UNIGRAINS
SHARING VALUES SHARING VISION

Newsletter

Q3 2018

Trade war: posturing or a real threat?

The syndrome of insularity is starting to affect international trade. Will trade hostilities between the United States and China, with Europe held hostage between the two, have repercussions on our agricultural and agri-food trade?

The 25% tariffs imposed by the US administration on $34 billion worth of Chinese imports came into force on 6 July, hitting more than 800 Chinese products.

These products include primarily computer components, electric engines, petrochemical industry products, as well as farm equipment and food products. China has been threatened with an extension of these tariffs if it over-reacts, and these measures could affect up to $450 billion worth of Chinese products (out of a total $505 billion of Chinese imports in 2017).

China has hit back with additional tariffs of 25% on 545 US products, representing $34 billion of imports, of which many agricultural and food products, notably soy. This tariff war has given rise to two somewhat conflicting theories, leading to some confusion.
The first and alarmist theory (the second one is reassuring) stresses the uncertainty weighing on corporate investments in a volatile global environment, with rising oil and steel prices and plummeting soy prices. This theory goes so far as to estimate GDP losses at more than 4% for Europe as a whole and more than 3% for France, i.e. an "average annual loss of €1,250 per capita in the EU and €1,125 in France", according to the French official economic analysis council *(Conseil d'Analyse Economique)*.

The other, more reassuring theory considers the tariff war as mere posturing. It recalls the profound opposition to China's "Made in China 2025" plan that was launched in 2015 in a bid to make China a technological and industrial power capable of competing head-on with the United States, and that the US administration is seeking to undermine.

The Chinese deliberately targeted US soy to destabilise Donald Trump's electoral base in the run-up to the mid-term elections, even though they had already opted some time ago to diversify their soy supplies while already having built up significant reserves.

This temptation to retreat into national self-interest is a permanent danger: it undermines the confidence needed to grow our investments and economies, which are already highly interdependent, and cripples initiatives. If left unchecked, it can even spread to our businesses, and yet the race for global market share is vital in order to be able to respond to demand from consumers who are still eager for innovative, customised and different products.

Standing up to protectionist fearmongers requires a clear strategic commitment to focus resolutely on our know-how and craftsmanship, which deserve to be recognised on the international scene. This holds true for large companies, but also for our cooperatives and SMEs in their niche markets.

We must be confident in our products and know-how, the emblems of France's unique art de vivre that will always be in demand all over the world, with consumers ever more eager for variety, quality and authenticity.

Jean-François Laurain
Chief Executive Officer, Unigrains

Focus on

bioline by invivo

Unigrains supports Bioline by InVivo in its development

Bioline by InVivo, a global umbrella brand encompassing the InVivo business lines dedicated to agriculture, has raised €50 million from LFPI, IDIA Capital Investissement and Unigrains to help accelerate the transformation of agriculture in France and abroad.

Bioline by InVivo is in a class by itself. Present across the entire agricultural production chain, it combines a unique blend of recognised expertise for the transformation of French, European and global agriculture, organised in four business lines:

Two businesses that form the basis of its relationship with co-operatives:

- **seeds** – Semences de France and Agrosol in Brazil;
- **plant health** – Life Scientific, Phyteurop, In-Ou in China and CCAB in Brazil;

Two businesses that spell the future of agriculture:

- **biocontrol** – Bioline Agrosciences;
- **digital agriculture** – Smag, Be Api, Le Studio Agro Digital and the "Fermes Leader" programme.

This capital increase, combined with greater borrowing capacity, will enable Bioline by InVivo to invest massively in the strategic sectors in which it already operates today – digital agriculture, biocontrol, agricultural consultancy – as well as venturing into new fields.

With these additional resources, Bioline by InVivo is buttressing its position as a major sector player, committed to the emergence of a sustainable, ecological agriculture that creates economic value for farmers.

Laurent Martel, Chief Executive, Bioline by InVivo, says: "With this deal, we are joining the select club of companies that will be well positioned in the global agricultural market of the future. Bioline by InVivo will become an active player in the transformation of the Global Farm."

Florence Alin, Investment Director at Unigrains, explains: "We are putting our industry expertise at the service of a major, federative player in services to farmers-producers to accelerate the development of new solutions in France and abroad in the fields of plant health, connected agriculture and seed performance."

RECENT UNIGRAINS TRANSACTIONS ON OUR WEBSITE WWW.UNIGRAINS.FR

Interview

Laurent Martel,
Chief Executive,
Bioline by InVivo

For further information:
https://www.invivo-group.com/fr/bioline-invivo

"All our businesses are currently enjoying strong growth."

What are the objectives of the €50 million capital increase?

All our businesses are currently growing strongly, and to add weight to our strategy, we needed to find a robust financial partner prepared to support our development in France and abroad.

Our growth strategy is based on four business lines. Two historical businesses as a supplier of agricultural inputs (seeds, plant protection products) and two pillars of innovation (Smart-Agriculture and biosolutions). This capital increase should allow us to continue to grow in our two historical markets while accelerating the roll-out of our digital solutions and biocontrol products.

What are the market trends for Bioline by InVivo products?

Bioline by InVivo was created back in December 2017 to become a major sector player, committed to the emergence of a sustainable, ecological agriculture that creates economic value for farmers.

Today, we offer solutions and products for all forms of agriculture. We believe that the solutions provided by Bioline by InVivo, such as precision farming and biosolutions, will contribute to rebuilding trust between consumers and farmers.

What are Bioline by InVivo's ambitions for the years ahead, notably outside France?

In France, we built our success on two priority areas: innovation and co-construction. Internationally, we intend to use the same tactic, namely identifying the best innovations at a very early stage and co-designing solutions tailored to the specific features of local markets.

Part of our efforts are concentrated on investing in and finding new sources of growth outside France. A case in point is Brazil, where we are present in the distribution of plant protection products (crop protection and biosolutions) as well as in seed production and distribution. Our ambition today is to leverage these two historical businesses to expand in new fields such as insurance, smart farming and biosolutions.

Why did you choose Unigrains as a strategic and financial partner?

The InVivo group has been working with Unigrains for many years. The logical next step for Bioline by InVivo was to turn to Unigrains, a major player in the agricultural world, because we needed a partner familiar with the challenges and resilience of our business.

Study

Organic food, a growth driver?

Lucie Arribard,
Research officer,
economic studies

Read the full study on our site: www.unigrains.fr

"By 2020, the French market for organic products could reach €12 billion, or 5.5% of total food consumption."

A response to societal concerns

The market for organic products has been enjoying double-digit growth since 2000, representing global sales of €8 billion in 2017. It is driven by strong, resilient demand, even in times of economic crisis, despite the higher cost of organic products.

Organic products have become increasingly popular in France, because this mode of agricultural production picks up on today's concerns and societal expectations: consideration of environmental issues, traceability and transparency, awareness of the importance of good food, willingness to support the local economy.

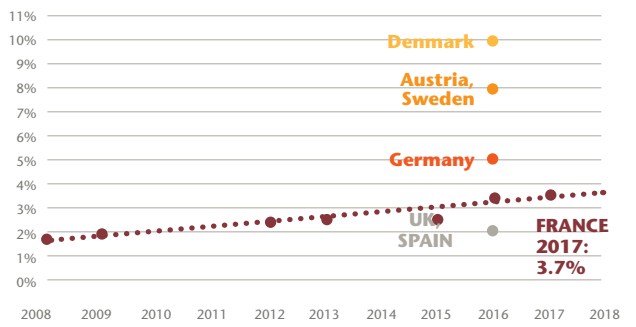
By 2020, the French market for organic products could reach €12 billion, or 5.5% of total food consumption.

Large retailers have moved resolutely into this segment, boosting production

In order to meet growing demand, organic distribution channels are in a sustained development phase: expansion of specialty stores, increase in retail space dedicated to organic products. The market's growth is currently enabling these channels to develop, thus improving the availability of organic products across France.

In 2017, large retailers reaffirmed their commitment to the organic market, announcing they would apply their significant sales capabilities to achieving ambitious sales targets. The race to win over consumers is on.

SHARE OF ORGANIC PRODUCTS IN FOOD PURCHASES IN FRANCE AND OTHER EUROPEAN COUNTRIES



SOURCE: PLANETOSCOPE – AGENCE BIO – PROJECTIONS: UNIGRAINS BASED ON INTERVIEWS

In terms of supply, organic producers and processors will have to keep up the pace of conversions and of industrial capacity development. Raw material imports remain essential in the short term, however, particularly in a number of structurally loss-making sectors. An offering of 100% French origin organic products is not for tomorrow, even though many organic players are reaffirming their commitment to creating strong French production channels capable of supporting the market's growth.

TREND IN SURFACE AREAS OF ORGANIC SPECIALIST STORES

UNIGRAINS BASED ON

Study

The organic market is moving out of its niche

Organic food is currently in the process of scaling up from an activist social engagement to a market rationale, with consequences in terms of corporate competitiveness and profitability.

The market is starting to structure itself as a result of various trends:

- Incumbent market players, often small, medium or very small enterprises, are joining forces in a bid to reach a critical size enabling them to create synergies and increase their investment capacity.
- Vertical integration, involving acquisitions and long-term partnerships, is often the preferred method to secure supplies and opportunities.
- Non-specialist players are entering the organic food market, with different growth rationales.

The number of financial transactions involving organic businesses is rising sharply and companies are typically very well valued in these deals, evidence of investor interest in a market that can no longer be considered as a niche.

Unigrains' opinion

- Organic products have carved out a share in French food consumption, the market's growth prospects are good and in the long term, it could achieve a significant share.
- Players in organic sectors will have to face specific challenges in the years ahead: securing supplies, growing volumes, boosting their competitiveness to face international competition, maintaining consumer confidence.
- This market development phase goes hand-in-hand with significant funding needs, and this is where the investment community can play a supporting role.

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Zhao Yu LI,
Unigrains correspondent in Beijing

"The Chinese agri-food industry is still far from stable."

What are the major trends in the Chinese agri-food industry today?

The Chinese agri-food industry is fairly complex. It is currently impacted by considerable over-capacity in primary processing, for instance in milling: today, there are more than 4,000 mills with total crushing capacity of more than 260 million tonnes/year, with an operating rate of only 50%; the same thing goes for malt, with malting capacity of around 6m tonnes, while needs, including exports, amount to roughly 3.6 million tonnes/year.

The agri-food industry is therefore undergoing a transformation similar to that seen in other sectors. First, the productive fabric needs to be reformed, by reducing production capacity at medium and small plants that are too energy-intensive and polluting (air, water, soil, biodiversity, etc.), to make room for big companies and their many construction projects. Cofco, Yihai/Wilmar, Wudeli, these large millers all have mill construction projects under way. The industry estimates that within the next two to three years, total wheat flour production for these three major groups will represent more than half the national total, which is around 40 million tonnes/year. At the same time, these major groups all want to become the country's central kitchen: Wilmar's latest official slogan is "We want to be the central kitchen for the Chinese!", while the other two groups also have more downstream activities in frozen food, fresh products for home cooking, and retail outlets in supermarkets. Two major trends stand out: fewer players for more production, and an increasingly sophisticated offering for the end consumer right up to ready meals.

The agri-food industry in China is still far from stabilised, because with rising living standards and higher income, more than 200 million Chinese are currently considered as middle class. These consumers are typically wary of 'made in China' products and are prepared to pay more for imported products that come with the guarantee of health safety. This explains why China spent more than $120 billion in 2017 in agricultural and agri-food product imports. We can consider that China's continued opening to agri-food products from the export market will be a major trend over the next years.

What are the challenges currently facing European companies that want to set up in China?

For European companies, more particularly French companies, I see challenges as being primarily related to production size and quantities available for export. Let me explain: for a French delicatessen factory that wants to start by earmarking a few tonnes of products or a few containers for export to the Chinese market, finding Chinese food safety officials/inspectors to grant certification will prove quite a challenge, because there is a limited number of these officials and they have too many dossiers to process (that's the Chinese administrative system!). I think several manufacturers need to pool their offering in order to have more weight and export more to China. In parallel, it is also essential to develop a specific marketing strategy/policy for the Chinese market before starting to set up. Distribution channels, consumption patterns, fast-moving trends all respond to a very different rationale from traditional European codes.

What advice would you give to a European agri-food company interested in setting up in China?

The Chinese market is vast and full of potential, but also very competitive; you therefore need to export products that really stand out from what already exists on the market. Having a "stand-out strategy" is essential as generally speaking, the Chinese will go for anything new – we are a very curious people. As for the marketing policy, you need to have on-the-spot presence, or at least mandate field agents to follow the market closely, and above all nurture contacts, spend time with official interlocutors, buyers and importers to show them that you share the same market vision and the same conviction.

I am also convinced that the strongest asset of French origin agri-food products is the broad range of value-added processed products. We can't flood the market with big volumes, like the Americans, but France, and more broadly Europe, have

a strong suit to play with their more sophisticated products, their know-how, traditions, and also of course the assurance of superior, well-controlled quality.

How and on what topics do you work with the Unigrains teams?

I work mainly for the French Grain Export Office in Beijing, which opened 27 years ago, and I represent the interests of French grain producers in China. Given the strong ties between Unigrains and grain farmers, I spend part of my time working on the company's development in China. More specifically, I am responsible for monitoring Chinese and foreign investments in the Chinese agri-food industry. We liaise constantly, regularly reporting to experts and investors at the Paris head office and providing them with real time updates on sector news, and we help them understand the developments in our market, which can sometimes be difficult to understand from a French perspective.

We are currently focusing on the lightning development of e-commerce in China, which is revolutionising the retail sector and also impacting all players across the value chain. For Unigrains, having a local correspondent is invaluable; it enables them to pass on up-to-date information to their partners and support them in their development in China.

Food products in China: a dynamic, changing market

Éric Porcheron,
Head of Economic and Strategic Studies at Unigrains

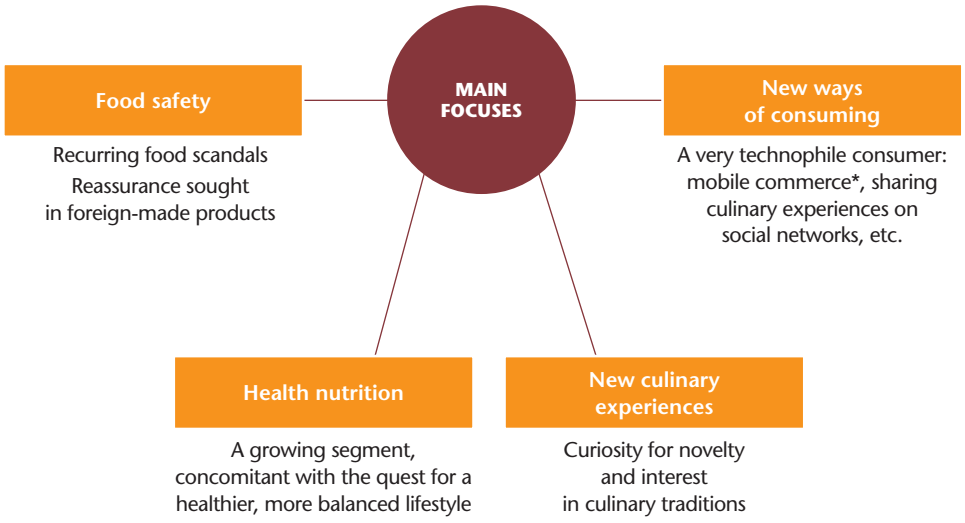
A growing middle class, increasingly eager for imported products

It is estimated that 130 million Chinese people had income exceeding $10,000 per year in 2015 and that this number is set to double by 2022 and more than triple by 2030 (430 million). Against a backdrop of recurring food scandals, this upper middle class is highly aware of health risks and is eager for more foreign products (or products manufactured according to stringent Western standards), and they are prepared to pay more for these products. They are also keen for new culinary experiences and this spurs their interest in imported products.

This trend is not limited to Shanghai and Beijing or the mega-cities of the East Coast. It is also progressing in Tier 2 cities and the central regions (Chongqing, Wuhan, Chengdu, etc.), a number of which are enjoying an economic boom related to the development of the New Silk Road.

"More than half of the Chinese population has internet access and nearly 95% of connections are made via a mobile phone."

MAJOR TRENDS IN CHINESE FOOD CONSUMPTION



SOURCE: UNIGRAINS STUDY
* COMMERCIAL TRANSACTIONS ON MOBILE DEVICES

"Recent movements have shown that the internet giants are taking a close interest in food and banking on interactions between 'online' and 'offline'."

New technologies have revolutionised purchasing behaviours

More than half of the Chinese population has internet access and nearly 95% of connections are made via a mobile phone. In just a few years, smartphones have become an essential feature of everyday life: to make online purchases, share culinary experiences on social media, and as a payment instrument with Alibaba's Alipay and Tencent's WeChat Pay applications.
China is the biggest e-commerce market in the world.

In this country where relatively few people have PCs and credit cards, e-commerce has benefited from the creation of a whole mobile-based ecosystem and has become a part of everyday life. It has become a common way of consuming, including for food purchases. The main architects of its development are two Chinese groups created less than 20 years ago, which have grown into giants and between which there is strong rivalry: Alibaba and JD.com, whose biggest shareholder is the Tencent Group (which has become a leader in messaging and social networking with "WeChat"). Alongside these two full-line players, smaller, more specialised sites have emerged in recent years.

In large cities, home delivery has also become the rule in just a few years, benefiting from high population densities and low labour costs, two decisive advantages given the difficulty of managing "last-mile" logistics. Two players dominate the market and are engaged in a fierce price war: Ele.me, owned by Alibaba, and Meituan, backed by Tencent.

LEADING FOOD HOME DELIVERY SERVICES IN CHINA

No.1: Ele.me (Alibaba subsidiary)

No.2: Meituan (backed by Tencent)

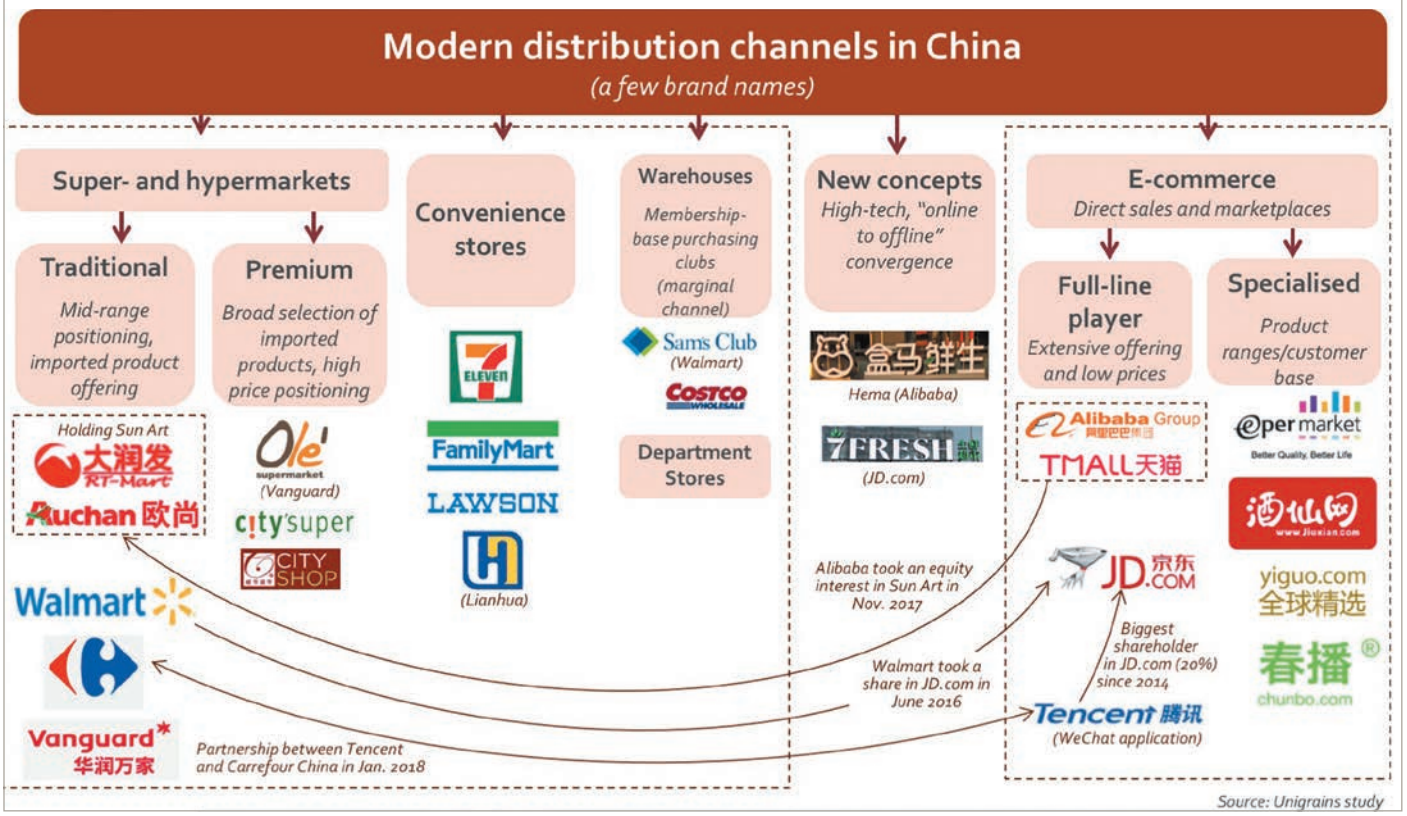
SOURCE: UNIGRAINS STUDY

Food at the heart of current movements in retail distribution

The boom in e-commerce is disrupting traditional brick & mortar retailers, which have forged alliances to stand up to the giants Alibaba and JD.com. In this context, Walmart was a precursor, contributing its e-commerce activities to JD.com in 2016 and taking a stake in its capital. Since then, Alibaba has acquired an interest in Sun Art, Auchan's holding company in China, and Tencent has teamed up with Carrefour. JD.com and Tencent have also recently made a joint investment in two other supermarket chains: Yonghui and Better Life.

Recent movements have shown that the internet giants are taking a close interest in food and banking on interactions between 'online' and 'offline'. They bring brick & mortar players their technology in process digitisation and data processing. In return, they are interested in acquiring their partners' expertise in sourcing, as well as in the potential support provided by their physical stores. In parallel, Alibaba and JD.com are developing their own high-tech store concepts (Hema for the former, 7 Fresh for the latter), combining on-site sales with a preparation centre for orders placed online.

MODERN FOOD DISTRIBUTION CHANNELS IN CHINA



Opportunities for France

This interest in food also manifests itself in Chinese digital giants' determination to offer more foreign products in their country. Alibaba and JD.com started going global in 2015 and opened offices abroad (including in France) to develop imports. In January 2018, JD.com announced it intended to sell €2 billion worth of French products (food and non-food) on its platforms in the next two years. Smaller e-commerce players are also involved in this trend.

Unigrains' opinion

The Chinese market is changing rapidly and food is part of this trend. Online sales have become an important, flourishing and highly-coveted channel.

The preferred channel for entering this market is the export market. Several French brands are present in supermarkets and on e-commerce sites and some of them are enjoying strong growth. That said, France is competing with countries in other regions and price levels can be a hurdle.

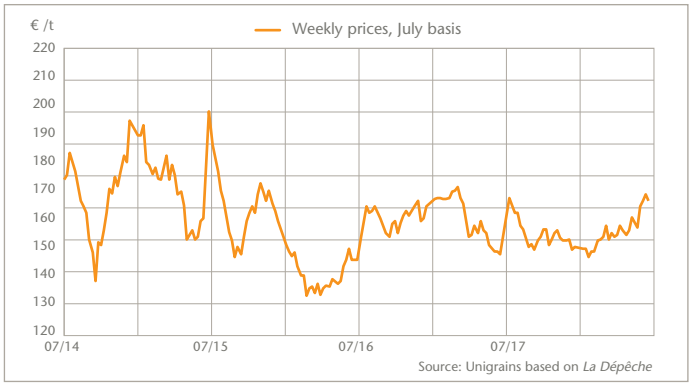
Using an importer remains the most commonly-used channel and it is also a preferred way to start up in e-commerce where, in addition to logistics, marketing follow-up is also a crucial element. There is also another export channel: crossborder e-commerce, by international mail or via bonded warehouses in Chinese free zones, which benefit from simplified procedures.

Setting up an industrial presence in the country is less frequent and highly demanding, mainly the preserve of large groups. It requires having a real strategy for China, with the capacity to mobilise the necessary financial resources and to take the long view, while relying on the support of a local, multicultural, highly-experienced team.

Economic situation

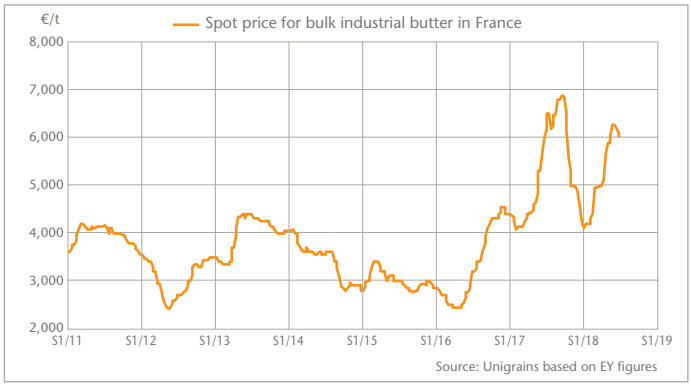
Achevé d'être rédigé le 6 juillet 2018

Soft wheat FOB Rouen



In the first half of 2017-2018, French wheat came under strong competitive pressure on the international markets, especially from Russian origin. Prices then went on to recover, supported by the emergence of concerns about crop conditions in a number of strategic areas, primarily the United States, then Australia, the Black Sea and finally Europe. The euro's depreciation against the dollar in the last quarter also played a part in improving the competitiveness of our wheat and helped accelerate exports to third countries. While prices recovered substantially in the second half, the average for the season remained particularly low, around €160/t on a July basis, and this has been the case for the last three campaigns. It is difficult to make a forecast at this critical juncture before the first harvests in the northern hemisphere, all the more since there was some nervousness at the beginning of harvest, with all eyes on Black Sea countries and Europe. Factors to keep an eye on will, of course, be the volumes actually achieved in these regions, but also the magnitude of corn production in the Americas. If the corn crop is good, wheat can afford to lose market share in animal feed and improve its performance.

Butter

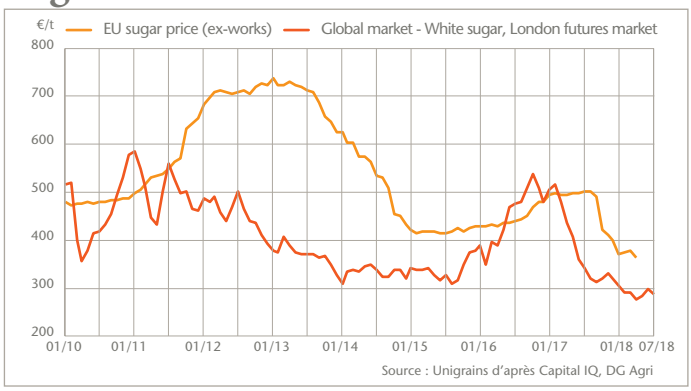


After having reached a historically high level, flirting with €7,000/t in the autumn of 2017 when there was a shortage, the Atla spot price for bulk industrial butter fell at the end of the year with the seasonal increase in EU milk collection. Prices then soared again in early 2018, rising back to above €6,000/t in mid-May.

The increase in collection ended up being moderate and additional volumes were mainly used for cheese production. While butter prices remain at a high level, this is not the case for its byproduct, skim milk powder, given the stocks accumulated in the European Union during the phasing out of milk quotas. These stocks are starting to decline, with the recovery in global demand for milk powder leading to remarketing, notably from April. In the first four months of 2018, however, butter production rose only moderately.

EU butter stocks remained at a very low level at end-April, lower than in April 2017. Global demand remains sustained and EU milk collection started its seasonal decline, which is set to continue until November. Butter prices are expected to reach very high levels in the second half of 2018.

Sugar



World sugar prices reached all-time lows in the first half of 2018, with white sugar on the London market falling under the €300/t mark. The rise in global production in the 2017- 2018 marketing year is estimated at +10% (ISO), leaving a surplus of around 10m tonnes, i.e. 5% of global production. The explosion of production in India (+10m tonnes) and in Thailand (+4.5m tonnes) was particularly disruptive. In Europe, where production also increased sharply (+3.4m tonnes, or +20%) due to the abolition of the quota system in October 2017, the average price of sugar ex-works plummeted to €360/tonne.

The prospect of a significant rise in prices in the next 12 months remains limited, despite strong momentum in the Brazilian ethanol market (RenovaBio programme, high oil prices) and the downturn in Brazilian sugar cane production, weighed down by the lack of investment in plantations. On the one hand, the real is continuing to depreciate in 2018 against the backdrop of a severe political and economic crisis, on the other hand production is expected to continue to reach high levels in India, Thailand and Europe.

Euro-dollar exchange rate

Oil