

## Trends in the European Seed Industry<sup>1</sup>

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Europe's agriculture is dominated by small grain cereals with more than one third of the world's wheat area, nearly two-thirds of its barley and oats, and more than 80 percent of its rye and triticale; together these five crops account for about 127 million hectares (about 314 million acres). Corn for grain is an important crop in Europe but it does not dominate to the same extent as in North America with only 10 percent of the world's planted area (compared to 23 percent in North America); also, in some countries corn for silage is as important as grain. Soybeans are of negligible importance, accounting for just 2.2 million hectares (5.4 million acres). In place of soybeans, Europe is a major producer of oil seed rape (more than Canada's area of canola and at nearly twice the yield) and sunflowers (55 percent of the world area). Sugarbeet is another major row crop with Europe having over 80 percent of the world area.

Europe is one of the most productive areas for world agriculture on a per hectare basis but there is significant variation in yields through the region. In broad terms, the Western countries tend to have the highest yields while the Eastern ones tend to have lower yields. As an example, we can note that corn in North-Western Europe yields at about the same level as the U.S., around 9-10 tonnes/hectare, but that in the Eastern areas 4-5 tonnes/hectare is more normal. Across the region, small grains

and sunflowers out-yield the world by 10-15 percent, but again the Western countries (eg UK, France, Germany) are usually much more productive, averaging 7-8 tonnes of wheat per hectare, compared to the South-Eastern countries (eg Ukraine, Romania) where yields are typically in the 2-3 tonnes/hectare range.

Much of the regional yield variation is the result of three main factors:

- The Western countries have been European Union (EU) members for more than 30 years. Generous support payments under the Common Agricultural Programme (CAP) established a high-input form of agriculture, which led directly to high yields. In contrast, the previously centralised economies (of which several joined the EU in the last decade) operated with much lower input levels and less modern equipment. Despite this, certain ex-centrally planned economies (notably Poland, Hungary and the Czech Republic) are clearly in front of others (eg Bulgaria, Romania and Ukraine) and their performance is approaching that of other central European countries like Germany and Austria.
- Even absent the present financial crisis (to be discussed later), the availability of finance also varies across the region for historical political reasons. Well-established banking systems, secure property rights and judicial processes mean that farmers and businesses in the western countries have always been more able to access finance than their eastern neighbours.
- Climatic factors bear hardest on the South-Eastern countries with greater and more frequent drought/heat issues than

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in other parts of the region. In 2007, prolonged high temperatures severely affected crops in some countries (yields of corn in Romania dropped from a typical level of 3.0/4.5 tonnes per hectare in previous years to only 1.7 tonnes/hectare).

U.S.-based seed and crop protection companies like Monsanto and Pioneer have obtained strong positions in the European seed sector and have expanded into the new territories (Poland, Czech Rep, Hungary, Ukraine etc) in the last 15 years. But, their positions in Europe are not as strong as in North America because consolidation has not moved so far and there are several strong local companies. Dow AgroSciences (DAS) is strong in crop protection in Europe but is only now becoming a force in the seed sector.

Europe is the home of three companies with large crop protection and seed elements. Syngenta Seeds, based in Switzerland, is heavily involved in corn, sunflowers, and sugarbeet; Bayer is a leading force in cotton, oil seed rape, and vegetables. BASF is a technology powerhouse, but has not really entered the operational part of the seed sector, though it is frequently considered as a potential acquirer.

Limagrain, from France, is one of the leading seed companies in the world with seed sales, mainly corn, wheat and vegetables, in excess of €900mn (nearly \$1.3 billion); although it has a public listing, it is strongly linked to the cooperative movement. KWS of Germany (corn, sugarbeet, and cereals) is also publicly quoted and has seed sales of around €600mn. These two companies cooperate in North America via their jointly owned company, AgReliant, but compete in Europe.

Apart from Limagrain, many of the more important French seed companies are either directly owned by cooperatives or have significant cooperative elements in their shareholding structures. Euralis and

Maisadour are clearly part of the cooperative movement while Caussade is linked to some cooperatives. RAGT, while family-controlled, also has public investment. All these French companies are fiercely independent and their shareholding structures are likely to keep them so unless they suffer unacceptable financial problems. The cooperative movement in France places great attention on the concept of service to the farmer members (including offering them the chance to be seed producers and being at the forefront of research); this approach is not replicated elsewhere. Additionally, the co-ops often supply farm inputs and manage the disposal of farm outputs, including by manufacturing value-added products. For example, the Pau-based cooperative that is behind Euralis Semences is one of the leading foie gras producers in the world. In other parts of Europe, family owned companies tend to predominate in the seed industry, sometimes in formal or informal partnerships, like Saaten Union in Germany.

In farming terms, Europe is almost GM free. After long debates, the European Commission (which manages the EU) has accepted certain GM crops, and their produce, for importation and MON 810 Bt corn can be planted. However, many member governments have imposed seemingly arbitrary, and legally dubious, bans on the latter. Further approvals of several plant/trait combinations are currently stalled. GM cultivation has progressed most in Spain but only in the relatively limited area where corn borer is significant.

In the industry itself, there is a feeling that GM is likely to become accepted in Europe simply because of pressure from trade bodies (eg WTO) as well as the governments of exporting countries (USA, Canada, Brazil, and Argentina especially). But, additionally, countries like Russia, Ukraine, and Turkey are not EU members and are free to make their own regulatory decisions. If they perceive the benefits to be large enough they may switch to GM

varieties. If they do so, they will place enormous pressure on growers in Greece, Bulgaria, and Romania (all EU members). If those countries adopt GM, they will impact all other countries because EU law demands complete freedom of movement of products. Thus, there is a view that if GM does become accepted, it will be widely and rapidly adopted, just as the penetration of the Argentinean and Brazilian markets was much speedier than the original penetration of the U.S. market.

To date, there has been less consolidation among European row crop seed companies in comparison with North America. At Verdant, we perceive this to be likely to change and that it will be driven either by technological change or by the threat of it. We know that many companies are actively examining how they can position themselves to cope with this. One company that decided to change was SWS, a German corn company linked, via its three shareholder companies, to Saaten Union. In December 2008, the assets of SWS were acquired by Dow AgroSciences (DAS).

Within the last few months, the big event has been the impact of the financial crisis. This has had a devastating effect on exchange rates in the Eastern countries

(some have fallen as much as 50 percent against the euro) and on the availability of credit. Many companies that were developing good business in the massive Romanian, Ukrainian, and Russian land areas (a bread basket for the world) have retrenched sharply in the 2008/9 seed selling season because farmers in those areas were unable to pay for seeds. In some areas, volumes are down by 75 percent and this may create inventory issues in the coming years. Most European seed companies expect these problems to persist for two/four years. But, this turmoil suggests that there will be opportunities. Verdant is positioning itself to assist companies seeking change in that geography.

*Verdant Partners LLC is a leading investment banking and consulting firm specializing in the global crop genetics sector. With over 300 years of combined experience in all crops and in all phases of the international crop genetics industry, as well as in other sectors of agribusiness, Verdant's investment banking and consulting skills are sharply focused and experience-based. Each of Verdant's principals has senior management experience in leading agribusiness companies. Together, Verdant has initiated and managed transactions and alliances valued in excess of U.S. \$1.5 billion. ■*