

MEDIA RELEASE

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Volume growth requires more investment in food production, says First State's Casarotto

The level of investment in food production is set to increase as regions rich in arable land strive to fulfil demand from the rest of the world, according to Renzo Casarotto, manager of the **First State Global Agribusiness Fund**. The fund, which is celebrating its first anniversary next month, invests in companies involved in the production, processing, distribution and marketing of soft commodities, as well as the suppliers of services and inputs to these companies, such as fertiliser, crop protection and seeds.

Casarotto comments:

'The planet's human population is on track to reach 9 billion people by 2050, increasing by about a third from today's level. According to the Food and Agriculture Organisation, global food production will require investment of about US\$ 80 billion a year over the next 40 years in order to grow volumes by 70% to meet ongoing demand. However, there are considerable supply constraints with arable land on a per person basis declining, fresh water becoming a scarcer resource and climatic events posing increasing risks to the production of field crops. In seven of the last eleven years the world has failed to produce sufficient grain to meet global demand and inventories are currently at very low levels. The challenge is to produce more food with fewer resources and this will require better seed, better nutrient application, mechanisation and larger scale farms. This will need investment.'

Casarotto says that the amount of land cultivated globally has increased by just 13% since 1961¹, whilst the global population has grown from 3 billion to 6.5 billion over the same period, equating to a rise of 115%². As a result, the amount of arable land per person has declined. Casarotto uses the example of China, which has lost 10 million acres over the past decade due to urban sprawl and desert encroachment. In the meantime, he says, China has 21% of the world's population but only 9% of the globe's arable land. According to the fund

¹ FAOSTAT: Agricultural statistics, world arable land and permanent crops 1961-2006 www.fao.org

² United Nations World Population Prospects: 2008 Revision Population Database, <http://esa.un.org/unpp>

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manager, the majority of the acreage expansion has so far come from South America. In Brazil, the area used for crop farming has grown 135% since 1961 and accounts for 4.2% of global agricultural land³.

Casarotto continues:

‘There are several regions in Brazil, Sub-Saharan Africa, Indonesia and Eastern Europe where more land can be brought into production in the future. Brazil has the largest potential for increased arable land. With just over 70 million hectares which are currently cultivated, a further 100 million hectares out of Brazil’s total of 850 million hectares could potentially be converted from natural pastures to more intensive cultivated farming.⁴ This will take time, particularly because of the size of the country and the poor state of some of its infrastructure, but a number of nations seeking security of supply are already looking at Brazil. It is a long term investment story.’

Casarotto says that South Korea already owns over 2.3 million hectares of arable land in other parts of the world, such as Madagascar, Sudan and Argentina; China owns 2.1 million hectares; Saudi Arabia has secured 1.6 million hectares and the United Arab Emirates 1.3 million. He says that profit margins in food production across the developing world are set to improve due to new investment:

‘Unlike farming profit margins in the developed world, those in some of the key emerging agricultural markets have been volatile and relatively low over the past five years. Whilst issues of food security are gaining momentum, local farming businesses across the developing world will need to be incentivised through improved profit margins. Over the past five years food prices have continued to rise but they have lagged household incomes, both in most of the developed and developing world. We expect to see a sustained period of higher than historical prices for soft commodities.’

Casarotto concludes:

‘We are not market timers, but the secular trend of stronger demand for soft commodities underpinned by the significant capital investment required to increase food production can in our view provide a variety of attractive long term agricultural equity investment opportunities.’

³ FAOSTAT: Agricultural statistics, world arable land and permanent crops 1961-2006, www.fao.org

⁴ Companhia Nacional de Abastecimento (Conab) - National Supply Company, Brazil

Whilst performance of agricultural stocks is often volatile as it is quite cyclical and much depends on weather conditions, equity investment returns over the longer term have compensated for that volatility. Therefore, we look for companies that are expanding production or improving efficiency.'

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Notes to editors:

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