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MassPoint View

Food Security and Agriculture Investment Require Multidimensional Approaches

Inherent Complexity of Food and Agriculture

Food is inherently complex. Food and agricultural assets are of universal interest, for obvious reasons. More than that, they are evocative. Food, farming, and farmland arouse familial, communal, and national sensibilities that, if ignored, exacerbate investment risk.

Demand-Side Dynamics: Rising Competition and Costs

Climate change, extreme weather events, population growth, demand for animal protein, water scarcity, and other key demand drivers will intensify global competition for food and agricultural assets.

Exacerbating factors at the national and regional levels will further heighten demand. For China—already a foreign farmland investor—industrial pollution is diminishing the availability and quality of agricultural land, threatening domestic supply. The threat of diminished productivity at home will drive more Chinese investment abroad.

In the Middle East, inarable land and scare water are driving states and private actors, particularly in the Gulf Cooperation Council, to seek food security through investment in foreign farmland and increased agricultural production at home. Deeply dependent on foreign food sources, exposed to international price spikes, and facing significant population growth, Middle Eastern states will need sophisticated, long-term strategies to compete globally.

Food security-based investment is driving commercial activities, and price rises. Recognizing the opportunities afforded by the growing demand-supply imbalance, institutional investors are increasingly eyeing agriculture as an asset class.

Farmland prices are rising. In England, for example, average investment grade arable land values increased by a staggering 222 per cent over the past decade. By comparison, highly coveted London residential property grew by only 132 per cent in the same period. In the

United States, cropland prices are rising in key U.S. states like Iowa and Ohio.

The upward trend will continue, particularly as foreign and other non-traditional investors increase farmland acquisitions and agriculture investment activities in the United States.

Investment strategies should protect existing investments and access to future opportunities by anticipating and addressing greater competition and its legal, political, and public relations consequences at the global and national levels.

Supply-Side Risks: Legal, Social, Political, Commercial

The legal, political, and commercial risks attendant to agriculture investment—particularly in farmland—should by now be clear. From Madagascar to Australia to Ethiopia, farmland investments have faced opposition that in some cases has forced temporary or permanent withdrawal.

In Madagascar, a 2008 farmland deal with a South Korean firm

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led to the ouster of that country's president and the deal's cancellation in 2009. In Australia, indigenous groups and policy advocates loudly opposed a Qatari investment in 2011. In 2014, Saudi Arabian and other farmland investments are controversial in Ethiopia.

Such events are neither isolated nor surprising. They stem from the social, political, and legal challenges inherent in food and farmland investment, particularly where land rights are unclear, governments act opaquely, investors fail to build consensus around investments, and insufficient steps are taken proactively to understand and manage risk.

Reactive Responses to Risk are Insufficient

In response to risk events, some investors are diversifying investment away from legally and politically volatile locations, particularly in Africa, to the relatively stable United States and Europe. But reactive approaches are insufficient.

Even in legally stable jurisdictions like the United States, political and social tensions can plague, and even derail, legally and commercially legitimate investments. The experiences of Dubai Ports World and other foreign investors bear this out. Investors should not assume that legal stability alone will guarantee success.

Risk Variables: Investor Profile and Asset Type

Even where legal conditions are generally clear, investments will not, as a practical matter, be treated equally across the board. For example, direct investment in farmland will raise issues different from those raised by investment in a commercial food producer.

Sovereign-affiliated investors will face issues (and greater legal, political, and public scrutiny) distinct from those faced by private actors.

Moreover, political and public perceptions of investments will be colored by investors' home

countries and prior investment activities. Investors should assess relevant variables and formulate appropriate strategies.

Future Legal, Regulatory, and Public Scrutiny

As agriculture investment activity increases in frequency, volume, and number of participants, so will applicable laws, regulations, and standards, particularly as policy advocates continue to spotlight issues and advocate reform. At the same time, rule of law deficiencies in farmland-rich locales will continue to frustrate investment activity.

Smart investors will find ways to seize opportunities while diminishing risk, including by adopting partnerships, contractual terms, and investment structures that disincentivize risk by spreading value among key constituencies, particularly when investor interests are long-term.

About MassPoint

MassPoint is a Washington, D.C. law and strategy firm that skillfully harmonizes the legal, social, ethical, commercial, and policy dimensions of food security and agricultural investment. The firm provides legal representation and strategy advisory services to government and private parties, and works collaboratively with clients to develop, execute, and maintain agriculture investment and food security solutions that are multi-dimensional, tailored for context, strengthen overall competitive position, and mitigate risk. MassPoint is distinguished for its multidisciplinary approach, proven success in interpreting and anticipating legal and political risk events, and commitment to superior client service through collaborative relationships. Learn more at www.masspointpllc.com.