Tough choices for large grain traders

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One of the most impressive megadeals of last year was undoubtedly the $66 billion takeover of US Monsanto by Germany's Bayer, a deal creating the world's largest agribusiness company with a market share of 29% of global seed sales and 24% of global pesticides. And this shortly after two other megadeals were announced: between US Dow and Dupont as well as ChemChina and (Swiss) Syngenta.

Apart from regional and product synergies these deals are a response to an extended period of declining revenues in combination with continuously increasing (development) costs. By combined efforts each mega player aims to offer more performing products in combination with improved technology at more competitive prices.

More of those opportunities are to be expected in those segments of the value chain that are already consolidated, notably retailers and traders. In retail Amazon snapped up US-based Whole Foods for $14 billion with more targets being scrutinised. This will allow further price cuts in retail offerings and new technology entering into grocery stores.

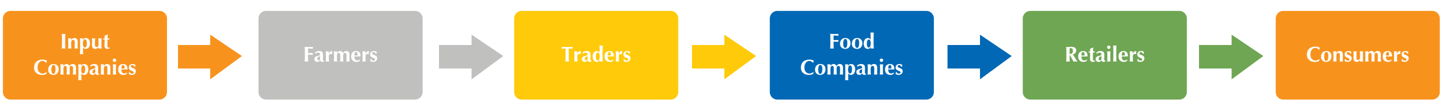
Grain traders are not immune to the consolidation wave on both sides of the value chain. Lately, some have moved away from pure trading to become more specialised, either in their product offering (eg Bunge with IOI Corp) or through a more regional focus (eg Cofco in Asia). Cargill diversified already a while ago to become more a true food company and also rival ADM expanded into the higher-margin food sector as witnessed by its acquisition of WildFlavors for $3 billion.

Whether another megadeal is in the making remains to be seen but clearly more consolidation is on its way. Such megadeals also create carve-out opportunities, which in their turn can be attractive buying opportunities for private equity firms and strategic buyers alike.

For sure, relying on trading alone for companies active in the traditional business of handling crops is no option anymore as algorithmic trading of commodities has reduced the differentiation factor and is forcing traders to specialise or adapt themselves further into the value chain.

It is no secret that grain producers have been facing dwindling income under the influence of depressed commodity prices and the (abrupt) end of the biofuels boom, with focus in that industry now shifted to third and fourth generation feedstock. The current commodity market downturn is expected to offer buying opportunities in the area of farming. In other words, fewer farmers will continue to produce more food products with less water, less land and less people. And the long-term outlook on supply fundamentals is for production costs of grain to further decline under the influence of technology and big data. Long-term demand fundamentals on the other hand remain well supported by emerging markets and shifting diets.

Agriculture Value Chain



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Gafta welcomes workable GHS Combustible Dust Annex at UN

Gafta attended the UNECE Sub-Committee of Experts on the Globally Harmonised System (GHS) on the Classification and Labelling of Chemicals on 5-7 December 2017 to discuss the Combustible Dust Annex, previously reported on in Gaftaworld (August 2017 issue, page 6). Gafta, NAEGA, IBTA and like-minded countries like Argentina were successful in preventing the GHS Sub-committee from creating a binding chapter in the GHS on the classification of combustible dust that would have included whole grain as a hazard. The joint efforts over the last four years by all groups played a key role in making sure that the non-binding annex was developed and is as broad as possible so it will not pose an undue burden on the global bulk grain industry once included in the GHS.

Although combustible dust was an agenda point at the last meeting in December, no debate took place. There was some discussion on a paper presented by Australia to include "risk management measures" in the GHS more generally. After discussions between delegations, the Chair concluded that the inclusion of references on risk management would be decided on a case by case basis and there was no changes made to the annex on combustible dust. Discussions on this point remained more general to all UN documents. The December UN GHS Sub-committee meeting formally adopted the non-binding annex to the GHS on dust explosion hazards. From a procedural standpoint, the annex has now been formally adopted and is available on Gafta's website.