investments are not clear. Some conventional players in the farm economy and others who actively involve in agriculture policy believe that the new breed of investors will focus on returns above all else, and are not committed to staying with farming through good times and bad. The cycle of entering in and out of farmland investment will be very volatile and could become subject to speculative bubbles. Mark Lapolla, Adviser to institutional investors, says, "It is important to ask whether these financial investors want to actually operate the means of production or simply want to have a direct link into the physical supply of commodities and thereby reduce the risk of their speculation."

However, the proponents of farmland investment dismiss the criticism that the investors will control the supply-demand mechanism artificially by holding back inventory to move prices to their benefit. They argue that the investments will be advantageous to farming community and, finally, to consumers. When food grain prices become volatile, grain elevator operators have to dig deep into their pockets to lock in future prices. It is here financial investors come to the rescue of grain elevator operators by providing the money they need to endure the unpredictable commodity markets. Maintaining these important services helps bring down

costs to the farmers and negates the price increases for crops. Furthermore, new investments will bring in the latest technology and accelerate the development of infrastructure, and the consumer will benefit because there will be more supply. The investors aim to combine small plots of farmland into more productive assets and modernize grain elevators and fertilizer supply depots, so that they can increase production and reap profits.

A win-win approach

The present surge in farmland investment is a result of skyrocketing commodity prices, increasing demand for ethanol, and the continuous decrease in the area of arable agricultural land globally. Against this backdrop, farmland investment is the best long-term approach to agricultural development, taken up by entrepreneurs who sense opportunities when others see gloom. Some analysts see the potential for significant and lasting benefits to both parties. For instance, even though investment is meant to benefit the investors, foreign investment helps poor nations in Afro-Asian region which lack the resources to make their own agricultural land productive by improving infrastructure and irrigation. If poor nations can lay emphasis on local agriculture by opening thousands of new acres to food grain cultivation, they can save enough money on imports and divert it for economic growth within a short span of time. It is significant to note that these investment funds are using their own money. If they are successful they will realize significant profit, the world supply of food will increase, and in the process food grain prices may stabilize.

Indian scenario

Agriculture in India has transformed significantly over the past few decades. However, lack of agri-infrastructure facilities as well as field-level operational flexibility has hampered the agricultural growth story. Even though the government plays an important role in providing essential inputs like fertilizer,

water and energy, the importance of the private sector cannot be ignored. Private sector provides additional investments, brings greater efficiencies and ensures superior *service to the end consumer* at an affordable price. The possibility of joint ventures with international investors and training institutes to provide training to farming community to use latest technology is to be explored. Therefore, there is a need to devise a long-term strategy like integrating the private sector with agriculture, which will avert the vulnerability of the farming community and step up agricultural growth.

If farmers are exposed to market signals, they can become more productive and competitive. In the absence of such an environment, it is vital to have policies targeted to tackle specific issues—such as environmental, animal welfare and other concerns—that are unbiased and more efficient than market interventions. Reliable initiatives and investments are the need of the hour to put farming back on a growth trajectory. Harriet Friedmann, Professor, University of Toronto, suggests, "Farmland and farmers are a public good and need to be both protected and encouraged through public policies to engage in sustainable food production in tandem with managing natural resources for the whole society, particularly soil, water, energy and carbon sequestration. It follows that speculative pressures to maximize revenues in the short-term deepen existing problems; fundamental changes in land use management are needed instead." With increased investments in farmland and the resultant increase in food production output, food prices may begin to head southwards in the coming years. Jeff Conrad, President of John Hancock's Ag Investment Group, which has invested more than \$800 mn in farmland, tells investors, "Farmland is not a quick buy and flip type of thing. It takes time to work a return—periods of 7 to 10 years to hold the investment." ■

— N Janardhan Rao and PS Sarath Chandra

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Countries Investing in Farmland Away from Home

Sovereign State	Have Already Bought/ Expressed Interest In
Abu Dhabi	Sudan
Bahrain	Philippines
China	Africa and South America (Brazil)
India	Paraguay and Uruguay
Libya	Ukraine
Saudi Arabia	Thailand and South Africa
UAE	Pakistan, Sudan, Egypt and Yemen

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