

Global Agribusiness

*Monthly commentary from
our Agribusiness experts
around the Globe.*

September 2015







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Regional views



Overview

With teams around the Globe, this document sets out to give a flavour of what our local agribusiness experts are observing in their territories.

M&A remains a dominant feature. Take aquaculture, where several large acquisitions have occurred in the past year as companies seek to capitalize on rising fish consumption. Cargill, for example, has agreed to acquire Norwegian salmon-feed business EWOS for US\$1.5bn.

AgTech investment is also increasing markedly – in the US the sector raised roughly 50% of the US\$2bn in 228 deals in 1H 2015, nearly surpassing the amount raised in the whole of last year. Not that technological advancements are restricted to developed economies. We note that Ghana has introduced an electronic payment system for cocoa farmers to compensate them for the cocoa beans purchased. The platform will be operated mainly by telecom providers, and the aim is to avoid losses associated with cash payments. This is similar to efforts across Africa to embrace cashless payment models to boost operational efficiency. Another recent example was the Kenya Tea Development Agency's partnership with Safaricom to roll out a mobile money platform at all its factories.

Food safety also remains a hot topic. We note that in the US, contaminated food recalls are on pace to surge this year buoyed by the discovery of bacteria in everything from ice cream to spinach.

Finally, initiatives abound across Africa as governments seek to stimulate growth in this key sector. We highlight developments in Ghana, Kenya, Mozambique, Nigeria, Tanzania Uganda, Zambia and Zimbabwe.

As a reminder, it's a snapshot only: do feel free to contact the local experts to discuss their views in more depth.

Mark James

Brazil

The OCDE/FAO report 'Agricultural Outlook 2015-2024' released earlier this year anticipates 10%: 20% lower prices for agricultural commodities over the next 10 years due to increased productivity and lower demand given the global economic crisis. Within this, however, the report expects Brazil to remain as one of the main global food suppliers, with agricultural land use growing 20% (1.5% p.a.)

Inputs

Agricultural machinery

The first half of 2015 was one of the toughest for the agricultural machinery sector. Domestic sales decreased 25% and exports 18% over the same period last year. Low capitalization of the producers, the fall in commodity prices and economic uncertainties in the country were responsible for the sector's performance drop. For the second half projections are more optimistic, motivated mainly by the definition of the 2015/16 crop plan, which provided resources for businesses and farmers at lower interest rates than those prevailing in the market.

Fertilizers

In the first half, fertilizer sales fell 9.6%, according to the National Association for the Promotion of Fertilizers (Anda). Producers postponed purchases due to the high dollar and the fall in commodity prices, which reduced farmers' income. The challenge now is that farmers who bought this input close to the summer crop planting might not receive it on time because of the logistical difficulties related to imports and distribution. FCStone expects fertilizer sales to rebound in the second half, but despite this anticipates 5% lower volumes over the year as a whole.

Pesticides

In pesticides, the situation is similar. According to the National Association of Plant Protection (Anep), sales fell 15% in the first half for the same reasons that led to the decline in the fertilizer sector.

Animal protein

Beef

About 40 slaughterhouses closed their operations in 2015, according to Agrifatto. The combination of lower domestic demand due to the economic crisis, shortage of supply, the high price of beef and lower exports, were the causes of the suspension of activities. In the first half of this year, beef exports fell 18% and 14% in value and volume, respectively, compared with the same period last year, according to the Brazilian Association of Meat Exporters (Abiec). The decline in exports was a result of the reduction in purchases of large importers of Brazilian beef: Hong Kong, Russia and Venezuela. As for Hong Kong, tight control to prevent triangulation between Brazil, Hong Kong and China meant reduced purchases. Russia and Venezuela also bought less, since the purchasing power of these countries declined with the fall in oil prices. However, expectations for exports are positive for the second half, since Brazil should start selling meat to the United States in August. Also, embargoes to China, Iraq and South Africa have come to an end and Brazil is advancing in negotiations with Saudi Arabia and Japan.

Chicken meat

The poultry sector is very buoyant at present. Prices are high and profitability is well above the historical average. This is the result of increased demand both domestically and internationally. Faced with the economic crisis, consumers chose chicken as their preferred animal protein source. In addition, Brazil has become the main supplier of chicken meat to the world given the bird flu epidemic that hit the United States and 44 other countries. Finally, another factor which also benefits the sector is the fall in soybean and corn prices, reducing animal feed costs.

Sugar and Ethanol

Sugar

Sugar prices continued to fall, due mainly to two factors. The first is the increased supply of the commodity in key producing countries. The 2015/16 Brazilian harvest has begun and analysts expect good production volumes. Indian volumes are also expected to be high. It will be the sixth consecutive year that India's production exceeds demand. The Indian government increased the price per ton of cane by 4.5%: much more than in other competing crops where the government raised the price on average 2.8%.

The second factor is the dollar valuation which is encouraging exporting countries. The strengthened international flow is contributing to the decline in prices.

Ethanol

While sugar suffers from low prices, ethanol prices remain high due to strong demand. Useage in May was a record 1.4 bn litres and expectations are for this to rise further to 1.8 bn litres/month. The increased demand is a consumer response to government policies such as increase in gasoline prices, higher taxation (Cide and PIS/Cofins) and the increase in the percentage of ethanol blend in gasoline from 25% to 27%.

Overall the production mix in the sugarcane mills should be stronger for ethanol and reach 30 bn litres, up 6% yoy, according to Datagro.

Grains and field crops

Soybeans and corn

In July, prices rose in both soybeans and corn. The main reason is the excessive rainfall in the US that is disrupting planting and germination of grain this harvest. The United States Department of Agriculture has indicated that the offer should be lower when compared to the previous harvest. This reduction might have a modest upward impact on international prices.

Coffee

Brazil had a record export coffee crop in 2014/15. Approximately 36.5m bags were exported, 7% higher than the previous cycle, according to the Council of Coffee Exporters of Brazil (Cecafé). The highlight was robusta coffee, where exports increased by 133%. Arabica export volumes stalled. Vietnam has significantly reduced its robust exports in adverse weather function that disrupted production in the country, paving the way for Brazil.

Ana Malvestio

Canada

Western Canada saw extremely dry conditions emerge during the second quarter of 2015, causing a significant impact across all parts of the industry including lower crop yield forecasts, rise in feed prices and stunted livestock production. It's been a generational type drought in certain areas of Western Canada. The ripple effect of these

hardships has led to remedial actions being taken, including the Federal Government intervening and providing for relief via tax deferrals as well as certain crop insurers loosening the rules to accommodate those distressed producers. Additionally, water flows were at record lows, forcing restrictions to be placed on commercial fishing in certain areas. Precipitation mid-summer eased some of the growing concern, but the duration and severity of the dry hot weather has left a lasting impact on the agriculture industry in this part of Canada.

The ongoing Trans-Pacific Partnership ('TPP') talks continue amongst participating nations amid a growing concern over the impact an agreement will have on those industries in Canada that are part of a supply management system – specifically dairy, egg and poultry. Currently in Canada, supply management systems in these industries include production quotas, coupled with significant over quota tariffs (ranging from 150%-300%). As a result, these industries become all but impenetrable by the rest of the world with the exception of those import quantities allotted through other trade agreements (i.e WTO agreement). The TPP stands to remove nearly 90% of the trade barriers which exist between members of the Asia-Pacific bloc. Producers are obviously concerned and given the fact that a federal election has been called in Canada for this October, it's looking like producers in these industries will not

only be selecting a Prime Minister, but also who they think will be the best negotiator in a trade agreement that includes, and stands to include in the future, some of the largest trading partners in the world.

Hans Andersen

Egypt

Looking at farming in sub-Saharan Africa

To address its rising food deficits, Egypt is looking to utilise the vast land and water resources available in sub-Saharan countries. Plans include sending Egyptian farmers to cultivate land in Sudan and the Democratic Republic of Congo (DRC), both of which have the natural resources, but lack funding and expertise.

In Sudan, the government allocated about 81,000 ha of land to Egyptians, where they are growing sunflower and cotton. The Egyptian government is in talks to have a similar arrangement in the DRC, and efforts are also aimed at establishing model farms in other countries such as Mali, Niger and Zambia.

This is not a new strategy and has already been tried by a number of middle-eastern countries, but has yet to achieve a reasonable degree of success, due to numerous factors such as over-ambition, lack of domestic farming expertise and farm management skills.

Richard Ferguson



France

Pork industry crisis

The summer in France has been marked by a conflict between pig farmers and traders/meat processors. A first stage of the crisis before the summer, had resulted in setting a floor price to ensure a minimum of profits to farmers. A second step, triggered by buyers, has blocked the market. This crisis outlines the problems of competitiveness of this sector in France. There are several reasons for that, including the Russian embargo on European goods and a decline in consumption in France. There are also differences in regulation (French regulation) and wages (including health and social obligations) in Europe which limits the competitiveness of France, notably to export. The French government has engaged discussions with main stakeholders of the value chain, in order to find a solution to this conflict. Most experts doubt that a solution will be found quickly. France's pig industry – and its farmers in general – have been struggling for years due to major structural challenges.

Yvves Pelle

Ghana

Electronic payment system for Cocoa farmers

Ghana has introduced an electronic payment system for cocoa farmers, named 'Cocoa Sika Payment Platform', to compensate them for the cocoa beans purchased. The platform will be operated mainly by telecom providers such as Vodafone and MTN. The aim is to avoid losses associated with cash payments. This system will also gradually push farmers towards formal financial channels and eventually make it easier for them to access credit.

This is similar to efforts across Africa to embrace cashless payment models to boost operational efficiency. Another recent example was the Kenya Tea Development Agency's partnership with Safaricom last month to roll out a mobile money platform at all its factories.

Ghana Cocoa Board to replace 33% of the country's cocoa trees; encourage youth into sector

Ghana Cocoa Board (COCOBOD) is to replace about 33% of the country's cocoa trees with high-yielding hybrid seedlings that are also resistant to diseases, pests and harsh weather conditions.

This follows a recent survey that revealed that about 23% of the cocoa trees in Ghana were over the active fruiting age of 30. A further 10% had been infected by the cocoa swollen shoot virus disease. Replacement of old and diseased trees is extremely important to maintain productivity.

The replacement is to be done in the ongoing cocoa season, through COCOBOD's free distribution of 50m cocoa seedlings to registered farmers. So far, over 8.5m seedlings had been distributed, and the process will likely be completed this month (August).

COCOBOD also runs numerous initiatives under its 'New Cocoa Sector Transformation Agenda' to promote the involvement of youth in cocoa farming. COCOBOD supports young cocoa farmers by giving them hybrid pods, improved seedlings, free fertiliser and inputs, a farmer business school programme, and extension services.

Cocoa accounts for some 3% of Ghana's GDP, 20% of Ghana's merchandise exports and provides employment for almost a million farmers. One of the chief problems in the cocoa industry is the increasing age profile of cocoa farmers. In this context, the involvement of youth is essential to maintain cocoa supply.

Cocoa output peaked at over one million tonnes in the 2010/2011 season before dropping to 850,000 tonnes in the 2014/2015 season. However, after the current replacement exercise, it is expected that output would begin to rise again.

Richard Ferguson

India

The FSSAI has been established under the Food Safety and Standards Act, 2006 by the Ministry of Health and Family Welfare, Government of India. It is the apex authority in India for Framing of Regulations to lay down the Standards and guidelines in relation to articles of food and specifying appropriate system of enforcing various standards which are notified from time to time.

The Food Safety and Standards Authority of India (FSSAI) approved 12,000 new standards for food additives and ingredients which are in-line with the global food standards of Codex Alimentarius Commission (established by the UN's Food and Agriculture Organization and WHO).

The approval of these new standards are expected to benefit food companies as additional approvals from FSSAI will not be required if they comply with these. After the Nestle India's flagship product Maggie, got into controversy with its increased lead content, the FSSAI has stepped up measures to strengthen the quality and standards for food products.

Looking forward, India is expected to ship 10,000 tons of rice bran oil this financial year after the Union Government eased restrictions on its bulk sale, giving a boost to small rice millers, an industry body said. Last year, the country exported about 2,000 tons of rice bran oil, according to Solvent Extractors' Association of India (SEA).

The India Meteorological Department (IMD) reported that, India is expected to reap a good harvest of summer crops (Kharif), like rice, pulses and oil seeds. Sowing of the Kharif crops begins with the onset of southwest monsoon, and it is reported that almost 50% of the crops have been sowed so far. The area in which they have been sowed has also increased significantly, signaling record production of these crops.

Ajay Kakra

Kenya

Rising interest in dairy sector

Danone recently announced that it is to acquire a 40% stake in Brookside Dairy, a leading dairy company in East Africa. Brookside was started by the Kenyatta family, to which the current President Uhuru Kenyatta belongs. Over the past two years, Danone has increased its presence in African dairy, through acquisition of stakes in Morocco's Central Laitière, and West Africa's frozen dairy producer, Fan Milk International.

More recently, Italian firm Sace-Servizi Internazionali, announced its intention to establish a model dairy farm at Moi University in Eldoret, Kenya with an investment of US\$20m. Upon completion, the farm aims to produce more than 25,000 litres of milk daily and generate around €3mn annually in revenues.

These developments demonstrate the continuing interest in Africa's dairy sector among major overseas corporates seeking emerging market growth opportunities.

Richard Ferguson

Mozambique

Special economic zones (SEZs) for agriculture

Mozambique has identified 24 sites with potential for the creation of agricultural SEZs to promote investment and increase production. These sites were selected based on agro-climate conditions, proximity to markets, existing or planned infrastructure and the need to diversify farm products.

The SEZs will also have opportunities across the value chain for products such as potatoes, wheat, beans, maize, soy, rice, poultry, cattle and forestry activities.

Five SEZs have been established to date in Mozambique – Nacala Special Economic Zone in Nampula province, Manga/Mungassa in Sofala, Crusse e Jamali in Nampula, Beluluane Industrial Park in Maputo and Mocuba in Zambézia. (Macauhub/MZ).

Richard Ferguson

New Zealand

The ANZ Commodity Price Index for July declined by 11.2%, its largest ever monthly decline, closing at its lowest level since October 2009. This is despite New Zealand exporters benefiting from a 15% drop in the exchange rate over the calendar year, without which the situation would be much worse. Dairy prices have been leading the commodity price decline prior to the 18 August GDT auction when they were at an unprecedented low since the GDT started in 2008. At this auction average prices rebounded 14.8%, on 21% lower volumes from the previous auction. Most other major sectors also declined, including: aluminium down 2.6% m/m, forestry down 2.2% m/m, and horticulture prices down 1.1% m/m. Overall prices for the meat and seafood sectors were unchanged, supported by a 5.4% m/m increase in beef prices on the back of strong US demand. Rabobank is predicting US demand for NZ beef to remain strong for the next three to four years.

The dire situation in the dairy industry has been blamed on weak demand and oversupply in the global dairy market, exacerbated by continued turbulence in Chinese markets. Westland Milk Products has dropped its forecast milk payout for the 2015/16 season by \$1 to \$4.60-\$5.00. Fonterra has followed suit and has slashed its forecast payout from \$5.25 to \$3.85. Commentators have suggested that without the benefit of the deprecating Kiwi dollar, Fonterra's milk payout would be even lower at c. \$3.20. In an effort to soften the impact, Fonterra has announced a support package for farmers involving a 50c/kgMS interest free loan for a period of two years.

According to industry body DairyNZ, Fonterra's latest payout revision alone will wipe \$2.5bn off the economy and 90% of farmers are likely to make significant losses this season. The forecast payout for the 2014/15 season means the industry could see incomes halved y/y. This could put pressure on borrowing facilities as farmers look to cover forecasted cash flow shortages by



increasing debt. Farm prices have already fallen 12.2% over the past year and could fall further in the event of foreclosure on marginal farms. However, dairy futures prices suggest a rebound in dairy prices between November and May, with gains of between US\$100 to \$150. The recent rebound in the GDT price index should be encouraging for farmers, but demonstrates the volatility and ongoing turbulence in the market. Fonterra is significantly reducing its offer quantity forecasts sold via GDT auction for the next 12 months in response to low auction prices. Tatua Co-operative Dairy Company is calling for a full and independent review of the current GDT milk pricing model in a submission to the Commerce Commission.

Annual fruit exports hit an all-time high of \$2 billion NZD for the year to June, up 20% y/y. Higher prices and greater quantities contributed to the jump which was boosted by a record month in May, and a similarly outstanding month in June.

Craig Armitage

Nigeria

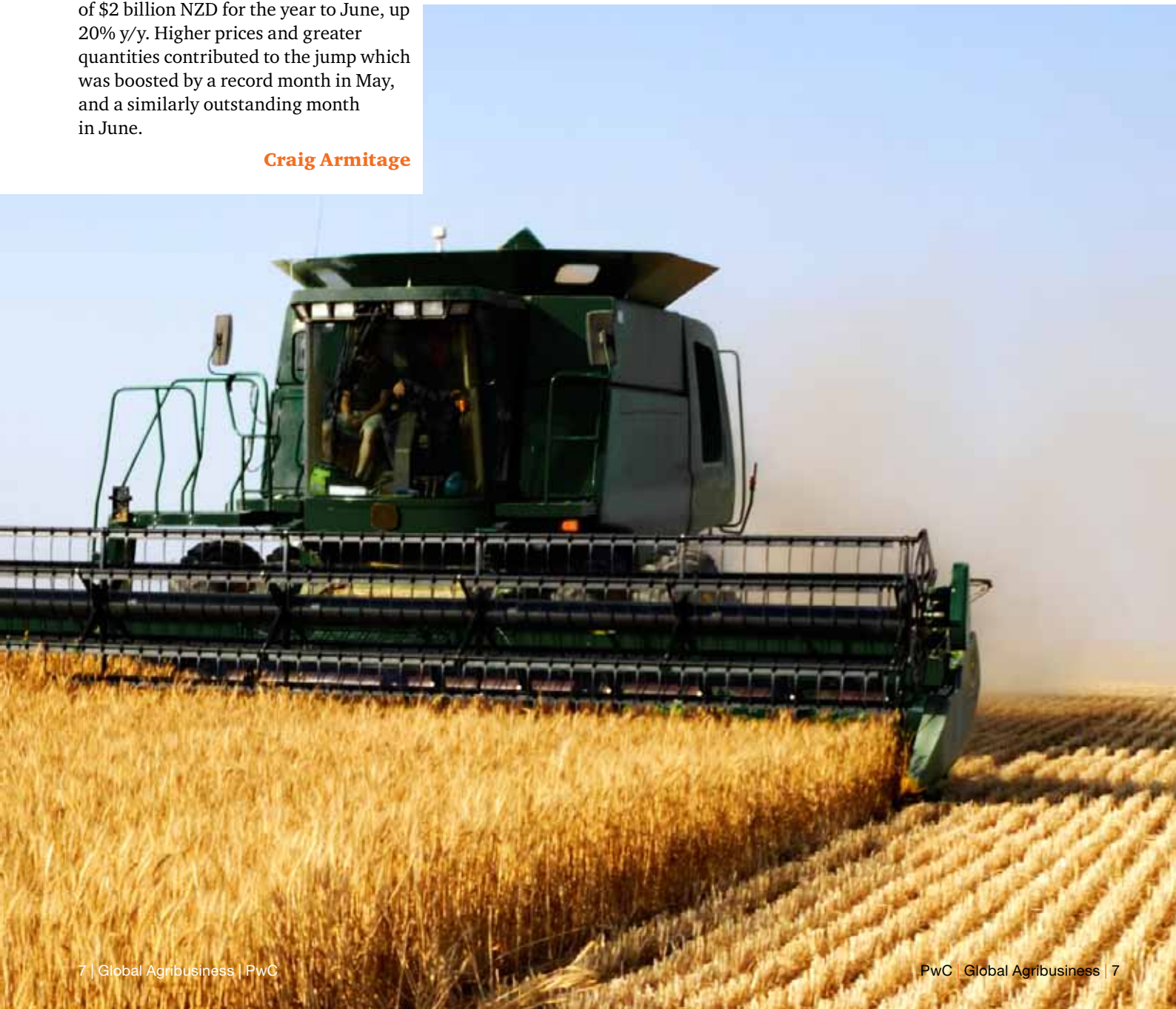
Sonny Echono, permanent secretary of Nigeria's Federal Ministry of Agriculture and Rural Development, has invited investors from Thailand to invest in rice production and agricultural processing facilities in Nigeria. Echono extended this invitation while receiving a delegation from the Thailand Board of Investment in Abuja, which was seeking to identify areas for investment, especially in food processing.

Nigeria depends on imports for about half of its rice consumption requirements and is expected to import 3m tonnes of rice in 2015/16. Thailand, in contrast, is a major exporter of rice and is expected to export over 10m tonnes in 2015/16.

Speaking at the NABG's first annual general meeting in Lagos, Sunny Echono, permanent secretary in the Federal Ministry of Agriculture and Rural Development, noted that the NABG intends to invest US\$1.8bn to develop Nigeria's agribusiness sector.

The NABG, established in 2013, comprises stakeholders across the agriculture value chain, and is led by Sani Dangote – Vice President of the Dangote Group. The Secretary further mentioned that it wanted NABG to attract domestic and foreign investment into Nigeria's agriculture sector.

Richard Ferguson



South Africa

Agribusiness Confidence Index

Every quarter, Agbiz (Agricultural Business Chamber) and the Industrial Development Corporation (IDC) constructs the Agbiz/IDC Agribusiness Confidence Index. The 2015Q2 results of this index were announced recently. The survey used to compile the index indicates that confidence has dropped again and has gone negative – i.e. more respondents now have a negative view on this sector than those who are positive. The views are that this lower confidence level might be the result of adverse climatic and general production conditions. In addition we would highlight:

- Significant decreases are experienced in turnover, net operating income and market share.
- Capital investment dropped significantly by 30%.
- Debt provisions are perceived by 57% of the respondents to have increased. This could affect cost of, and access to financing in the near future.

There were some positives, however. The most significant being the increase in foreign earnings on agricultural exports as a combined result of increased volumes and a continued deterioration of the value of the Rand against the currencies in our major export markets. However, the devaluation of the Rand coupled with South Africa's need to imports certain inputs, almost nullified the increased foreign earnings.

Trade facilitation agreement to benefit South Africa

Trade facilitation can be loosely defined as the simplification and harmonization of international trade procedures, including activities, practices, and formalities involved in collecting, presenting, communicating, and processing data required for the movement of goods in international trade (WTO, 2015).

Since the WTO Ministerial Conference was held in December 2013 in Bali, much of the discussion was centred on the trade facilitation agreement – which was largely seen as the only notable outcome of significance, after years of negotiation under the Doha Development Round. The expectation is that the trade facilitation agreement will be overwhelmingly endorsed, with further expectations placed on the developed world to assist poorer nations with the requisite financial and technical capacity to implement the raft of measures that will see Africa adopting wide-ranging changes to their trade and port-related hard and soft infrastructure.

But why is the trade facilitation agreement so important to South Africa's agribusiness? Firstly, it is worth noting that 54% of South Africa's agricultural exports are now going into Africa, where average costs of doing business are significantly higher than anywhere else in the world. Secondly, if Africa expediently and efficiently implements the trade facilitation agreement, this will inevitably reduce the costs of cross border trading, which in turn, will significantly improve South Africa's competitiveness. This will re-enforce South Africa's export expansion into Africa and strengthen the position of our exports into the continent.

In 2014, it cost an average of \$3,765 to export a container to Zimbabwe – one of South Africa's largest markets for agricultural products. Costs of exporting to Zimbabwe remain among the highest in Africa and compares significantly less favourably to other countries such as Egypt (\$625), Mauritius (\$675) and Seychelles (\$705). With SADC having the highest number of landlocked countries, exporting to regional markets is inevitably more costly than exporting to other markets elsewhere in the world. Average costs of exporting to landlocked countries within the sample of Tripartite Free Trade Area countries is \$2,679 per container, which is mostly attributed to

a host of non-tariff barriers that include tedious and costly customs procedures, and poor port and road infrastructure. Meanwhile, one would typically need up to 10 documents to export to countries like Malawi and Angola, compared to just four in Mauritius. The trade facilitation agreement will go a long way in reducing such costs, and thus, making it easier for South Africa to export in Africa. Source: Agbiz's Trade Intelligence Report 13 August 2015

Barclays says debt-finance levels among farmers in SA may rise to 48% of assets this year, the highest in 35 years. In 2014 less than 35% of farm assets in SA were debt-financed. The estimate for debt levels on US farms this year, is 10.9% of assets. Much of the increase in debt is blamed on SA's drought and rising production costs. Standard Bank says farmers' balance sheets had been strained since the drought of 2012, and had not had a chance to recover. Some of the problems can be addressed by consolidating debt, according to Standard Bank, but it will be problematic if debt levels rise beyond 50%. An Absa economist has advised farmers to become less dependent on external debt, because debt levels are too high and commodity prices are no longer in a growth phase. Farmers are already hesitant to borrow money for new land due to uncertainty over land reform. Absa says it has seen a decline of 50% in loan applications to buy new land. Absa says other banks appear to experience the same trend. Apart from land reform, another factor may be the slower rate of consolidation that the industry is experiencing. Because there was recently a period of accelerated consolidation, the flattening out thereof may be resulting in fewer loan applications for new land. Fewer people are also presently interested in purchasing lifestyle farms. Regarding emerging farmers Absa says the government's planned agri-parks will likely contribute to social upliftment, but there is concern that the small-scale farmers will remain economically vulnerable without title deeds.

A Moneywebnews report suggests that shareholders may see limited benefit in the near future from SA banks expanding operations in Africa. This is partly due to risk and different banking styles in Africa, but mainly due to the small size of the African market. SA's banking assets account for 78% of total banking assets in the 15-member SADC. The next largest is Angola, with one tenth of SA's banking assets. Some markets hold opportunities because they are fundamentally underdeveloped. For example, the DRC is mineral-rich, but the country's domestic banking system is about the size of the balance sheet of Capitec, despite a population of 80 million people. On the other hand, Botswana and Mauritius are in some respects in a better position than SA's banking industry with higher market penetration in some products. Some banks in Angola, Botswana, Namibia, Tanzania, Uganda and Zambia report ROEs of over 30%, which explains why banks are eager to get involved in the African market.

Frans Wellbach



Tanzania

Tanzania launches agriculture development bank; commodity exchange next

Tanzania's President, Jakaya Kikwete, launched the Tanzania Agricultural Development Bank (TADB), early this month, to support local farmers with credit facilities. The TADB will be capitalised by the government with US\$48m every year for eight years.

The TADB has been established to fulfil goals outlined in the Tanzania Vision 2025. President Kikwete urged farmers to utilise these credit facilities to improve their agricultural productivity. He further mentioned that priority would be given to maize, rice, fruit, sugarcane, horticulture, livestock, fish farming and poultry.

Inadequate funding remains a major factor hindering Tanzanian agriculture. This financing scheme looks to promote the use of machinery and irrigation and contribute to higher productivity.

Tanzania is also in the process of establishing the Tanzania commodity exchange (TCX) by the end of this year. Cashew nuts, coffee, cotton and rice will most likely be the first commodities traded. TCX will assist farmers by bringing greater transparency and competition to crop prices.

Richard Ferguson

Uganda

A study of soils in Uganda is underway to map areas where agricultural activities can be pursued favourably and sustainably. The ten-year study involves collecting data on soils, climate, weather, crop yields, etc, to build an agricultural database for Uganda.

The project is being implemented in collaboration with the ministries of Agriculture, Water and Environment and Uganda Bureau of Statistics, with annual funding of US\$350,000 funding from the Bill and Melinda Gates Foundation.

These studies are not only good examples of the growing importance of technological support services in agriculture; they also enable targeting of areas suitable for a particular crop. Moreover, soil analysis of this type will help farmers take precise measures, rather than generic ones, to improve fertility and sustainability of their land.

Richard Ferguson



USA

Mergers and acquisitions

Several large aquaculture acquisitions have occurred in the past year as companies seek to capitalize on rising demand of fish consumption (specifically farm-raised fish). Demand is being driven by growing global population of protein consumption, rising incomes in emerging markets, and the recognition of health benefits fish offer. Most recently, Cargill, the world's largest grain trader and meat supplier, has agreed to acquire Norwegian salmon-feed business EWOS, one of the world's largest suppliers of feed and nutrition for farmed fish, from private equity firms Equity Partners and Bain Capital Partners for US\$1.5bn. The acquisition allows Cargill entry into the salmon market and will make the company one of the world's top three aqua-feed producers. (August 2015)

Crop production and yields

USDA's August WASDE report increased corn and soybean yield estimates, surprising trade estimates.

Corn's bearish report

Average corn yield is forecast at 168.8 bushels per acre, 2 bushels higher than last month's trend-based projection and much higher than the average trade estimate of 164.5 bushels per acre. USDA cited record crops for western corn-belt states such as Iowa, Nebraska, and Minnesota, which more than offset the eastern corn-belt states impacted by weather. USDA raised its new-crop production estimate for corn by 156 million bushels to 13.686 billion bushels from July's projection of 13.53 billion bushels, which was well above the average trade guess of 13.327 billion bushels.

Soybeans

The USDA put the yield forecast at 46.9 bushels per acre, 0.9 bushels above last month's projected trend and only 0.9 bushels below last year's record yield. The estimate fell short of average trade expectation of 44.7 bushels per acre. USDA put new-crop soybean production at 3.916 billion bushels, up 31 million bushels from last month due to higher expected yields and despite a 0.9-million-acre reduction in the

harvested area—mainly in Missouri. The new total production projection was also much higher than the average trade estimate of 3.724 billion bushels and outside the range of estimates.

Food recalls continue in 2015

Contaminated-food recalls are on pace to surge this year from 2014, buoyed by the discovery of bacteria in everything from ice cream to spinach.

Companies recalled 3.7 million US food items in the first half of the year because of viral or bacterial contaminants such as listeria and salmonella, consulting firm Stericycle ExpertSolutions said. That compares with 5.03 million in all of 2014, according to the firm's data, which was collected from the Food and Drug Administration and the Department of Agriculture.

The 2015 tally includes several high-profile cases, including the recall of listeria-tainted Blue Bell Creameries Inc. ice cream that was linked to the deaths of three people. Affected products also include hummus, spinach, walnuts and hazelnuts, as well as soybean and mung-bean sprouts.

Sustainability

A new analysis by the Pacific Institute found that the California agricultural industry has managed to stay afloat during the ongoing drought because of unsustainable groundwater pumping. The analysis states, 'The current use of groundwater far exceeds the natural rate of recharge. This has resulted in a decline of groundwater levels across large parts of the state, saltwater intrusion and other water-quality impairments, land subsidence, lost storage, and increased energy costs, among other adverse impacts.'

The study does report some more sustainable countermeasures to the drought. The analysis states, 'California farmers have employed a range of strategies to respond to the drought, including under-irrigating their fields, fallowing land, shifting crops, purchasing insurance, and pumping more groundwater. Water transfers have also mitigated the impact of the drought.'

Some farmers have turned to drip irrigation, while others have switched from low-value to high-value crops to get more profit out of their water. The drought also seems to have turned water into a sort of currency, with farmers selling their supplies of water to other farmers as well as to non-agricultural users, like other industries and municipalities. The report estimates that 'water transfer' to non-farm users boosted total agricultural revenue by \$66 million, making up for unproductive farms.

The study serves as a warning that current emergency measures need improvement in order to be sustainable.

AgTech Financing

According to Agfunder, the agriculture technology (AgTech) sector raised \$2.06 billion investment dollars across 228 deals in 1H-15, nearly surpassing investment volumes captured during the whole of 2014 (264 financing deals). Companies located in the US received roughly 50% of the venture capital funding (\$1.028 billion) during Q1 and Q2. The top 20 US venture capital deals in agtech spanned nearly every sector, with most of the top deals going to grocery delivery, sustainable protein, and drones. The top two US deals belonged to Blue Apron (\$135 million) and Munchery (\$85 million), both major players in food delivery service. Current investment (on a global basis) puts the sector on pace to exceed \$4 billion of investment for 2015, compared to \$2.36 billion for all of last year.

Tom Johnson

Zambia

Chinese investment in agriculture

Zambia's Agriculture Minister, Given Lubinda, recently urged Chinese investors to exploit Zambia's agriculture potential. In an interview with Xinhua, Lubinda highlighted that the country was using only 15% of its 42m ha of arable land.

The Minister talked about the government's farm block programme, under which it plans to bring more than 1.5m ha of land under agriculture in the next two years. The government has selected 10 areas where it intends to develop farming blocks with each block having about 100,000 ha.

Each block would have a major agricultural producer with about 10,000 ha, who is expected to provide agro-processing facilities, equipment, training and skills development for small-scale farmers. The remaining 90,000 ha is to be split among small-scale farmers.

The investors could lease the 10,000 ha of land for up to 99 years, for free, and enjoy other incentives such as a tax-holiday, reduced electricity tariffs, etc.

Richard Ferguson

Zimbabwe

Some 15 years after the government first began forcible re-distribution of white-owned land, the government now appears willing to let some white farmers stay on their farms.

Press reports suggest that provincial leaders have been asked to identify the white-owned farms that they deem to be of 'strategic economic importance', and those farmers would then be given documents securing their tenure.

The reasons for such a policy reversal are easy to understand. The country was once the 'breadbasket' of the region but is now dependent on imports for staples. The agricultural sector, along with other areas of the economy, declined significantly over the past decade. In recent years, the government made some attempts to attract foreign investment in agriculture to reverse past failings.

Richard Ferguson



Did you know?

PwC has:

An extensive global network

- We're a network of firms in 158 countries with close to 169,000 people who are committed to delivering quality in assurance, tax and advisory services.

A dedicated agribusiness service centre in Brazil

- Based for almost 40 years in the northwest region of São Paulo, PwC Brazil is well known for its expertise in serving the agribusiness sector. For this reason, and believing in the growth of Agribusiness in Brazil, PwC has expanded its activities in this industry, creating a dedicated PwC Agribusiness Excellence Centre in 2007.
- Through this centre, Agribusiness clients in this industry throughout Brazil are served in the areas of audit, tax consulting and business consultancy by a team of professionals trained and updated on major issues and industry trends. We have hired dedicated agribusiness professionals, such as agronomists, foresters, veterinarians, agro-economists, environmental managers and others, to add value and help in the understanding of the real needs of our customers.
- We have also created an Agribusiness Research and Knowledge Centre, in order to keep our staff and clients updated on the main issues and trends. With a method specially developed by PwC, analysts study the technical management of the main crops in Brazil, perform environmental, industry and competitiveness analysis, and also studies about the main players operating in each agro-industrial system analysed. The Agribusiness Research and Knowledge Centre is also able to provide market intelligence services and support our professionals in evaluating investment options in the agribusiness industry.

An Agribusiness Service Centre in Argentina

- Located in Rosario, at the heart of the Pampas region, PwC Argentina has opened an Agribusiness Service Centre to provide professional services to the agribusiness community. Argentina is a major player among food producing countries and agribusiness is an important strategic contributor to the economy.
- We believe there is extraordinary growth potential in the long term for further developing agricultural activities. The Agribusiness Service Centre provides value added services to our clients combining strong technical skills with an in-depth industry insights:
- Regional agribusiness clients are better served by coordinating activities with the Agribusiness Centre in Ribeirão Preto, Brazil.
- A Research and Knowledge Centre has also been developed to keep our technical staff and clients updated on main agricultural issues. Specific sub-industry reports have already been developed as well as quarterly agricultural situation reports.

Dedicated agribusiness practice in MENA

- PwC has the only dedicated agribusiness practice in the MENA region among major consultancies. We offer a full range of advisory services to food companies, investors and government agencies. We provide advice on investment and partnership strategies, technical and financial feasibility studies, agricultural and food security policies, corporate transformation initiatives, and supply chain optimisation. We cover a range of crops and animal food production, and we can help companies with market expansion, product portfolio diversification, and positioning along the value chain.

Extensive Agribusiness team in India

- We have a 13 member team based at New Delhi, Mumbai and Pune. Apart from working in India, the team members have experience of working in Nepal, Bhutan, Bangladesh, Tanzania, Ghana and Ethiopia. The team brings vast experience and knowledge of the Agricultural subsectors such as agri-retail, food processing, agri-marketing, farm inputs, farm machinery, warehousing and cold chain infrastructure, agri banking etc.
- Over a period of time the team has been engaged with various private, public and multilateral agencies, advising on supply chain management, project management, value chain assessment, monitoring and evaluation, business plan and growth strategy development, investor/partner search, policy planning and implementation support, technical due diligence, and transaction advisory.

Extensive food security expertise

- PwC has helped at least four different governments formulate comprehensive food security strategies. These have looked at the key risks and exposures those countries face with regards to food security; changing food supply/demand dynamics locally and globally; issues by key food commodity type; assessing current plans to address current issues; formulation of new initiatives to solve key food security risks, both in the short and long term; overall cross-government coordination and implementation plans. A key emphasis of the work was making sure the plans were practical and involved close alignment between government and the private sector.

Completed a global agribusiness review for New Zealand Trade and Enterprise

- New Zealand Trade and Enterprise, in partnership with the Ministry of Economic Development, the Ministry of Foreign Affairs and the Ministry for Primary Industries, commissioned PwC to explore opportunities in key international markets with a focus on South America and China. The resulting agribusiness research provides insight into New Zealand's pastoral production system and related areas of competitive advantage. The research is part of a wider programme of work focused on maximising international opportunities for companies within the agriculture industry. The two-part report provides a comprehensive background analysis and an executive summary outlining five areas of opportunity for New Zealand agribusiness. Segmented by country, the study looks at production opportunity and value chain for each of the seven countries analysed. To learn more and download copies of the report visit: <https://www.nzte.govt.nz/en/export/market-research>.

Commodities risk management expertise

Over the last 4 – 5 years the world has witnessed a period of sustained energy and commodity price volatility, whether this be fuel oil, gas or electricity, metals such as aluminium, steel or copper, or agricultural products such as cotton, wheat or sugar. Commodity price risks are also being quickly transferred through the value chain, for example a company buying plastic will be exposed to the volatile price of oil.

This shift brings major implications for businesses across many sectors. Commodity price volatility is increasingly affecting the profits, cash flows and share prices of companies that use or consume energy or raw materials. It is difficult to think of a business model that isn't in some way exposed to commodity price volatility – it's just a matter of how much.

We are seeing a continued trend across corporates, particularly in the consumer and retail goods sectors, towards the implementation of commodity trade capture, valuation and risk management systems. These systems can be vital in ensuring sound controls in an area of

high inherent business and reporting risk. However, they can be complex to implement, and therefore require careful selection, project management and integration into the business processes and other systems. We have a dedicated team experienced at doing this.

Efficient tax structure expertise

Increased competitive pressures and challenging market environment continue to force local, regional and global market players to centralise certain functions. This applies to centralised trading and can be used to plan the tax position of agricultural groups. PwC can help with the centralised, cross-border trading and risk management transactions from a tax perspective, having particular regard to transfer pricing (TP) and thin-cap (TC). PwC has unique experience with respect to advice on corporate tax compliance, and assistance in planning tax efficient trading structures, financing and transactions. In addition we can help with audits, dispute resolution and Advance Priced Agreements to minimise related tax risks.



Sustainability and climate change experts

By 2050 the world's population is projected have to grow to approximately 9 billion. As competition for agricultural commodities and inputs intensifies and our ability to satisfy this demand is increasingly constrained by economic, social and environmental factors, innovative solutions will be required to ensure that we make better, more efficient, use of resources and in some cases find more sustainable alternatives whilst increasing productivity and driving economic prosperity. PwC is working with organisations including agribusiness, the wider private sector, governments, NGOs and multilateral organisations on a range of sustainability and climate change related projects. Recent projects include; climate change risk mapping for soft agricultural commodity sourcing; sustainability strategy support for agri businesses; evaluating the business case and socio-economic benefit for local sourcing of agricultural raw materials, climate change training for African agri-businesses, the development of a methodology and carbon calculator for understanding emissions from small holder agriculture in Africa, and assessments of market and financial opportunities for climate-smart agriculture.

Extensive forensic skills and supply chain experience

We have carried out independent investigations and advised on governance improvements in some of the highest profile reputational crises of recent years. We believe the benefits of a robust, independent review of the facts are considerable. Our specialists help companies respond decisively – a key first factor in maintaining trust and protecting shareholder value. We work with clients to define and implement enhanced supply chain risk management strategies and capabilities. This can

range from conducting supplier risk assessments and audits, supply chain and procurement strategy and organisation redesign, deployment of automated monitoring technology as well as crisis management, financial restructuring and company turnaround, and administration/liquidation services. We can:

- Deliver forensic investigations to identify what may have gone wrong, the potential consequences, and provide support in claims management.
- Perform risk profiling and assessment of the supply chain to quickly identify and quantify key sources of risk, dependency and vulnerability.
- Assess the effectiveness of the control environment and audit approach and re-perform audits to provide assurance as required.
- Deploy risk monitoring solutions to ensure compliance with agreed standards.
- Develop robust supply chain risk management methodology, tools and capability.
- Redesign supply chain structure, strategy and organisation to optimise balance between cost and resilience.

PwC New Zealand assists in development of a food-safety joint venture in China

Higher-protein diets and lingering distrust of domestic food sources in China have not only increased New Zealand's beef and lamb exports, but have presented further opportunities for New Zealand to assist with developing food safety practices.

AsureQuality and PwC New Zealand signed a collaboration framework agreement with China Mengniu Dairy Company and COFCO Corporation to investigate the development of a China-New Zealand agribusiness service and Food Safety Centre of Excellence in China.

AsureQuality is a commercial company, wholly owned by the New Zealand government, providing food safety and biosecurity services globally to the food and primary production sectors.

The objectives of the joint venture are to introduce total management and operational risk management systems to the Chinese agriculture industry. These management systems are based upon the New Zealand agriculture sector model and form a framework for the development of industry best practice across the agricultural supply chain in China, with a focus on food safety.

The partnership also has the support of New Zealand Trade and Enterprise (NZTE) and is the result of extensive research work commissioned by NZTE and carried out by PwC in 2012 to identify international opportunities for New Zealand's agribusiness sector. In addition, agritechology is a sector of focus for New Zealand in China, as outlined in the NZ Inc China Strategy.

For more information, visit <http://www.pwc.co.nz/foodsafety>.

A focus on inclusive businesses in the agricultural sector

An established Nigerian bank seeking to catalyse a whole new approach to smallholder farming and rural banking, a biscuit manufacturer developing a commercial approach to cassava farming in Malawi, and a summer tomatoes contract farming venture led by a Bangladeshi agribusiness conglomerate. Over the past three and a half years a PwC UK led team has worked with these and other exciting companies to help them develop commercially viable business models that are inclusive of the poor across Africa and Asia. Results, findings and lessons from their work on the UK Business Innovation Facility pilot have been documented in seven case studies, with a final report available here bit.ly/BIFfindings.

Publications

Wine Insights – New Zealand

PwC New Zealand produced the NZ Wine Insights publication as a follow up from the work undertaken after the strategic review of New Zealand winegrowers. The publication comments on various aspects of New Zealand's competitive advantage and provides insights and observations into the New Zealand wine industry to inform members and stakeholders about the industry's rapidly changing environment.

Excerpts from the report include:

- The competitive advantage of New Zealand wines lies in markets perceiving New Zealand wine to be of higher quality and more distinctive in style than competitors' wines, which translates to higher prices for New Zealand exports.
- The New Zealand wine industry remains relatively young in its development compared to many other wine producing nations. The industry has experienced rapid growth and

continues to evolve, with substantial structural change occurring in various areas. The industry will continue to develop and evolve, which will present both opportunities and challenges.

- Initiatives aimed at driving efficiency gains and cost reductions, while not impacting quality, should be positive for the industry. Furthermore consolidation opportunities remain.

To learn more and download copies of the report please visit:

<http://www.pwc.co.nz/publications/new-zealand-wine-industry-insights/>

Securing Food Supply Chains through Adequate Financing

Report presented at the international summit of cooperatives.

Over the next decades, **five major trends will re-shape the world and the food sector:** population growth (9.5bn people on Earth in 2050 living mainly in Africa and Asia), switch in economic power to the benefit of

emerging markets, accelerating urbanisation, climate change and resource scarcity, and technological breakthrough.

This will put food supply chains under huge pressure.

Between May and August 2014, we interviewed a selection of top managers of food cooperatives all around the world to get their opinion on the upcoming challenges for them in such a context. They told us about **ten main challenges all along the value chain** that we analyse in our report. Ranging from producing more, differently to customising products to consumers' new needs and tackling the price volatility or waste issues, these challenges are not specific to cooperatives.

During our discussions, we have identified **six key levers** that top managers of food cooperatives typically leverage to take up these challenges: 1. Go bigger; 2. Be more global and 3. More integrated; 4. Build stronger



brands, 5. Be more innovative and 6. Be more inclusive by opening doors to new type of partnerships.

A 15 pages executive summary can be downloaded here:

https://form.pwc.fr/dev/formulaire_pwc_publication/formulaire_pwc_publication_1.0.0/index.php?tmplvarid=57&id=7312&langview=eng

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Brazilian Agribusiness Report

In Brazil we have recently published a series of documents outlining the sector and its characteristics:

- Doing Agribusiness in Brazil: an in depth look at the agribusiness industry.
- Agribusiness highlights.
- Agribusiness overview: key numbers and facts.

PwC involved in major Asia-Africa Business Forum

The Federation of Indian Chambers of Commerce and Industry (FICCI) and the Government of India organised the first ever Asia-Africa Agri Business Forum from February 4 – 6, 2014 in New Delhi. PwC was part of this initiative, as a knowledge partner. We produced a paper ‘Unlocking the food belts of Asia and Africa’ highlighting the potential of the agricultural sector in both continents, and the best areas for collaboration.

Event details

The event was targeted at tapping the tremendous business opportunities between Asian and African continents in the agriculture, agribusiness and food-processing sectors, and had strong political support: the Indian President inaugurated the forum, with agriculture ministers from many Asian and African countries attending. Leading international organisations like African Development

Bank, Asian Development Bank, World Bank, World food programme, Department for International Development (DFID) brought a global perspective. It provided a unique business platform for industry leaders, policy makers, governments and other important stakeholders to collectively address the issue of food security and the opportunities to engage with each other while looking at the huge potential for growth, development and business.

Publication: Unlocking the Food Belts of Asia and Africa

Our paper analyses the major agriculture sub-sectors of both continents in terms of production, demand and supply, export potential and processing capability, in order to identify various business and investment opportunities. It also highlights various headwinds to development, in areas like market policies, increasing agriculture input accessibility, access to finance, infrastructure enhancement, skill development, etc. with suggestions on how to overcome these challenges. It also reviews various successful case studies across different countries in Asia and Africa which highlight that good policies, support from government and a favourable business environment can promote agri-business. We have highlighted that forming partnerships between Asian and African countries of Asia and Africa could bring immense opportunities for development and value creation and transform agribusiness in both continents. We discuss various partnership models between Government and Private sector, to bring efficiency and improvement in key areas such as skill development, agriculture research, investment in agriculture and agricultural operations.

Click here for a link to the document.

Agribusiness Insights Survey – South Africa

PwC’s annual Agribusiness survey is with a group of agribusinesses with operations mainly focused on delivering agricultural and related services to primary producers. The aim of the survey is to provide the

insights of business leaders and the benchmarking of their financial data to add value to the agricultural industry.

The sector is confident about its growth prospects over the next few years amidst a raft of regulations, wage negotiations, land reform and the global economic uncertainty. The main reason for growth expectations as indicated by CEOs is new joint ventures and strategic alliances.

This sentiment is also echoed in the Confidence Index of the Agricultural Business Chamber (Agbiz) and the Industrial Development Corporation (IDC). This index indicated a further increase in the agribusiness confidence levels in the fourth quarter of 2013.

CEOs of agribusinesses are also very positive towards the possibility of expansion into the rest of Africa. 70% indicated that they would pursue such opportunities. Africa is increasingly becoming a preferred investment destination and is said to represent the last frontier in global food and agricultural markets with its large percentage of uncultivated fertile land and sufficient water resources, according to a recent report issued by the World Bank. The report calls on governments to work side-by-side with agribusinesses, and to link farmers with consumers in an increasingly urbanised Africa.

The report is available online:

<http://www.pwc.co.za/agri-business>

PwC Netherlands report on megatrends affecting Agribusiness

We discuss five megatrends that heavily impact each link of the sector’s value chain, and explore the drivers of this change and the long term outlook for the sector. **Demographic change** leads to an aging workforce and fewer students opting for a career in farming and food engineering. In addition, consumers spend less and spend differently – for example on healthier foods, or on smaller packages for singles. **Accelerating urbanisation** brings expanding cities and farming in closer

proximity, shifting the sector's focus in stakeholder management from ministers to mayors. Cities also face logistical issues how to bring food in – and waste out. **Technological advances** increased yields and reduced use of energy and water, while food processing extended shelf life, reduced waste and widened variety of products. Logistics enable year-round availability of fresh products. Consumers share recipes on social media – and concerns on food safety. **Resource scarcity** contests the way we produce, source and consume. Phosphate for fertilisers, energy for greenhouses, or cocoa for food manufacturers abundance is not obvious. Also, the way we ship, store, sell and dispose food needs ethinking. The **shift in economic power** increases living standards in high-growth markets, providing opportunities for agrifood companies to further expand their non-European footprint.

Click here for a copy of the report

PwC-Publication: Megatrends in the German Agrifood Industry

PwC just launched an analysis of five megatrends – demographic change, accelerating urbanisation, technological advances, resource scarcity and shift in economic power – with regard to the German Agrifood industry. The authors concluded that there are great chances to increase business outside the European Union as German food products are famous for their high quality.

South Africa: Agribusiness insights survey 2014/15

Agribusiness is a hugely important sector for our firm globally. And within this, we have a keen focus on Africa. An abundance of natural resources, coupled with coherent strategic and operational plans, relevant partnerships and sufficient capital, offers great

opportunities for value creation in African agribusiness. We are working closely with companies, governments and multilateral organisations to make this happen.

We have been conducting surveys on South African agribusinesses for a number of years. However, with the 2014/2015 survey we are entering a new era by providing insights from Africa CEOs for Africa CEOs in the agribusiness space. The survey provides insights into the strategic challenges CEOs face and discusses a number of megatrends that we believe will shape the future of these businesses.

http://www.pwc.co.za/en_ZA/za/assets/pdf/agribusinesses-insights-survey-2014-2015.pdf

PwC sugar study

PwC France has produced a study about the 'Impacts of end of EU sugar quotas' This report gives an overview of the sugar market and details the impacts of the end of EU sugar quotas for industrials.



Calendar of events

September

14th – United Natural Foods

15th – General Mills

23rd – Diamond Foods

24th – Fonterra

October

7th – Monsanto

19th – Danone SA

22nd – Dow Chemical

26th – AGCO

27th – DuPont

27th – FMC Corp

27th – Intrepid Potash

27th – Pilgrim's Pride

28th – Kellogg

29th – Bunge

November

2nd – Sysco Corporation

3rd – Archer Daniels Midland

3rd – CF Industries

3rd – Mosaic

9th – Balchem Corporation

9th – Dean Foods

12th – Darling Ingredients

12th – Flowers Foods

16th – Omega Protein Corporation

16th – Tyson Foods

23rd – Hormel Foods

25th – Deere and Co

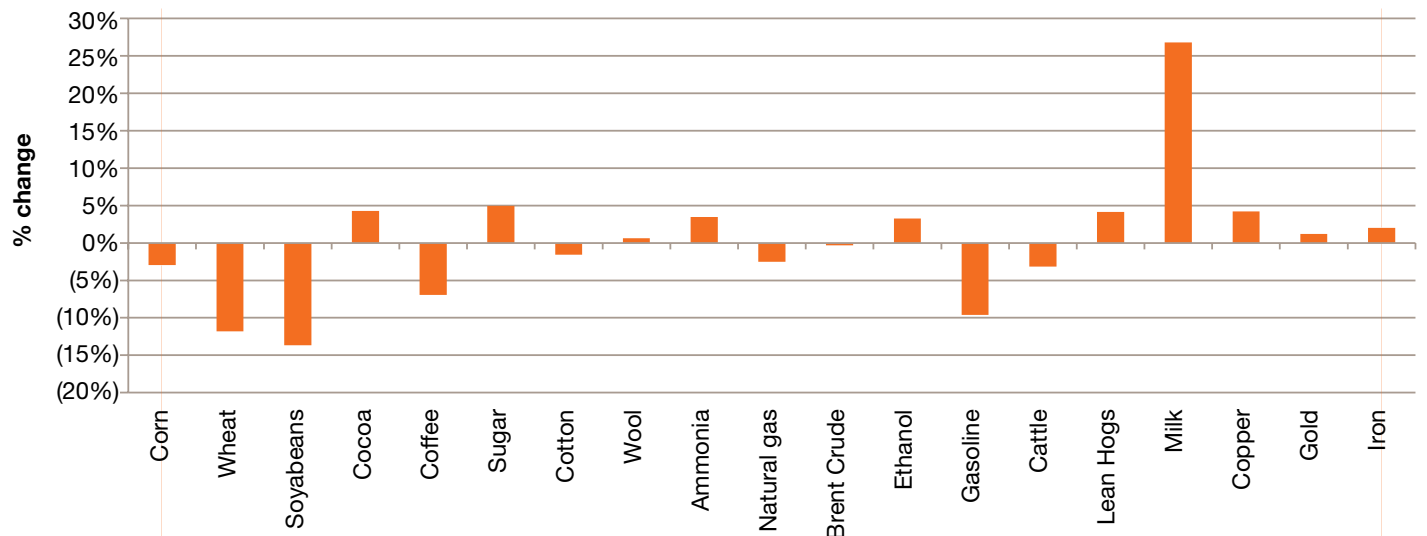
PwC event

PwC and Les Echos are hosting the sixth European Agricultural Cooperatives event in September.

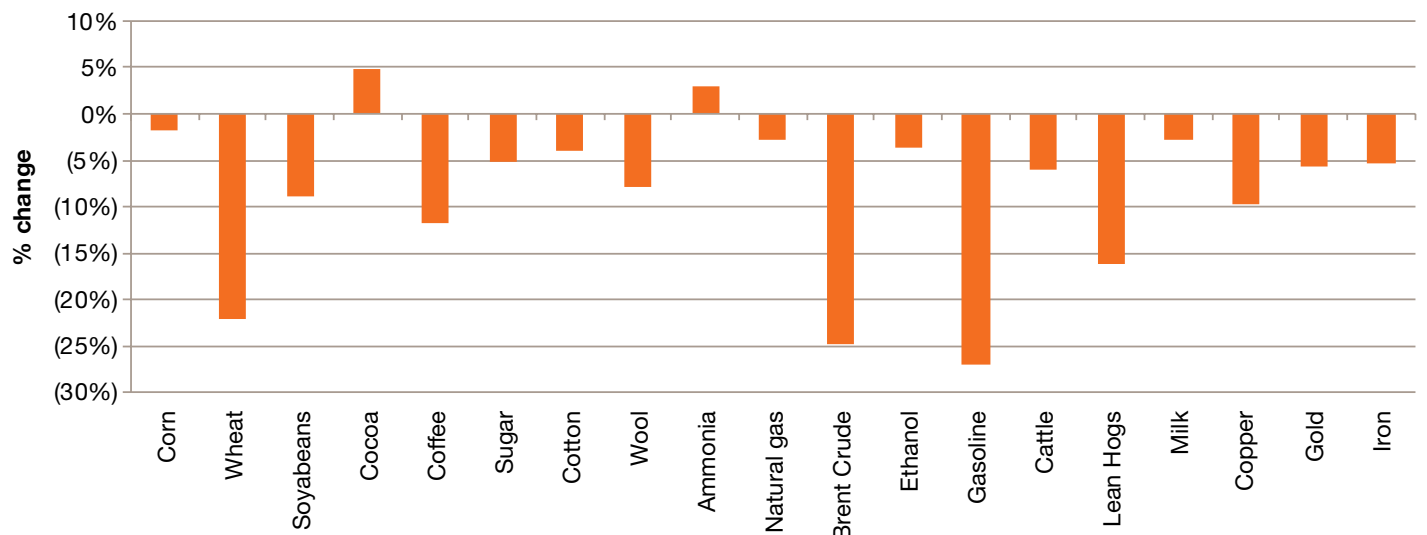


Prices

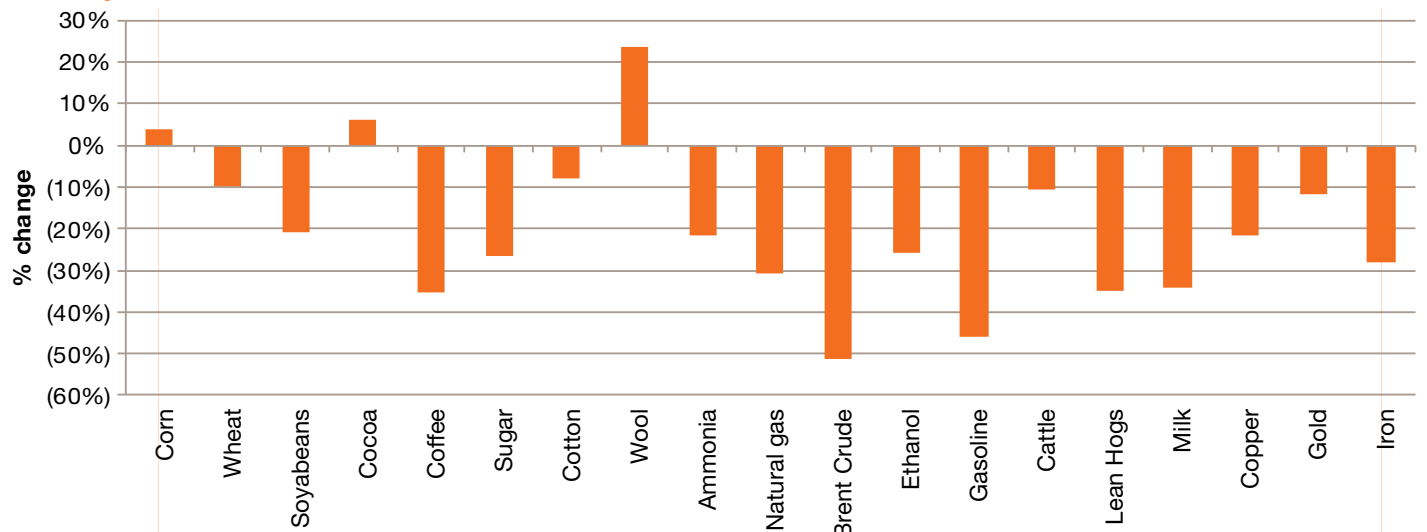
One month



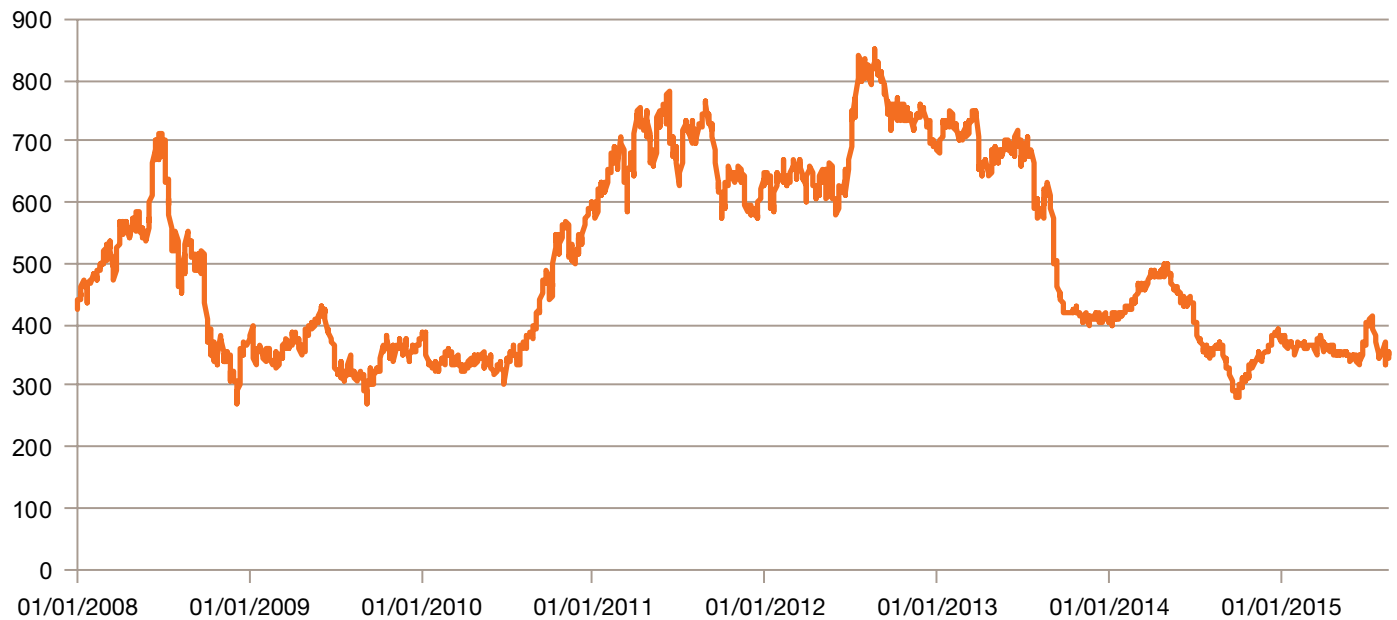
Three month



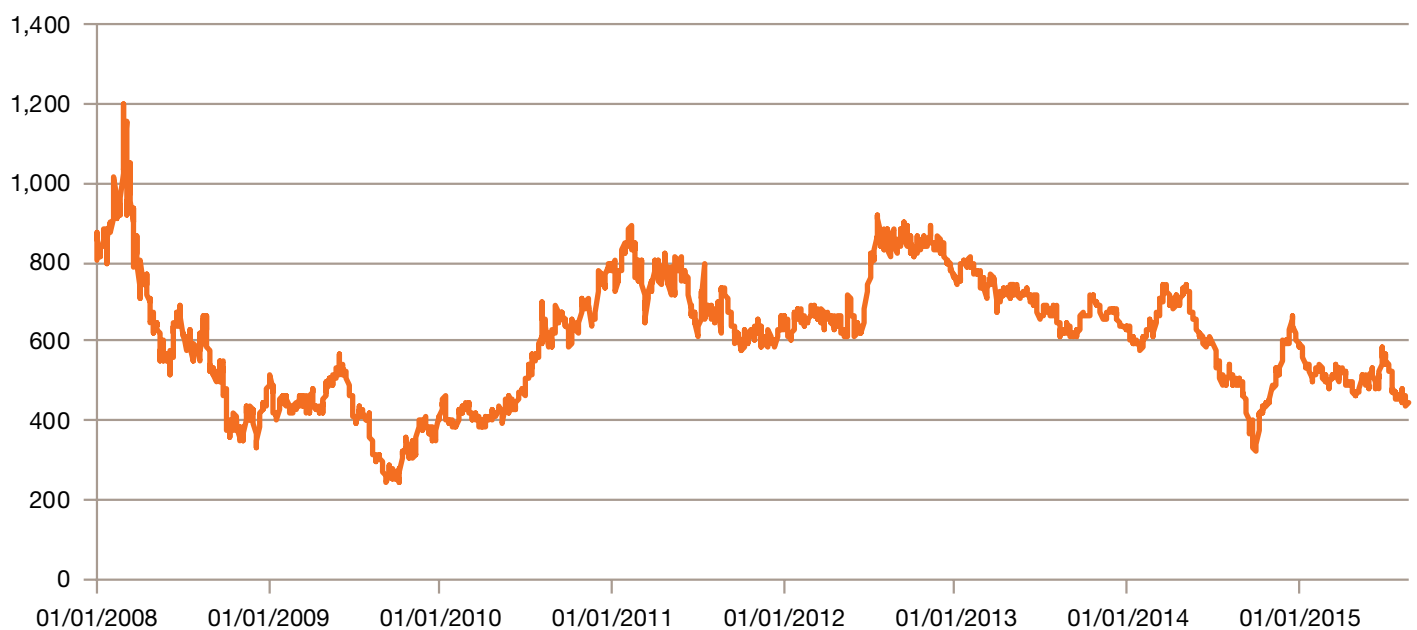
One year



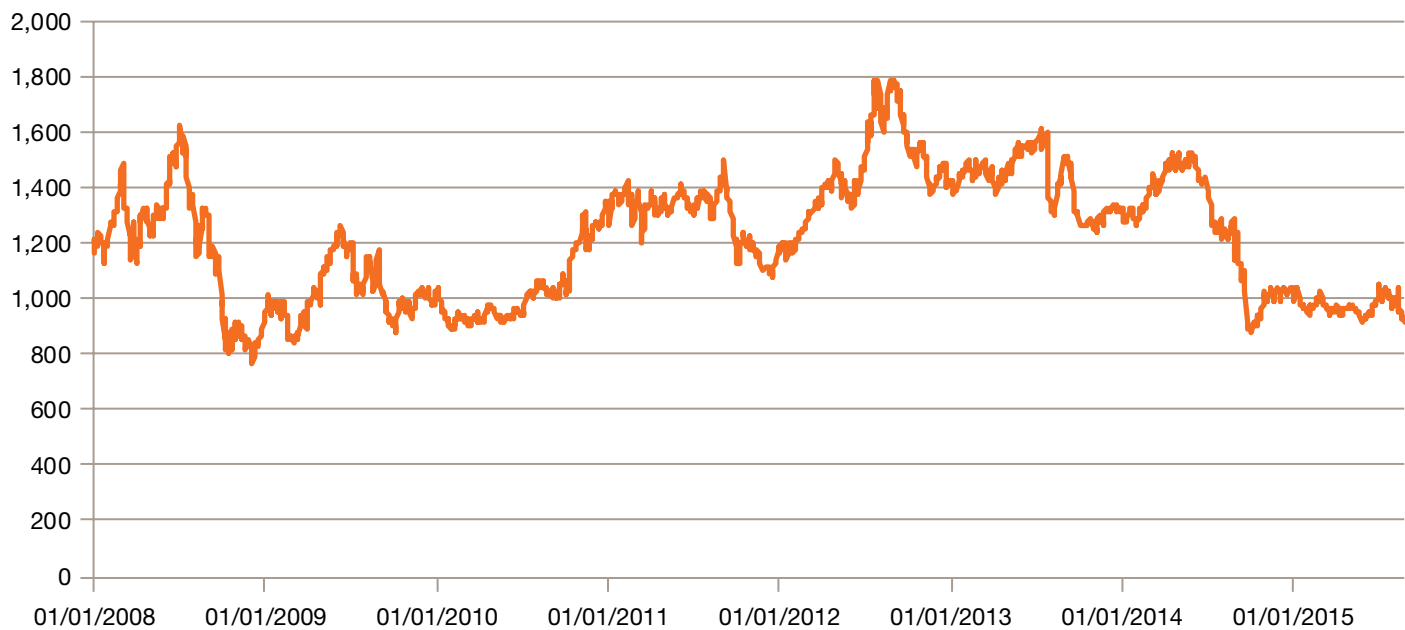
Corn, cents/bushel



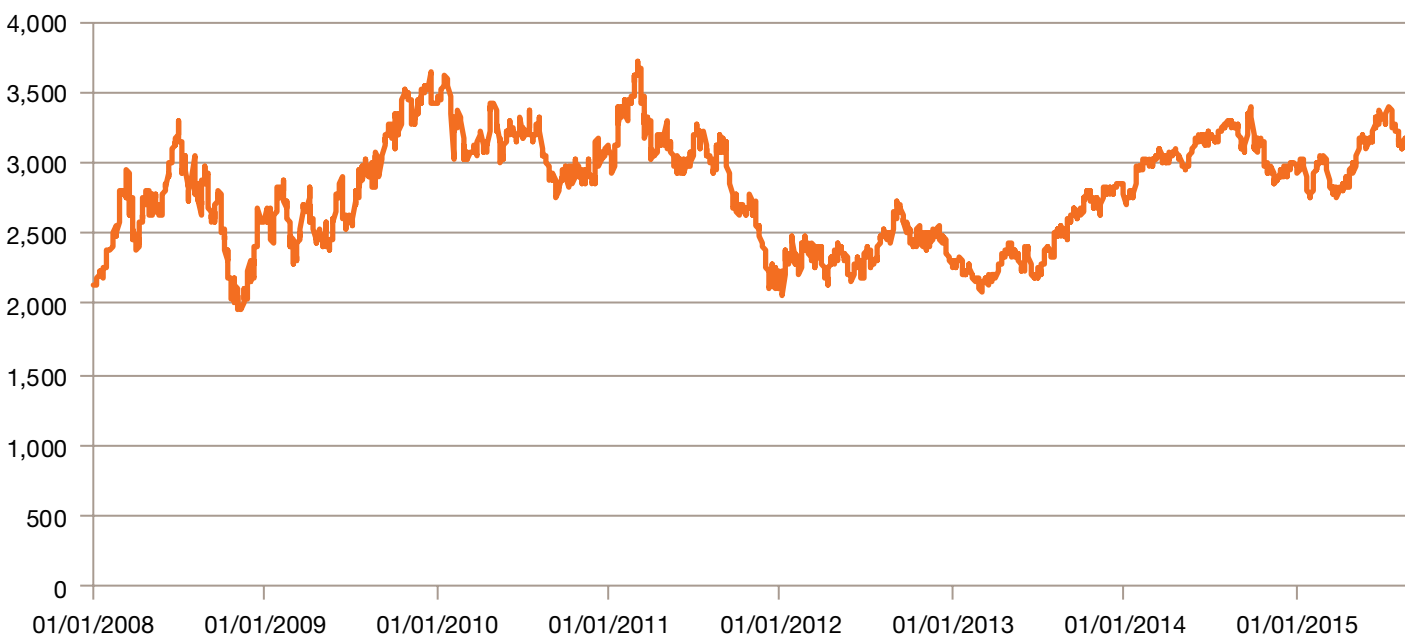
Wheat, cents/bushel



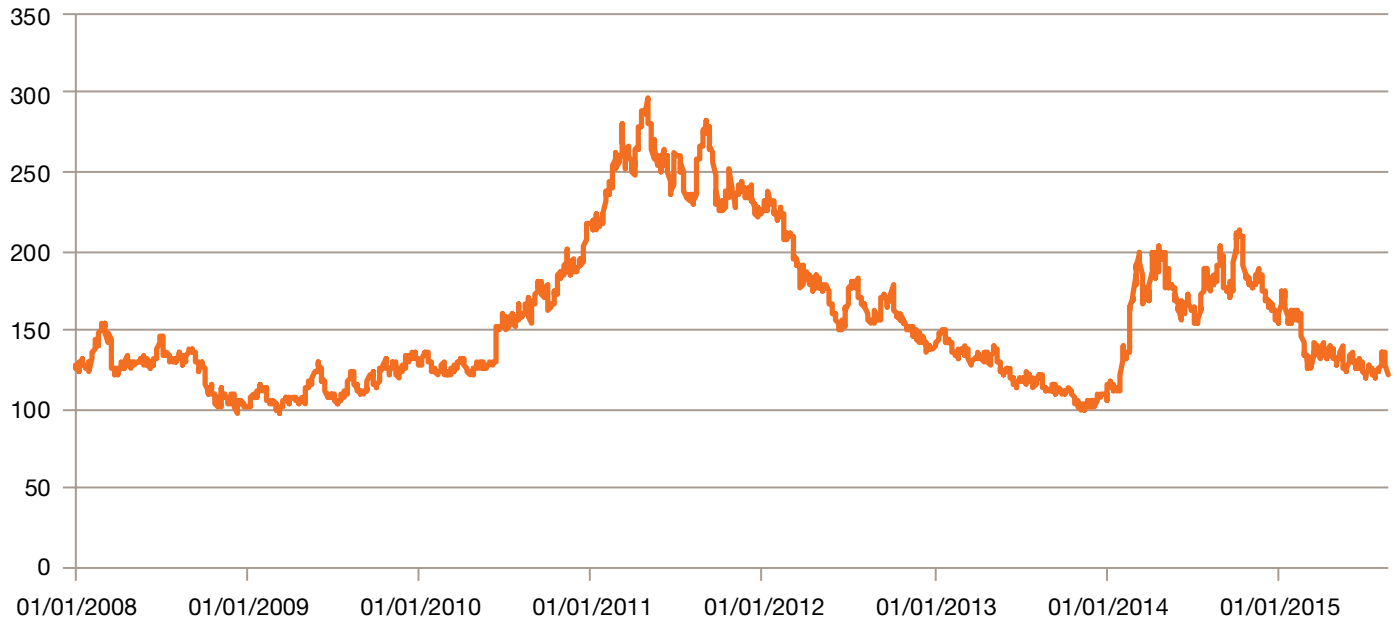
Soyabeans, cents/bushel



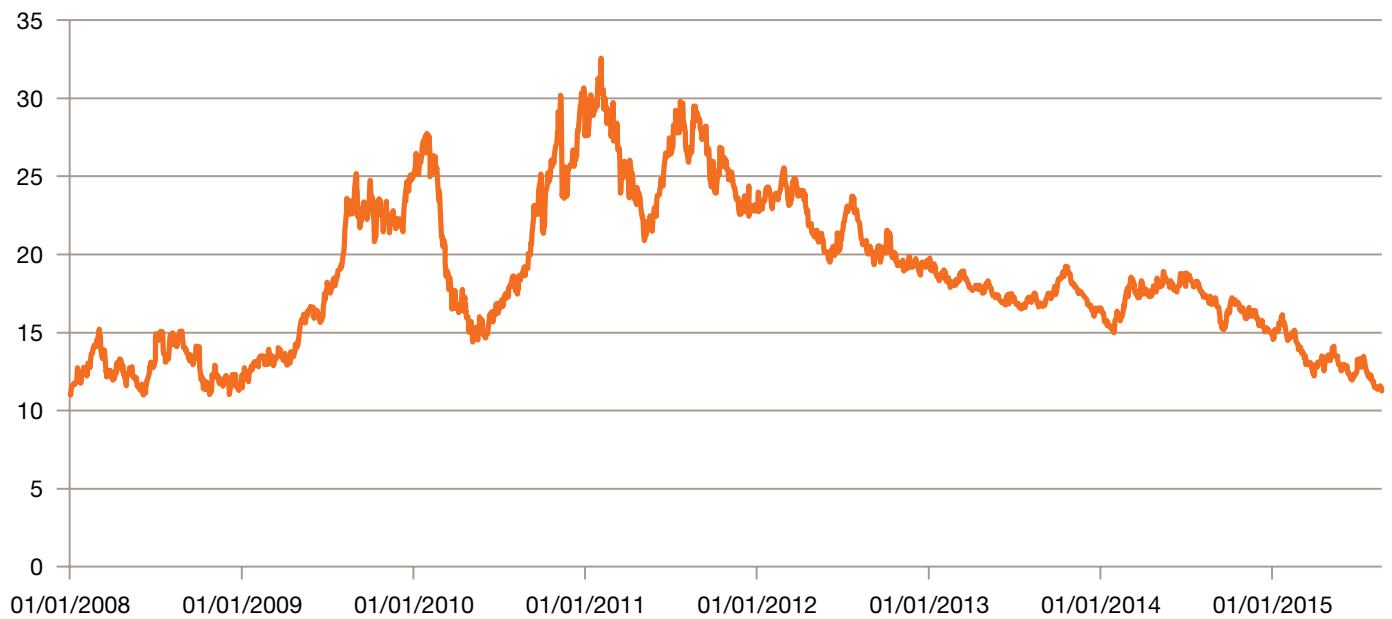
Cocoa, US\$/mT



Coffee, cents/lb



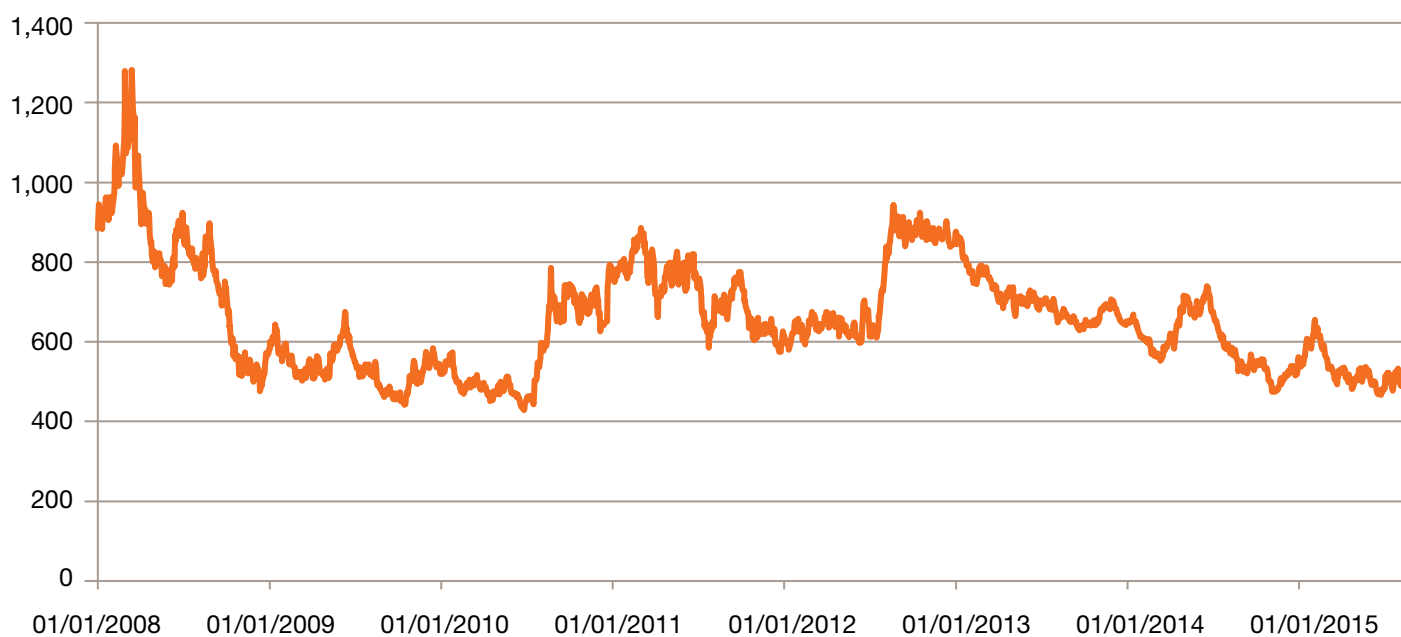
Raw Sugar, cents/lb



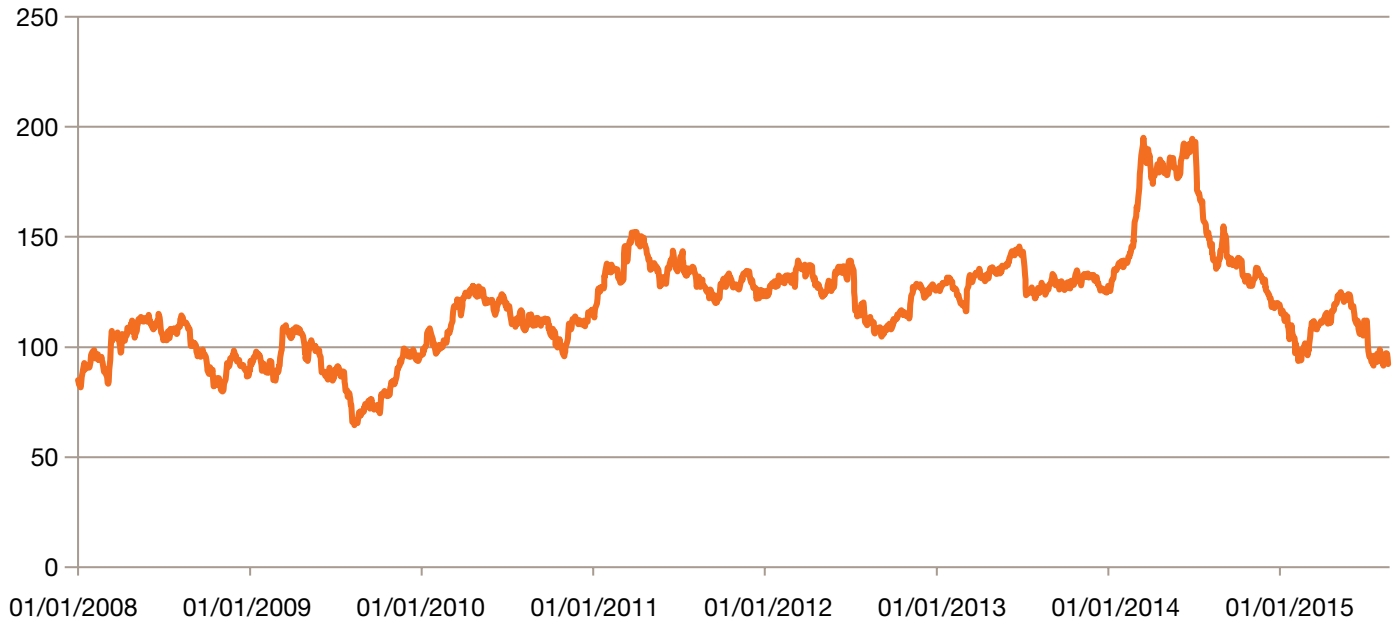
Cotton, cents/l



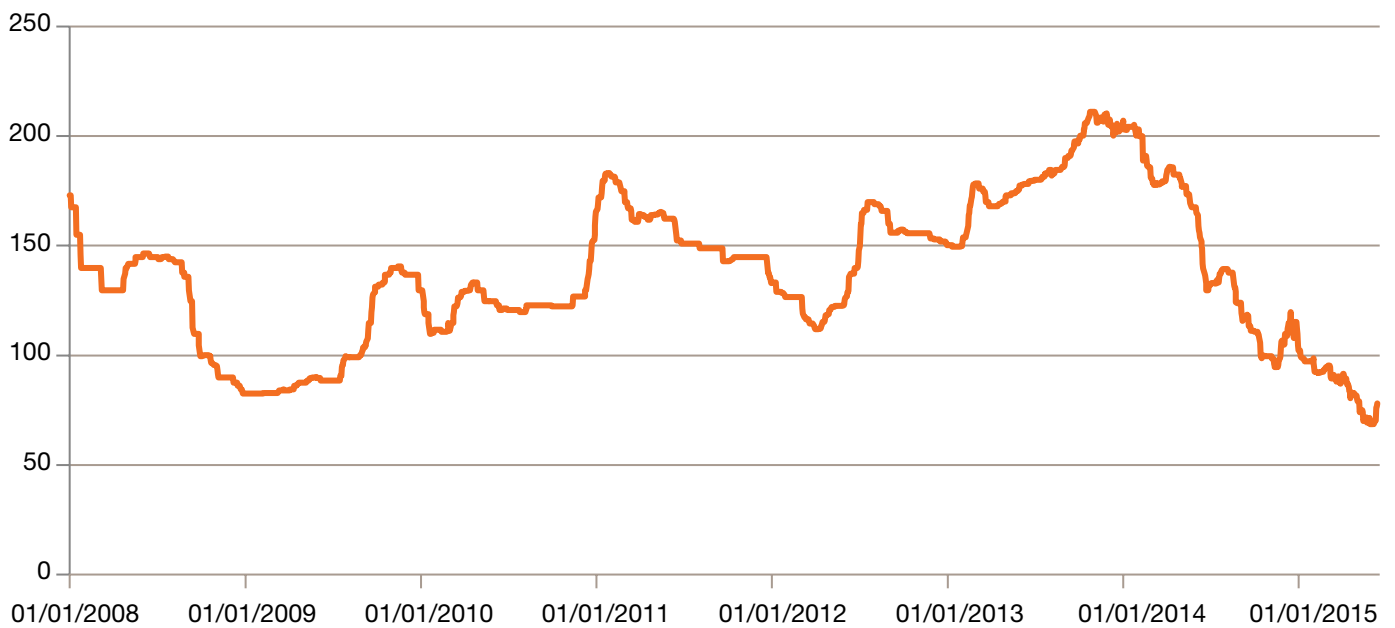
Wool, Aus cents/kg



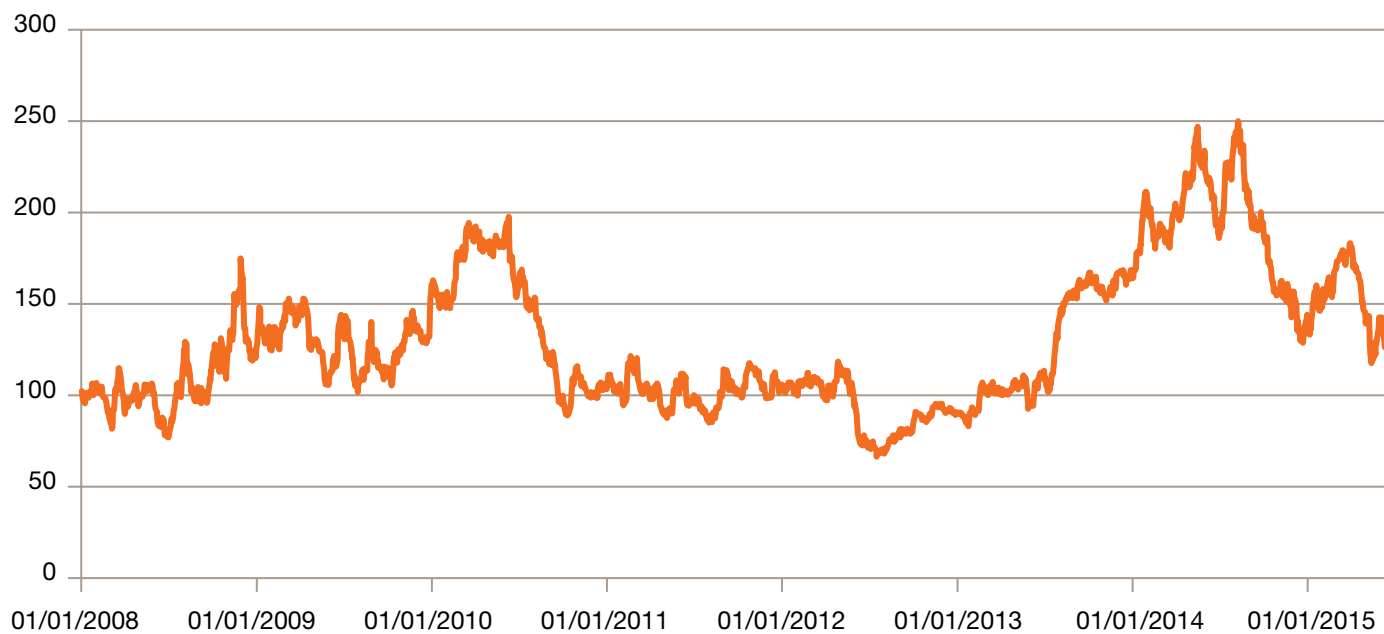
S&P GSCI Lean Hogs



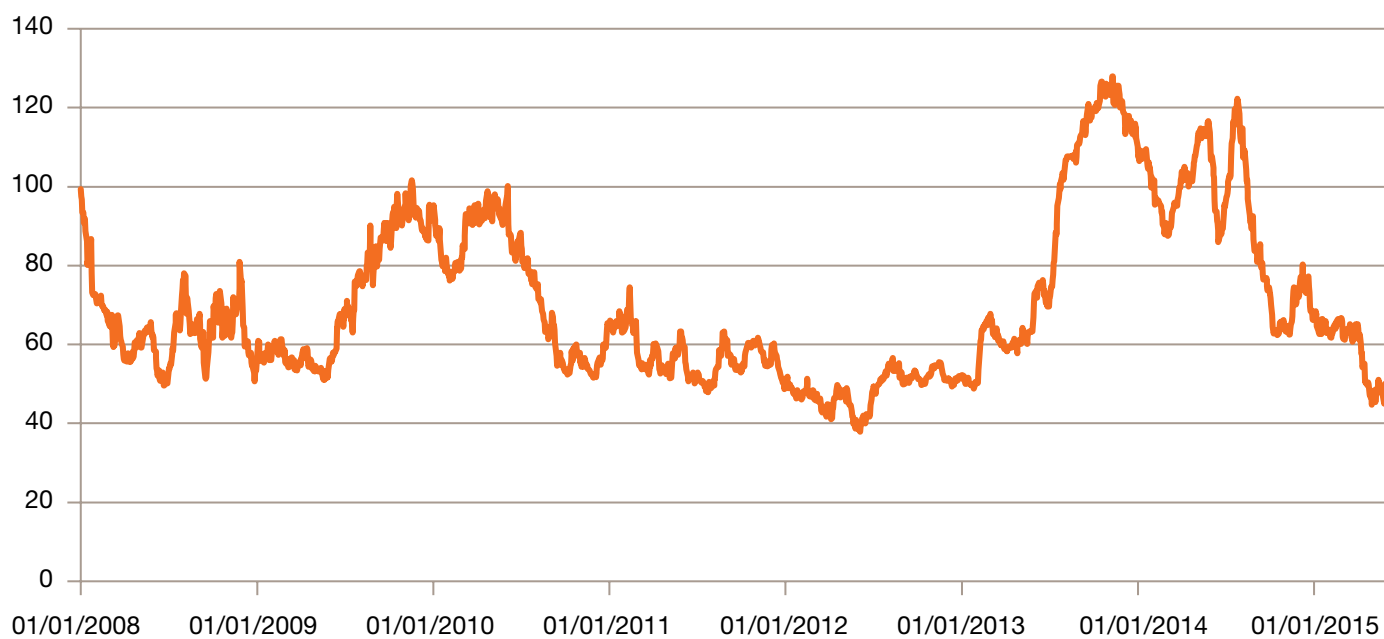
CME milk



Pork/Corn (rebased)



Milk/Corn (rebased)





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