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 **NORTON ROSE FULBRIGHT**

Food and agribusiness survey

Risks and opportunities in a changing global market



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Introduction

Norton Rose Fulbright interviewed over 80 senior executives from organisations across the global food and agribusiness industry in order to identify on going and recent trends within the sector.

This survey is a follow up to our survey in March 2012 and interviews were conducted between December 2013 and March 2014.

We explored a range of topics from price volatility, regulation and subsidies to genetically modified food, the food v fuel debate and the impact of emerging markets on both

production and consumption patterns. There are a number of parallels with the results of a comparable survey we conducted in 2012, as well as some notable new trends. We hope that you will find the results of our research informative and thought provoking. In the following summary, all viewpoints given, unless otherwise stated, are the views of respondents to the survey.

Shifts in demand and supply are having a profound effect on the global food and agribusiness industry.

Demand side pull

Urbanisation, an expanding middle class and population growth in emerging markets are boosting overall demand for food and also changing dietary preferences.

As a growing number of people in China, India and other emerging economies increase their incomes and enter the middle classes, they are adopting higher calorie, protein-

and dairy-rich Western-style diets. This is putting pressure on the food and agribusiness industry to grow more cereals and animal feeds such as soya. The fact that it takes up to 16 pounds of feed and as much as 800 gallons of water to produce one pound of beef illustrates how increasing demand for protein is transforming the industry.



16 POUNDS
of feed

800 GALLONS
of water

1 POUND
of beef

Supply side response

Significant investment and innovation is required if the food and agribusiness industry is to meet this growing demand.

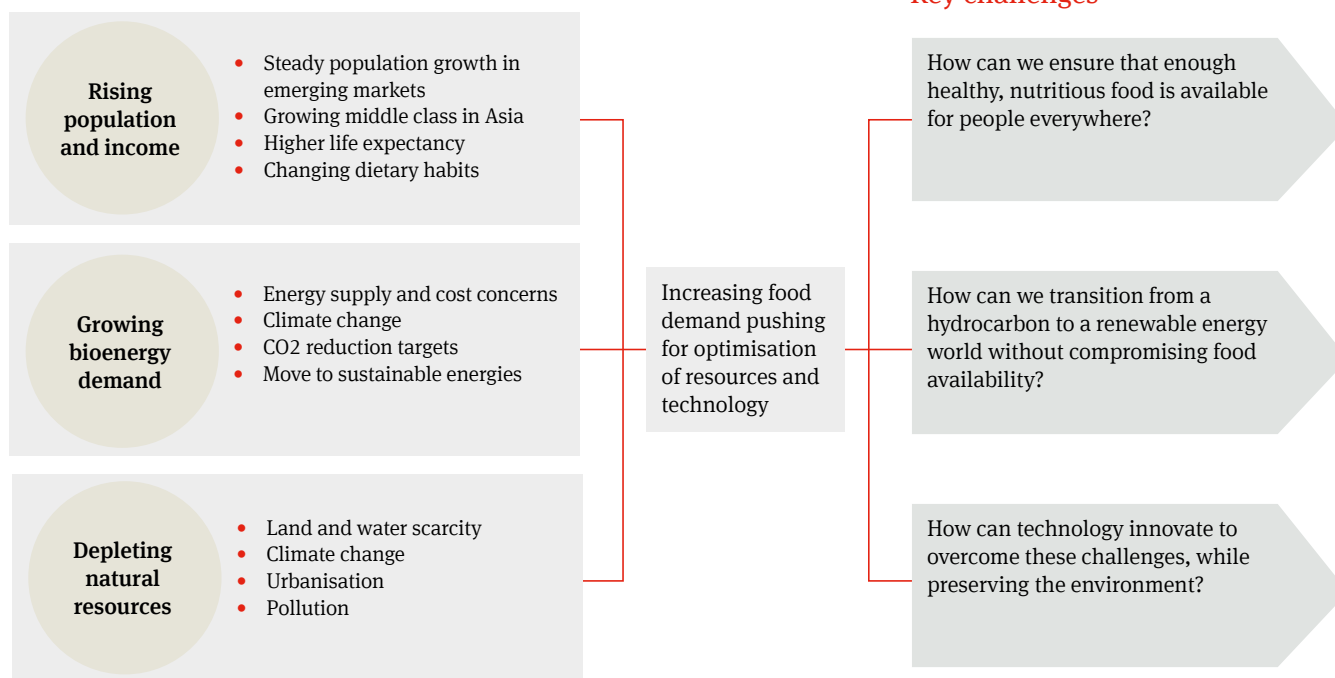
Increasing the amount of land under cultivation and improving yields from existing land by irrigation, increasing the use of fertilizers and pesticides and using improved seeds are the classic supply side responses in the food and agribusiness industry.

However, increasing investment in information management, logistics, processing and transportation infrastructure is also key to expanding the supply of food and other agri commodities from newly cultivated land and in enlarging the markets (including international markets) accessible to existing cultivated land.

The agribusiness sector is traditionally low margin and volatile, and, as a result, securing investment capital is not always straightforward. Equally, the food and agribusiness industry involves more risks than many others, particularly because it is susceptible to numerous variables and uncertainties such as extreme weather events and natural disasters, some of which may be linked to climate change. One only needs to think of the polar vortex that swept across the United States earlier this year and the difficulties that created for livestock farmers in the Midwest.

In emerging markets, social and economic changes – urbanisation and industrialisation – are causing more young people to move away from agricultural work and into white collar jobs, putting further pressure on the industry's supply side response.

Structural trends



Source: Global Agribusiness Investment Outlook 2014 from Valoral Advisors

Genetically modified organisms

The desire to increase yields (in particular in the face of extreme weather events) has stimulated debate around the use and production of genetically modified foods with GMOs (genetically modified organisms). Many respondents stressed that crops have to become more weather resistant and hardy and they expect that there will be a greater use of food incorporating GMOs in coming years. Consumer sentiment in this area appears to be changing, with more receptive attitudes developing in markets that were once quite opposed to GMOs.

There is a difference between how the developed world and the emerging markets approach GMOs. It is the developed world that needs to be convinced of the value of GMOs, primarily because many consumers in the developed world have the luxury of choosing between genetically enhanced foods and conventionally grown crops, whereas in the emerging markets the chief concern is about supply meeting ever increasing demand, so there is less antipathy towards GMOs and genetically enhanced foods.

Public opinion (particularly in the developed world) is still not sufficiently informed about the value of GMOs or how the use of genetically modified crops could in fact reduce the need to use chemicals to prevent disease or damage from pests.

The future for emerging markets

Some emerging markets – in particular Brazil and Russia and, in the longer term, Africa – are regarded primarily as sources of increased supply, with potential to reduce costs and increase production. Other countries – notably China, with its huge and still expanding middle-class population – are a source of increased demand for food and other agri products.

Average yields in Africa are well below global averages; a lifting up to global averages would significantly expand production in Africa. Clearly the region has potential on the supply side. But Africa also has significant longer-term prospects as a consumer market for the food and agribusiness industry, especially in countries (such as Nigeria) which are predicted to see a significant rise in the coming decades in overall population and the number of middle-class consumers.

India's future role in the industry is less certain. Despite forecasts showing that India's population will exceed China's in 10 to 15 years' time, India is unlikely to have the same impact on global food consumption as China. In part, this is because production will probably focus on satisfying domestic demand; and, at least to date, cultural factors have resulted in fewer changes in dietary preferences than in China.

Brazil and Russia are influential producers and exporters of agricultural products. Brazil is perhaps the key

producer globally in the agribusiness sector. Russia is a significant player but has not realised its full potential; its role may be further affected given recent events involving Russia and the Ukraine.

In our 2012 survey, 91 per cent of respondents believed that the BRIC markets would have a 'very significant' impact on the agribusiness sector. In this survey, only 64 per cent believe these nations will have a 'very significant' impact. This is consistent with the view that the BRIC countries as a block are having a lesser impact on global growth.

A broader group of emerging markets are driving demand and supply in the agribusiness industry. Parts of Africa and South East Asia (for example countries such as Indonesia and Vietnam) are increasingly important.

There are particular risks in dealing in jurisdictions in the emerging markets, risks around the ability to enforce contracts and to resolve disputes, and in a heightened exposure to bribery and corruption. There are also significant difficulties related to infrastructure and logistics, areas which are under-developed in emerging markets.

Given the risks associated with operating in emerging economies and the narrow profit margins in the agribusiness industry, relatively few respondents were enthusiastic about investing large sums to develop their own infrastructure. Even when they were, respondents were concerned that such projects may be difficult to finance, although there are signs that this situation may be improving.

Regulation and subsidies

Regulation may not be an effective way to manage price volatility. (Among respondents, 55 per cent said this would not be desirable; 69 per cent said it would not be achievable.)

However, in certain areas, regulation is an important means of ensuring that markets operate efficiently. Regulation is, for example, important as a means of allowing access to water, underpinning land ownership and affording protection of indigenous peoples.

Respondents appeared wary of the global regulatory environment and resistant to additional regulation.

Food v fuel

There is a potential conflict between the production of food and biofuel. With governments and states looking to meet renewable energy targets and offering subsidies and funding to achieve this, it may be an attractive, profitable option to move into biofuel production.

However, most respondents believe that we should be able to increase food production across the globe and still meet renewable energy targets.

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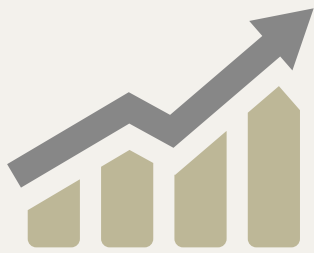
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Executive summary

Below we set out some high level findings from the survey.



97%

of respondents say BRIC nations will have a 'significant' or 'very significant' impact



71%

of respondents say there will be an increase in take-up of genetically modified foods or inputs over the next two years



of respondents say the production of fuel from food should not be subsidised



51%

of respondents say the availability of finance to the sector has improved in the last 12-18 months



of respondents say China will be the source of the greatest foreign investment flows in the next 12-18 months



72%

of respondents say there should be greater regulation surrounding water rights and access to water

Key findings

Demand and supply in the food and agribusiness industry

When asked about the factors that affect price volatility in the agribusiness industry, respondents emphasised that it is the fluctuating balance between supply and demand that most impacts price volatility. It is then important to look at the factors which affect supply and demand to understand the price volatility seen in the food and agri industry in recent years.

An expanding middle class and urbanisation in emerging markets is having a profound effect on demand in the agribusiness industry as larger segments of the population have the money and appetite for meat, dairy, protein-rich foods and western style diets.

In turn this is putting pressure on the agribusiness sector to be more productive, innovative and efficient to meet increased demand.

Factors impacting on the food and agribusiness industry

Respondents identified climate change and natural disasters, increased consumption in emerging markets and the price of, or access to, agricultural inputs as having the most impact on the global agribusiness sector in the next three years. Respondents showed considerably more concern for climate change than in our 2012 survey.

97% of respondents believe that the BRIC nations will have a significant or very significant impact on the agribusiness sector. 64% expect the BRIC markets to have a very significant impact.

20% of respondents see labour force constraints and the cost of labour as a significant hurdle for sustained growth in the agribusiness sector.

GMOs and agribusiness

53% of respondents identified that consumers and retailers have become more receptive to genetically modified food over the last two years.

71% of respondents expect an increase in utilisation of genetically modified foods or inputs over the next two years.

67% are looking to increase investment in food safety in the next 12 months.

Foreign investment and capital investment in the food and agribusiness industry

26% of respondents identify China as the source of the greatest foreign investment flows in the next 12-18 months, although respondents acknowledge that resistance to foreign ownership of agribusiness assets will pose a problem. Respondents also believe that the United States will continue to be an influential source of investment.

A sizeable 59% of respondents expect to increase their investments in the agribusiness sector in the next 12 months.

51% believe the availability of finance to the food and agribusiness sector has improved in the last 12-18 months.

Agribusiness and renewable energy

68% of respondents state that the production of fuel from food should not be subsidised.

However, respondents are optimistic about increasing food production while still meeting renewable energy targets. 80% of respondents believe that it is possible to increase food production while meeting targets. This compares with only 59% in 2012.

Regulation and subsidies

69% of respondents believe that further regulation to manage price volatility is unachievable and 55% say that it is undesirable.

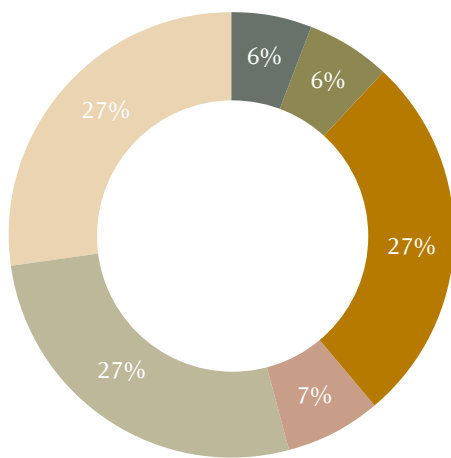
72% of respondents believe that there should be greater regulation surrounding water rights and access to water.

65% of respondents believe that the production of food should not be subsidised. However, respondents recognise that there are political imperatives around food supply for local populations.

19% of respondents do not have a formal anti-bribery/corruption compliance programme in their organisation.

Price volatility

Which of the following factors are impacting on current price volatility in the food/soft commodities sector?



- WTO Trade negotiations
- Producer subsidies
- Increased consumption in emerging markets
- Use of bio fuels
- Non-traditional investors such as commodity index funds, swap deals and money managers
- Price of or access to agricultural inputs, i.e. potash/fertilizer, seeds
- Climate change and natural disasters
- Protectionism/trade barriers/ lack of market access

Respondents view the primary causes of price volatility in the food and agribusiness industry as:

- increasing consumption in emerging markets
- climate change
- natural disasters
- the price of access to agricultural inputs

These results are very much in line with our last survey in 2012, although it is notable that respondents regard the impact of the use of bio-fuels as much less significant than they did in 2012. Only 7 per cent of respondents identified the use of bio-fuels as having a significant influence on price volatility.

Respondents are concerned by classic supply and demand fundamentals. Economic growth and higher incomes in emerging markets are having a major effect on demand. Put simply, there are more mouths to feed and higher income individuals and families are seeking diets that are more meat and protein-based than they have been historically. With a greater demand for meat, the agribusiness industry must produce animal feeds such as cereals, grains and soya to feed

the livestock. On the supply side, extreme weather events and natural disasters affect supply and this contributes to price volatility.

Respondents also note the influence of urbanisation on price volatility. As a greater percentage of the population inhabits large towns and cities, this increases demand for high value commodities such as dairy and meat and leads to greater supply side challenges as workers move away from agricultural jobs.

Respondents see the emerging middle classes and urbanisation in Asia as market-changing phenomena, with China given particular attention. One survey participant points to the US, Japan and Korea as key meat markets over the years, but recognises that secondary markets such as China and the Middle East are quickly developing. For a number of reasons, India is not viewed as such a key market. Domestic production for local consumption is still a notable trend and, furthermore, a large percentage of the population adhere to vegetarianism for cultural and religious reasons.

Climate change, extreme weather events and natural disasters are also identified as being of concern to the

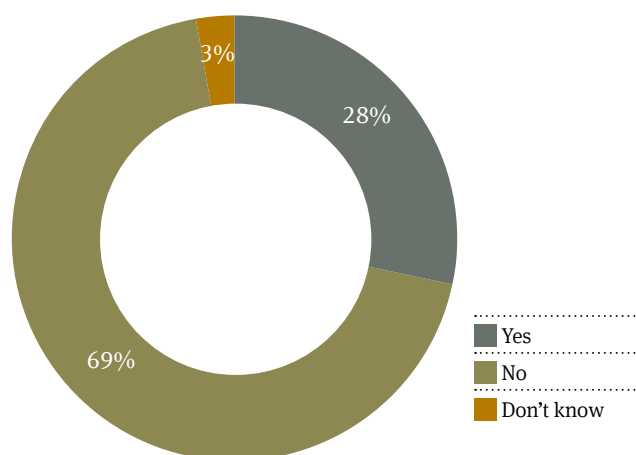
‘Demand is growing and supply is not keeping up with it, so any disruption is felt.’

Olaf ter Bille, Global head of hedge trading – dairy platform, Louis Dreyfus Commodities

‘It could work on an individual country basis but not across countries, because each country has its own specific requirements.’

Ian Burgess, Food technical manager, The Co-operative

Do you believe further regulation to manage price volatility in this market is achievable?



industry and a cause of price volatility. Depending on the time of year and where these events take place they impact different segments of the industry. For example, a recent drought in Brazil caused the price of coffee beans to reach record highs, whilst in 2011 a cyclone in Queensland caused banana prices to reach highs of over A\$15 a kilo.

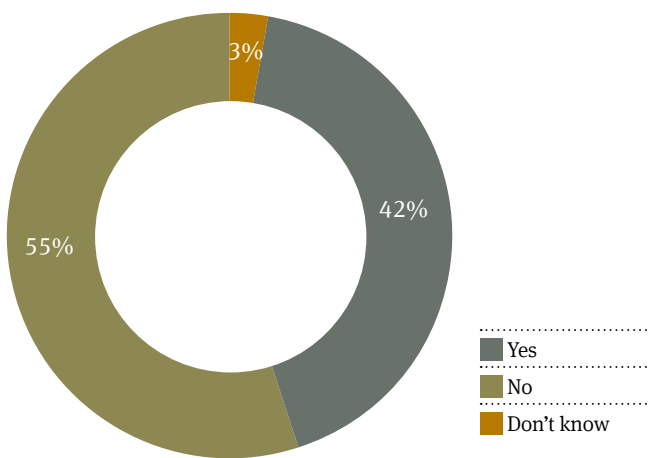
Respondents see the combination of increased demand and extreme weather events as a grave problem for the industry as they leave little margin for error on the supply side. Respondents say it is imperative to maximise harvests and work with the limited available land and water resources. One respondent noted that a weather event or natural disaster in one country or region often leads to price volatility in the wider vicinity or even in the global market. This explains why global traders are continuing to build their international presence, especially in the southern hemisphere, so that they can hedge against any unexpected adverse weather events.

The price of, or access to, agricultural inputs is identified as a major contributor to price volatility – and as having a more profound effect on the market than was remarked on in our 2012 survey.

Further regulation to manage price volatility is, according to 69 per cent of respondents, not feasible. There is a view that, while this may be achievable at a regional level (in the European Union, for instance, or where multilateral treaties exist), addressing price volatility at a global level would simply not be achievable. In our 2012 survey, 78 per cent of respondents believed that this was not possible.

Respondents note that worldwide regulation is something that has proven hard to coordinate.

Do you believe further regulation to manage price volatility in this market is desirable?



'It would be like trying to regulate the weather: there is no point.'

Keir Ashton, Chief legal officer, Louis Dreyfus Commodities Suisse SA

Respondents appear divided on the issue, with 55 per cent believing that further regulation to address price volatility is undesirable. A number believe that, whilst the idea may appear attractive, it would be impossible to police around the world and could have negative consequences.

Respondents acknowledge that many jurisdictions face their own particular challenges and problems, so reaching a global consensus on this issue would be too demanding. One respondent pointed to the amount of time that EU members spend trying to achieve common ground on regulation; trying to do this at a global level would be substantially more arduous.

'The market is too big to be regulated.'

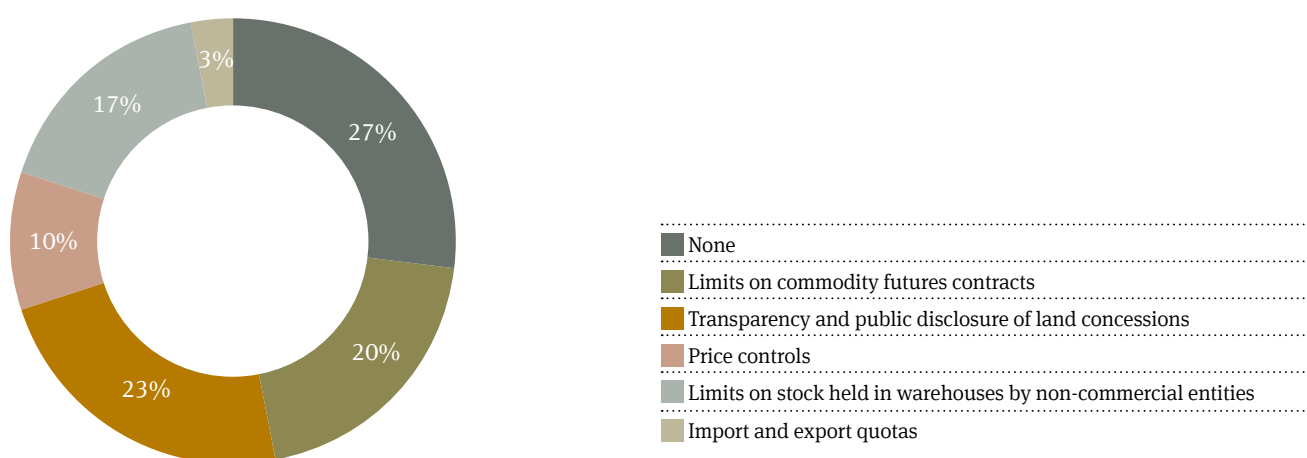
Iain Lappin-Smith, Managing director, Macquarie Bank

Many respondents believe that there is already too much regulation and that free trade principles should be applied more widely. The continued international debate over Canadian supply management systems for its dairy, poultry and egg industries is a case in point. Respondents in the main are in favour of classic supply and demand fundamentals to regulate the market.

'Food markets are already regulated. There are financial markets and trade and food safety issues, but further regulation would have an adverse effect.'

Gerdien Meijerink, Scientific researcher, LEI Wageningen UR

What regulation is needed?



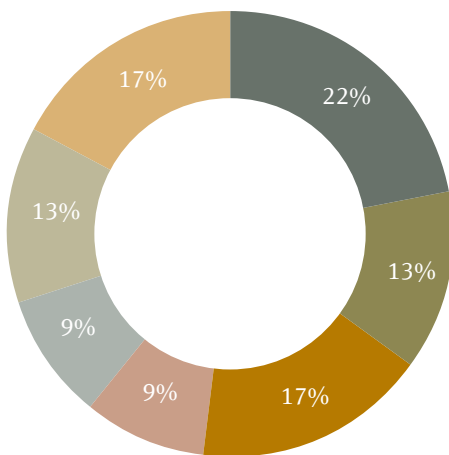
The largest section of respondents, 27 per cent, believe that no new regulation is needed to manage price volatility. This contrasts with 46 per cent in 2012.

Some 43 per cent of respondents believe that limits on commodity futures contracts or transparency and public disclosure of land concessions could provide real benefits to the agribusiness industry and mitigate against price volatility. Only 16 per cent believed this in 2012.

Some respondents express concern about the impact of non-traditional investors on the market, with 20 per cent believing that there should be some limits on commodity futures contracts. It is difficult to pinpoint the exact concern with non-traditional investors' involvement in the industry; however, some respondents view with concern the ability of large investors, hedge funds and financial institutions to speculate, seeing this as a means of distorting markets and amplifying price volatility.

The changing market

Which factors will impact on the global agribusiness sector in the next three years?



- Climate change and natural disasters
- Political instability
- Scarcity of natural resources such as land, water and phosphate
- Overregulation in the sector
- Low-cost competition
- Protectionism/trade barriers/lack of market access
- Price volatility

Though some respondents express scepticism about the impact of climate change and natural disasters, the underlying data from our survey indicates that these issues are of grave concern to most industry participants. A number of our respondents see climate change as principally a longer-term issue, but extreme weather events and natural disasters are listed by many respondents as factors which are expected to impact the agribusiness sector the most over the next three years.

Price volatility is also identified as a factor which will impact the global agribusiness sector. Many respondents see price volatility as a major source of risk but feel that price regulation to mitigate this risk is neither feasible nor desirable.

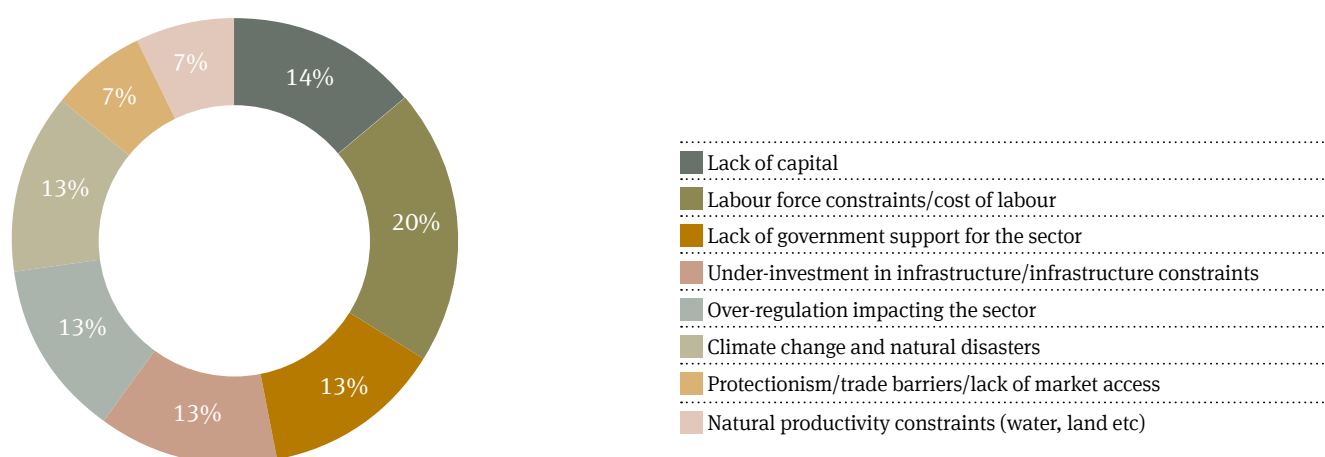
Many respondents also note the effects on the sector of increasing demand and changing requirements from emerging markets. As previously discussed, underlying this is urbanisation and the expansion of the middle classes in emerging markets. Respondents recognise that meat and protein-based products are becoming ever more integral to the diets of higher-income individuals and families. Respondents note that urbanisation in particular changes

the attitudes of people and exposes them to a wider range of dietary options. All of this further impacts on demand in the sector.

Scarcity of natural resources is also identified by our respondents as an important factor affecting global agribusiness over the next three years. Respondents believe that the lack of appropriate land for crops and difficulty in accessing water will affect agribusiness.

The development of biofuels as a renewable energy source and land ownership restrictions are also identified by respondents as key factors.

What do you see as the most significant hurdles for sustained growth of the agribusiness sector in your jurisdiction in the future?



Labour force constraints and the cost of labour are considered by respondents to be significant obstacles to the growth of the agribusiness industry. Respondents highlight that industrialisation in emerging markets has resulted in people moving away from agriculture, in part because income for farmers and agricultural producers is not as high as in many other sectors. Young people and workers are more attracted by urban living and the promise of a higher income.

‘Germany is very industrialised, so it is easy for people to get jobs in other sectors. In other countries there is no alternative, so farmers stay on as farmers, but in Germany the income for farmers is not very good, so they often choose a different profession.’

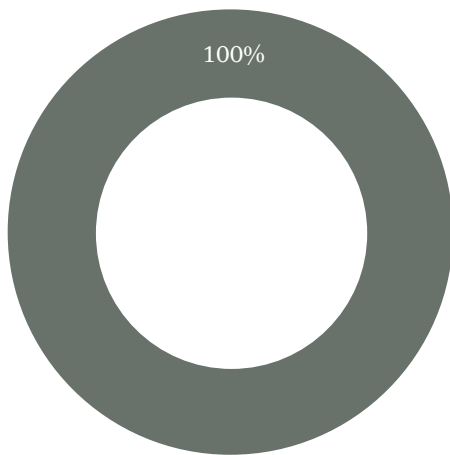
Ulrich Kittmann, Team head, DZ Bank

Respondents are also concerned by the lack of infrastructure, particularly in emerging economies. This links into the issue of a lack of government support for the industry, with many respondents highlighting the importance of private investment in infrastructure given that public investment levels have declined. However, given the tight profit margins in the agribusiness industry, many respondents are reluctant to invest in their own infrastructure. Furthermore, the natural volatility of the market makes respondents wary of making long-term investments in certain jurisdictions or regions.

Access to water is another major concern for respondents, particularly in dry areas such as parts of Africa and Australia. Droughts appear to be a particular issue for Australia, while respondents highlight the lack of infrastructure and sanitation in Africa to support agricultural initiatives. Respondents express some frustration with perceived government procrastination towards necessary infrastructure upgrades and programmes.

Lack of capital and liquidity remains an issue for many respondents. Respondents recognise that this has improved since the global financial crisis in 2008, but liquidity is still not back to previous levels.

How do you think the shape of the agri-industry will change over the next three years?

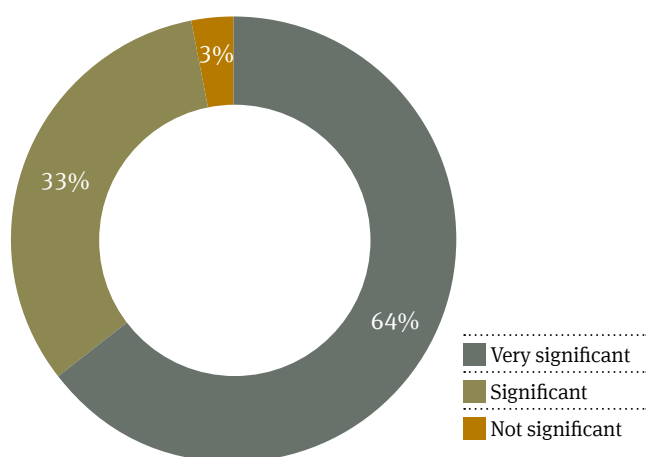


- Further consolidation
 - More government regulation/involvement
-

All respondents expect further consolidation. The major US food conglomerates are expected to be acquisitive, as are large Chinese companies looking to consolidate their supply chains. Vertical integration by large multinationals, including the traders, is seen as the most likely trend, as they already have an advantage over smaller domestic producers which have yet to create the necessary infrastructure systems to exploit global opportunities.

Global markets

What will be the impact of the BRIC markets on the agribusiness sector?



Virtually all – 97 per cent – of respondents think that the BRIC countries will have a significant (33 per cent) or very significant (64 per cent) impact on the agribusiness sector. This data contrasts with our 2012 survey, in which 91 per cent of respondents saw the BRIC nations having a ‘very significant’ impact on the industry. This appears to be consistent with the global view that the BRIC countries as a bloc are having a lesser impact on global growth and that a broader group of emerging markets is driving demand and supply in the agribusiness industry. Parts of Africa and South East Asia (for example Indonesia and Vietnam) are seen as increasingly important.

The BRIC nations are still very important as producers and consumers. Respondents point to the huge demand coming from China, especially with rising affluence and the growth of the middle class. One respondent highlights the sizeable growth in demand for dairy products in China and the effect that this demand has had on global prices. Even so, respondents believe that China will become more self-sufficient over time. According to respondents, China’s domestic policies appear to be geared towards national food security rather than supporting international agribusiness. This is likely to translate into greater M&A activity in the agribusiness industry by Chinese companies, a trend which is already apparent in Australia.

‘China will not stop; there are 1.2 billion people compared to 300 million for the US: it is just huge and one of the biggest markets for Australia.’

Alistair Ferguson, CEO, Arcadian Meat Company

‘We are seeing a lot of Chinese investment into Australia where the strategy is to secure the complete supply chain – the “paddock to plate” approach, where the paddock might be in rural Queensland and the plate could be in Beijing or Guangzhou.’

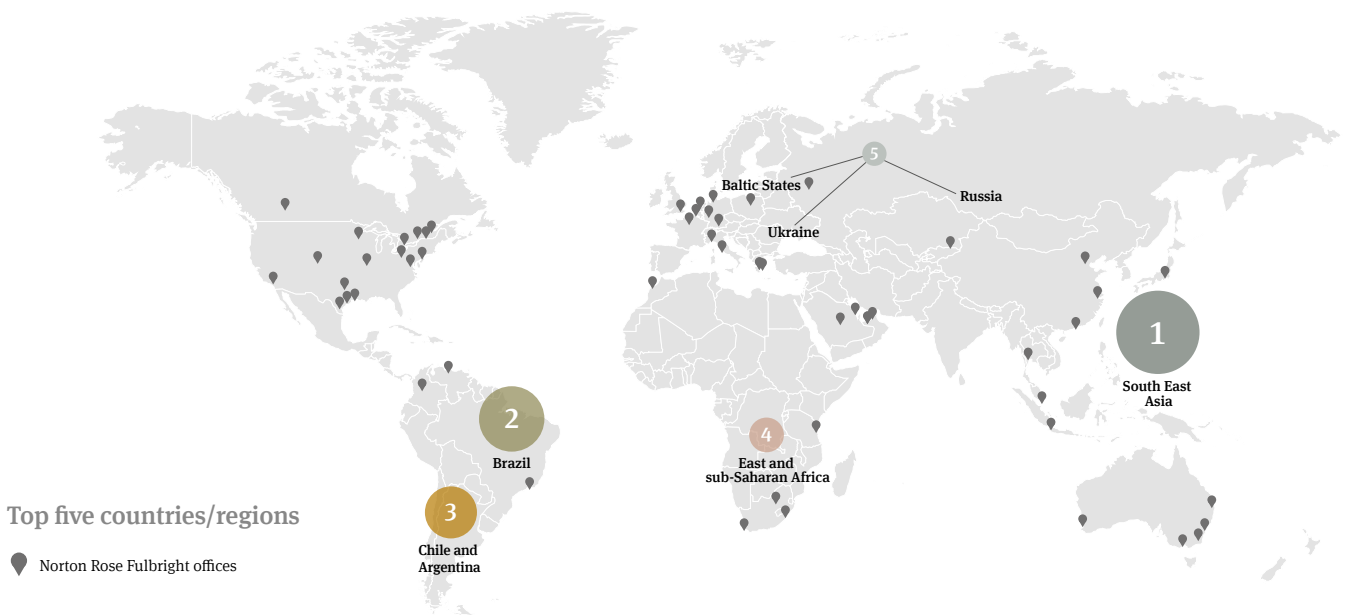
Anthony Latimer, Partner, Norton Rose Fulbright Australia

Although considered a major consumer and importer, India is thought to have less influence on world markets than China. It has different eating habits to China. Recent data published by the FAO indicated that it has the lowest rate of meat consumption in the world. In addition, India’s sizeable infrastructure deficit prevents it from being a major exporter in agribusiness.

Brazil is commended by respondents for its status and capacity as a key global exporter. Respondents praise Brazil for its appetite for investment and its ability to increase yields per hectare. Brazil’s enthusiasm for agribusiness is thought to be permeating into neighbouring countries in South America, such as Argentina and Chile, which are now looking to imitate Brazil’s considerable success.

Respondents see Russia and Ukraine as significant players in the market, but believe they have so far failed fully to realise their enormous potential. Russia has not integrated with global markets in the same way that Brazil has, although respondents recognise that Russia’s land capacity and attractive climate, particularly in the Black Sea region, could be harnessed to enable it to be a major exporter. Respondents expect Russia to be a significant wheat producer in the future.

Which of the following countries/regions offers the most opportunity for sourcing supply over the next two to five years?



South East Asia is thought to have significant potential, in part because the climate in certain regions is conducive to the agribusiness industry, but also because of the region's proximity to the major consumer markets of India and, in particular, China.

Brazil and the neighbouring states of Argentina and Chile are also expected to be key for sourcing supply in the coming years. Brazil is already an established player in this regard, but respondents expect Chile and Argentina to become sizeable exporters.

East and sub-Saharan Africa offer a productive climate, but respondents express concern about the under-developed infrastructure and, in some jurisdictions, the uncertain political climate. One survey participant points to the potential of Sudan, but because of US sanctions Sudan is seen as high risk. Ethiopia, Zambia, Zimbabwe and Uganda are also seen as promising jurisdictions.

Russia, Ukraine and the Baltic States are highlighted by respondents as having significant potential. The Black Sea region is believed to be especially attractive for investment, but respondents are concerned by the lack of infrastructure and the unpredictable political environment.

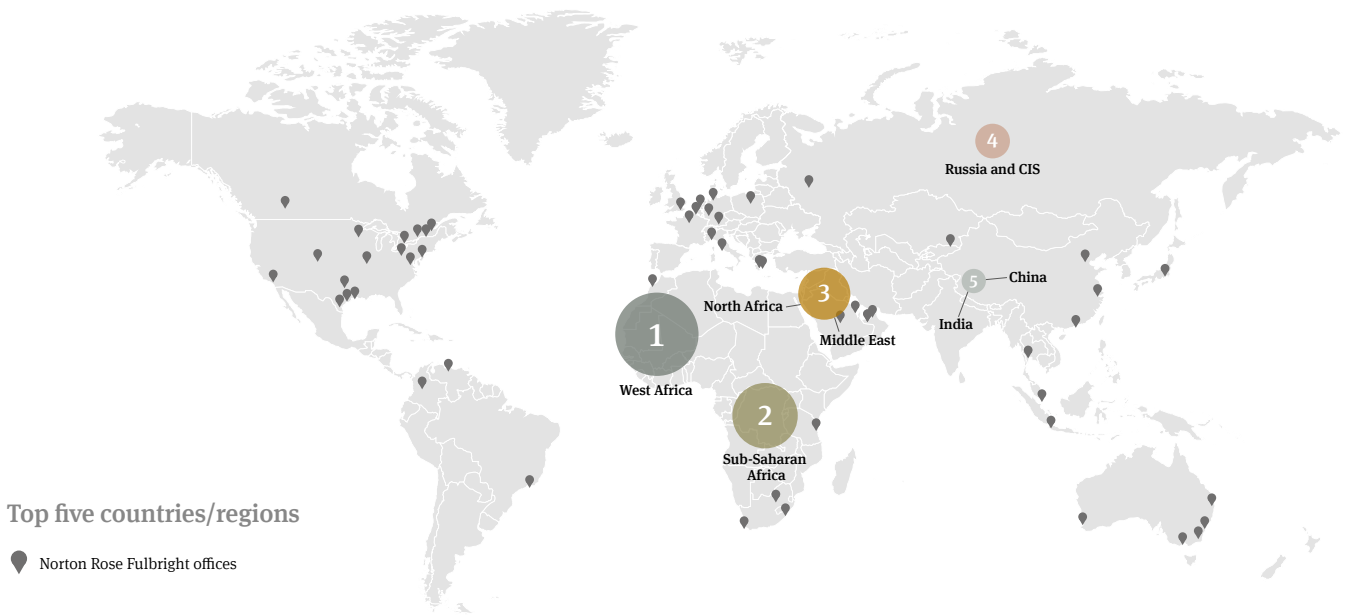
Respondents with Australian and New Zealand interests note the number of opportunities for Australia and New Zealand to supply to emerging markets as demand in those markets grows.

'The biggest opportunity will come from South East Asia. In 2015 there will be integration of border controls and this will increase transactions within the region. This will be very beneficial and will also help to reduce the carbon footprint.'

Antonio Tiu, CEO, Agrinurture

Risk

Please rate the following jurisdictions in terms of your perception of the risk involved in investing in agribusiness

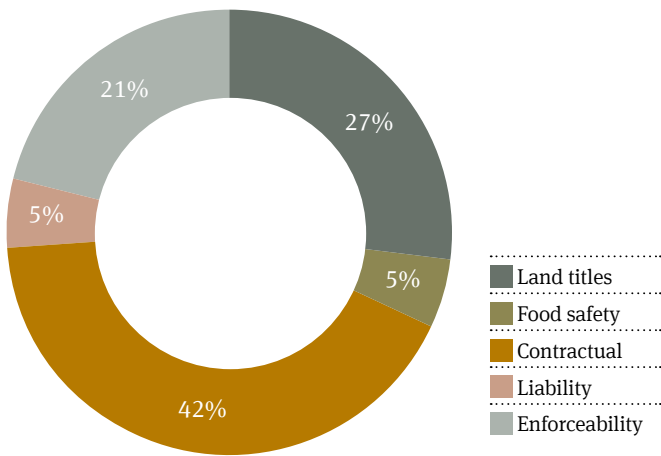


As with our survey in 2012, respondents identify West Africa and sub-Saharan Africa as the most risky regions to engage in agribusiness activities. The Middle East and North Africa (MENA), followed by Russia and the CIS, and China and India, are also considered higher risk regions.

‘Africa is still seen by the industry as a risky place to do business, although there is growing appreciation of the variation between different parts of the continent. But the long term potential is clear as both a producer and a consumer market for agribusiness.’

Glenn Hall, Partner, Norton Rose Fulbright

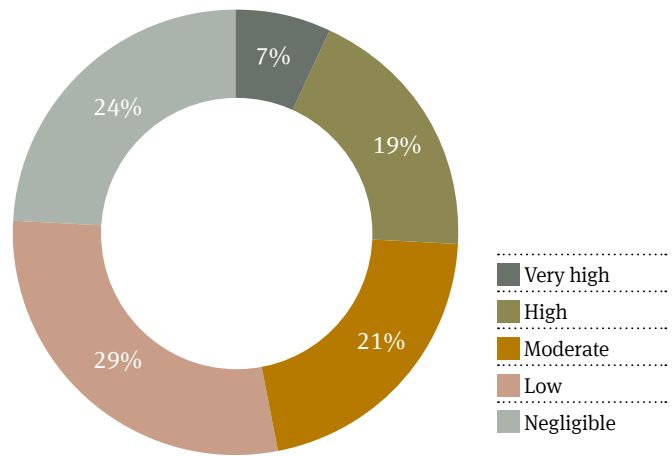
What are the main legal risks in the agribusiness sector that are of concern to your business?



42 per cent of respondents are concerned about contractual risks, followed by land title (27 per cent respondents) and enforceability issues (21 per cent). They note that these risks are generally heightened for transactions in emerging markets.

Several respondents highlight the difficulty in enforcing contracts and rights. For some, the legal environments with which they deal can be unpredictable and the amount of time it takes to enforce their rights can be lengthy.

What is your perceived level of bribery/corruption risk in the agribusiness sector?

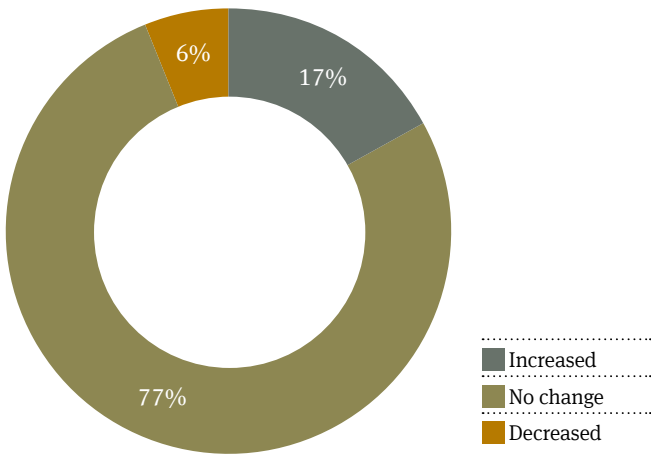


About a quarter of respondents see bribery and corruption risk as being 'high' or 'very high'. Respondents highlight Africa and Asia as the main regions where bribery and corruption risk in the sector is high.

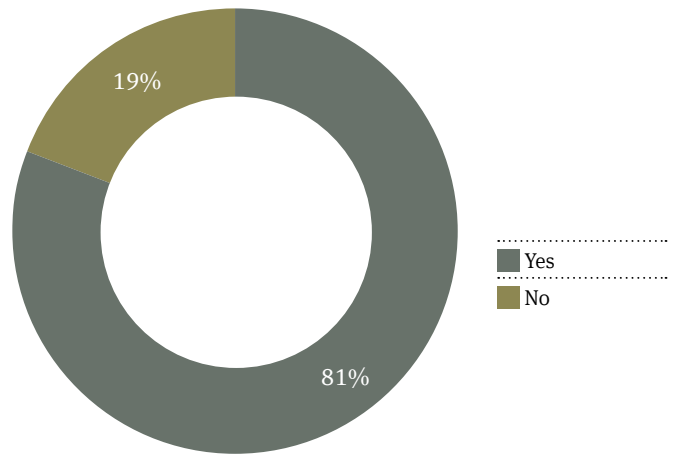
Respondents point to the price-fixing scandal involving infant milk formula in China. Price-fixing investigations also regularly occur in the developed world in the agricultural sector as well as other industrial sectors.

Respondents note that profit margins can be expanded by targeting emerging markets, but that this may increase exposure to bribery and corruption.

How do you think that the bribery/ corruption risk for your organisation has changed in the last two years?



Do you have a formal anti-bribery/ corruption compliance programme?



Many respondents (77 per cent) have seen no change in the potential for exposure to bribery and corruption; a few (6 per cent) report a decline.

Respondents comment that more instances of bribery and corruption have been exposed in recent years, and this has served to encourage organisations to address potential internal problems. As regulatory and investigative agencies around the world are more active in seeking out bribery and corruption, companies are taking extra steps to mitigate the risk of prosecution. Several respondents suggest that bribery and corruption is becoming a bigger problem because of the growing status and influence of emerging nations in the food and agribusiness sector.

‘Essentially as a PLC we need to make sure that what we do can withstand the scrutiny of the stock exchange and shareholders.’

Stephen Wheatcroft, Trader, Wilmar Oils and Fats

A large number (81 per cent) of respondents have formal anti-bribery and corruption compliance programmes. Anti-bribery and corruption compliance programmes may also be included in general corporate compliance programmes, policies and procedures.

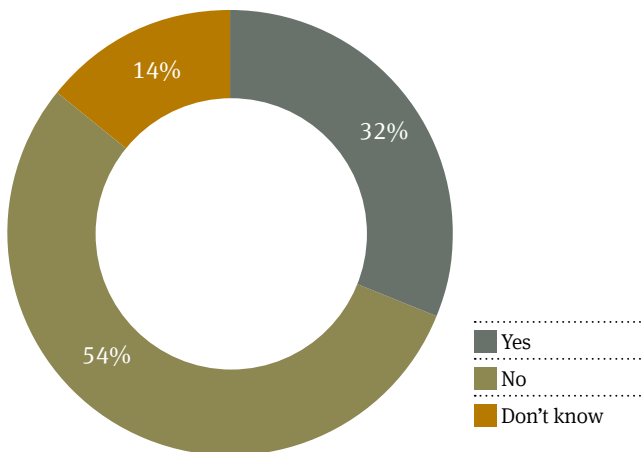
However, it is noteworthy that one in five organisations does not have a formal anti-bribery and corruption compliance programme.

‘In the BRIC states it has increased because of the large number of speculators that have come in. The sector is less stable than it used to be. That is why the FAO is promoting responsible agriculture investment principles.’

Fritz Schneider, Head of agriculture, Bern University of Applied Sciences

Laws and regulations

Should there be more regulation surrounding foreign ownership of land?



‘Every country should have a simple rule, that you cannot buy land for speculation – any buyer should show a sustainable production plan and this should be monitored – if there is no production then it should be taxed very heavily, but governments should not forbid foreigners from buying land.’

Gustavo Oubinha, Managing director and head of corporate and structured finance, Banco Rabobank International Brasil SA

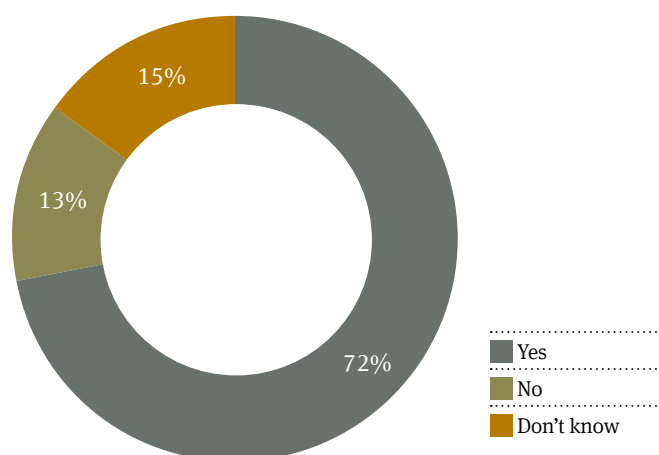
Respondents are divided whether regulation of foreign ownership of land is necessary: 54 per cent are against it and 32 per cent in favour. The data contrasts with our 2012 survey, which had 39 per cent against more regulation and 50 per cent in favour. This suggests that there is growing scepticism around regulation of foreign ownership.

Respondents think that foreign investment is important for the development of the industry in less developed jurisdictions and regions. They also recognise that a balance needs to be struck between countries having a certain level of protection for local economic interests, whilst creating an attractive environment for foreign investment. Respondents acknowledge that many local producers do not have the means or expertise to expand their output unaided.

Many respondents also express concern for the protection of the rights of indigenous populations as the industry develops in emerging markets.

Respondents acknowledge that land grabbing can be a serious problem and that foreign investors should be incentivised to use the land productively or lose their rights to it. Land grabbing in Africa is thought to be a particularly difficult issue. Respondents believe that some jurisdictions are too hasty in allowing passive foreign ownership of land and that this has led to large areas of potentially fertile land not being used for intended agricultural purposes. One survey participant suggests that the World Trade Organisation (WTO) should look closely at common rules for ownership, so that investors and countries engaged in land transactions can have a transparent and open market.

Should there be greater regulation surrounding water rights and access to water?



Water rights and access to water should be regulated, in the view of 72 per cent of respondents. This is very much in line with responses to our 2012 survey.

Respondents note that water is becoming a progressively scarcer resource, particularly with rising consumption caused by urbanisation and growing populations.

Respondents point to the difficult question of whether water is a social or an economic commodity. There is a consensus that water access is a key human right and that safeguards are necessary to protect this right. However, respondents believe that coordinated global regulation is virtually impossible to implement or enforce. They also note that in some areas it is difficult to regulate water given that it is a resource shared regionally.

‘It should be regulated. A lot of countries have different rules for foreign ownership and these need to be there to prevent a land bank, with owners doing nothing with the land. Regulations need to have some kind of productivity and time frame.’

Stephen Wheatcroft, Trader, Wilmar Oils and Fats

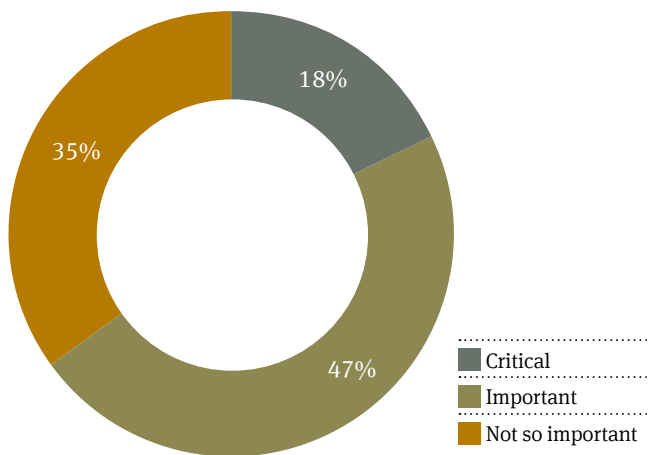
‘I would be cautious to advocate heavy regulations but I think there need to be some safeguards in the developing world because of the effect it has in terms of reducing access to land for indigenous people.’

Nick Von Westenholz, Chief executive, Crop Protection Association

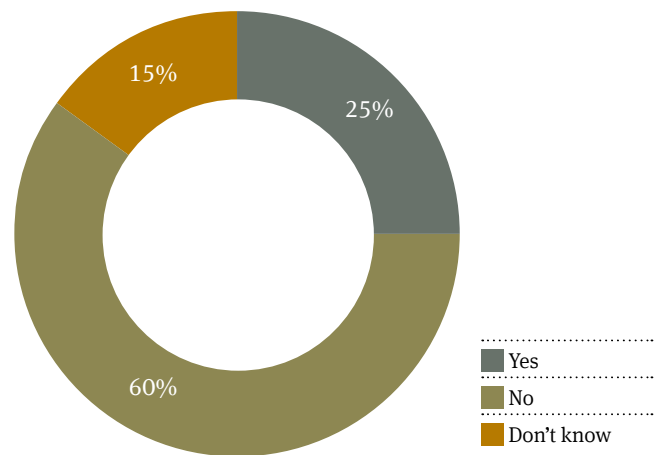
‘There should be transparent, logical regulation that will benefit all.’

Peter Bryde, Senior manager, EBRD

Is the lack of international harmonisation of laws and regulations a critical, important or not so important issue?



Are you concerned about providing confidential information to regulators?



Respondents express a sense of frustration towards the fragmented application of laws and regulations around the world. Almost half (47 per cent) think it is important that laws and regulations are better coordinated across the globe, with a further 18 per cent believing this issue is absolutely critical.

Many respondents are sceptical about whether it is feasible to synchronise laws and regulations at a global level, noting that there is too wide a gulf in the approach to laws and regulation from region to region and jurisdiction to jurisdiction. Some respondents point to the challenges that even the EU has faced in finding a common regulatory approach. The difficulty in initiating a worldwide response to the global financial crisis is just one illustration of how states and governments can struggle to implement a unified response to global challenges.

Nevertheless, respondents recognise that harmonisation of laws and regulations is increasingly important given the constant rise in cross border trade. For free trade to flourish, respondents believe that a level or near level playing field needs to exist.

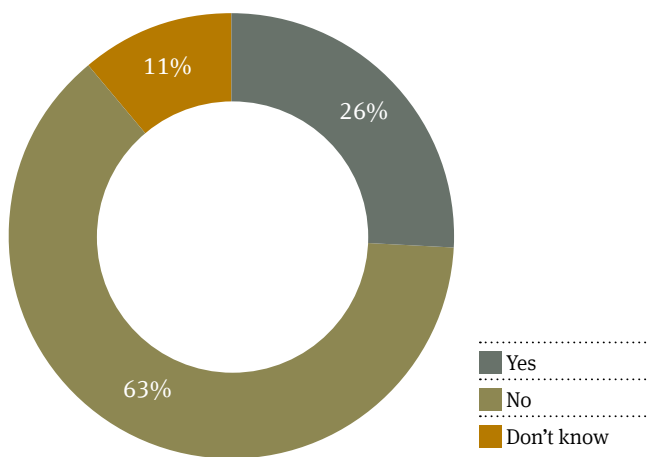
Respondents are largely comfortable with providing confidential information to regulators. Only 25 per cent indicate that this is something that they are concerned about. Of these, many are anxious about the potential loss of intellectual property to a competitor, or at the thought of the results of R&D work being leaked into the public domain.

Most respondents are now accustomed to sharing information with regulators, although in some regions (such as in Asia and South America) they are less at ease.

'It is part of business life.'

Gustavo Oubinha, Managing director and head of corporate and structured finance, Banco Rabobank International Brasil SA

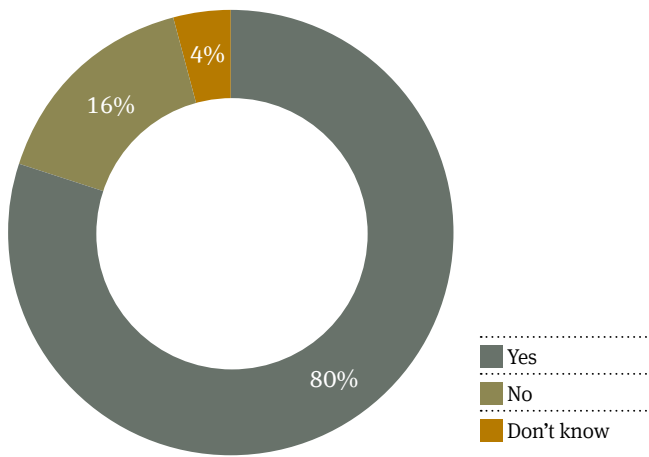
Are you concerned that regulators might use or share that confidential information?



26 per cent of respondents are concerned that regulators may use or share their confidential information, particularly in certain emerging markets. Even so, respondents understand that to engage in cross-border trade and investment, this risk is one that may have to be accepted.

Food v fuel

Is it possible to increase food production and still meet renewable energy targets?



‘The world is not short of energy or land, but short of desire. We export 70% of food. This food security talk is a lot of global hocus pocus.’

Graham Greenhalgh, Director, Sanger

‘Biofuel is a deeply dogmatic issue, but if you ask another question – whether there is enough food to feed the world – then you will realise that half the food is lost before it reaches the shelf so all countries should be more strict about not wasting food.’

Mikhail Orlov, Founder and president, Ambika Group

Respondents acknowledge that the mounting demand for food does not necessarily sit easily with commitments towards the development of biofuels. Even so, almost 80 per cent believe that nations can meet renewable energy targets at the same time as boosting food production. Indeed, respondents are more optimistic about this issue than in 2012, when only 59 per cent thought that food production would not suffer from a focus on renewable energy.

Many respondents think that the enthusiasm for biofuels amongst states is now on the wane and that renewable energy targets are better served by a focus on hydroelectric, solar and wind power. Respondents note that bio-crop output accounts only for a very small proportion of total production, so its impact on the food sector is limited.

Respondents see embracing the latest food and agribusiness technologies as integral to boosting food production and think that this should not hinder the ability to meet renewable energy targets. Some believe that the use of GMOs will enable the agribusiness industry to meet demand without impacting on green initiatives.

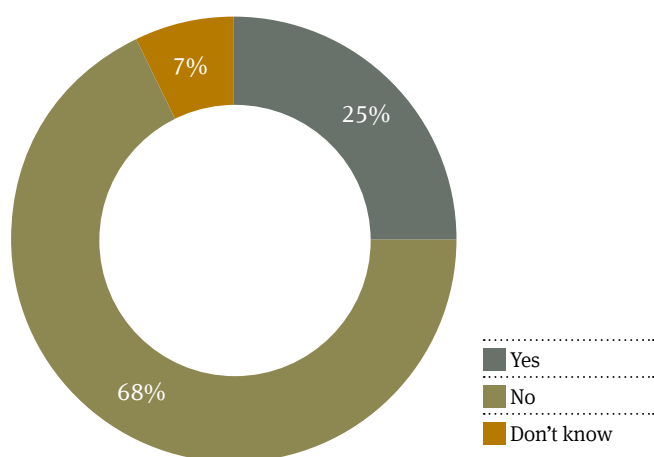
Respondents also think that, despite concerns about limited resources, there should be enough land for agricultural purposes and that more efficient and effective use of this land will meet the growing demand for food.

Several respondents suggest that food and biofuel production should be made to complement each other, not conflict (as sometimes happens now). They state that proper regulation could ensure that excess food production could be channelled towards biofuels.

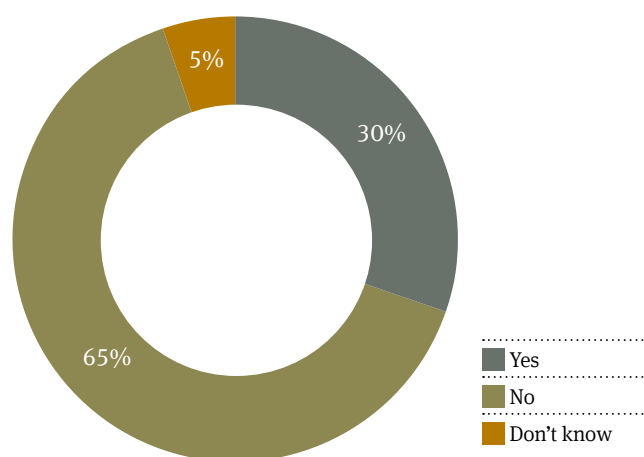
‘I think the industry should be carbon neutral.’

Mark Bainbridge, Managing director, Kilombero Sugar Company

Should the production of fuel be subsidised?



Should the production of food be subsidised?



Respondents are strongly against the existence of subsidies for biofuels. This is in line with the data from our 2012 survey.

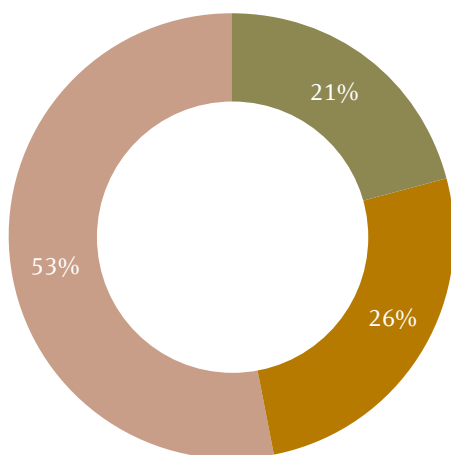
A number of respondents think that subsidies may be necessary to establish or stimulate the industry in a new location, but they should then be phased out once the sector is well developed. There is a concern that longer-term subsidies lead to a distortion of the market.

Most respondents support the principle of a free market. In common with the issue of subsidies in the biofuel sector, respondents are largely against the use of subsidies in food production, although they accept that subsidies are currently necessary to feed certain poorer parts of the world. However, respondents believe that these should be closely monitored and phased out once living standards improve.

Several respondents point to the negative effects of subsidies and the fact that in many circumstances their eradication has led to increased production. One respondent suggests that better access to finance would be a more effective and fairer way of stimulating production in the agribusiness industry.

Genetically modified crops

Do you think that consumers/retailers have become more or less receptive to genetically modified food over the last two years?



‘I think people in the UK are less concerned than they used to be.’

Chris Brown, Head of ethical and sustainable sourcing, Asda Stores Ltd

- Much more resistant
- More resistant
- No change
- More receptive
- Much more receptive

On balance, respondents think that consumers are becoming more receptive to genetically modified food. Sentiment appears to be shifting in the developed world, certain parts of which, for example the EU, have shown firm resistance to GMOs over the years.

Respondents recognise that in the poorer and less developed parts of the world people do not have the same luxury of choice between genetically modified food and conventionally grown crops and are simply concerned about having enough food to survive.

Respondents indicate that attitudes towards genetically modified produce have certainly changed in recent years with a greater use of GMOs in animal feeds. Genetically modified soya is now thought to be prevalent within the industry.

‘GMOs allow us to use less chemicals.’

Mikhail Orlov, Founder and president, Ambika Group

‘Fear of GM food may have waned somewhat in developed countries, but the combination of a lack of understanding about biotechnology and a content-hungry media means we may be only one tweet away from the start of the next “Frankenfood” scare campaign. Public education is key.’

Jenni Hill, Partner, Norton Rose Fulbright Australia

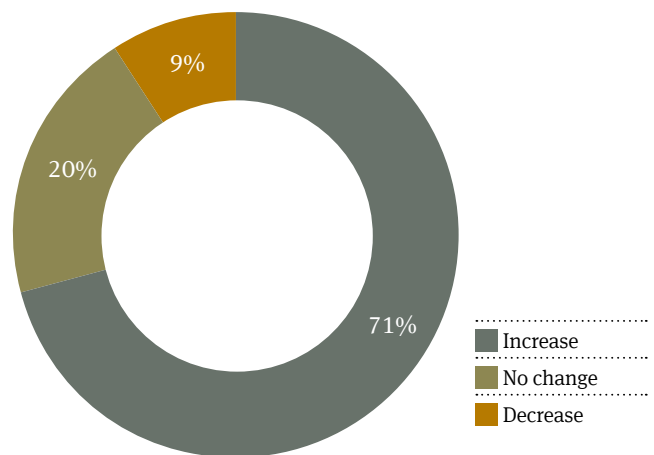
‘Some people care about having food on the table – the less wealthy the region, the less of an issue it is.’

Olaf ter Bille, Global head of hedge trading – dairy platform, Louis Dreyfus Commodities

‘I think it is likely to increase or people will starve. The population is forecast to increase by two billion by 2050, so if we have to feed more people you need an increase... If productivity and yields do not improve, people will starve.’

Justin Cotter, Regional manager, Rabobank

Is your utilisation of genetically modified foods or inputs likely to increase or decrease over the next two years?



Respondents believe that a lack of information about GMOs is at the heart of consumers' concerns. From an environmental perspective, respondents state that the public need to be better educated about the use of genetically modified farming and agriculture, particularly as it can lead to hardier and more weather resistant crops that rely less on chemicals to withstand the effects of pests and disease.

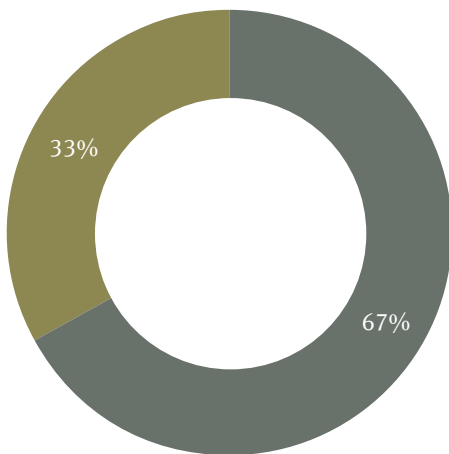
Despite this, there is still considerable debate in the developed world about GMOs, as illustrated by the heated discussions over the necessity of labelling in North America and recent legislative developments in one US state requiring the labelling of genetically engineered foods. Opponents to this form of agriculture say that labelling should not be necessary if GMOs are absolutely safe.

Respondents suggest that there will be an increase in the use of genetically modified foods or inputs. Only a small proportion (9 per cent) believe that there will be a decrease.

Respondents note that with global population growth, urbanisation and the expanding middle classes, supply will simply not be able to meet demand unless radical changes are made to existing inputs.

Food safety

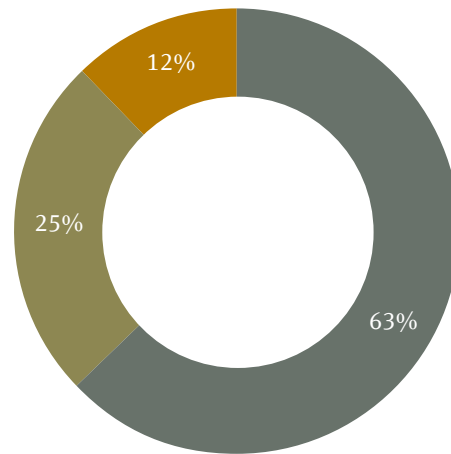
What level of investment are you looking to make in relation to food safety over the next 12 months?



- More than last year
- Same as last year
- Less than last year

67 per cent of respondents indicate that they will increase investment in food safety over the next 12 months.

Is the level of regulation surrounding the safety of food appropriate?



- Yes, the current regulation of food safety is appropriate
- No, greater regulation of food safety is required
- No, food safety is currently over-regulated

Only 25 per cent of respondents believe that greater food safety regulation is necessary, although there is some concern that regulations are not up to standard in some emerging markets. A number of respondents have indicated that there would be some benefit in regulations being more uniformly applied across the globe. Many respondents feel that the issue primarily lies in enforcement and monitoring, rather than the regulations themselves. They point to the horsemeat scandal in the UK and suggest that more intensive DNA testing would have revealed the issue. Respondents also say that more can be done to improve the traceability of products.

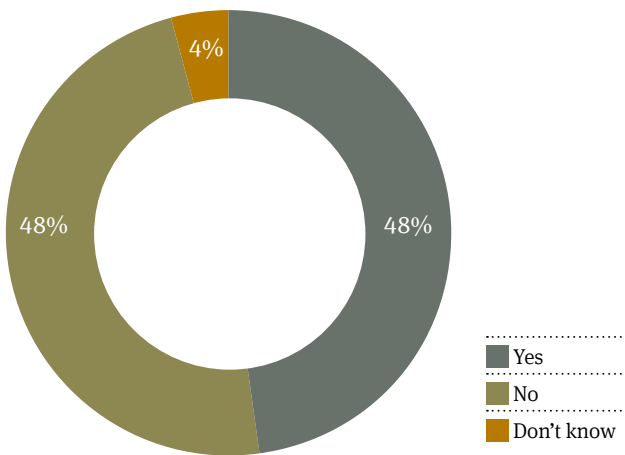
Respondents credit the WTO with having a positive effect on global food safety regulation and recognise that Russia's recent award of WTO membership has helped it to make progress in this regard.

'The regulations are appropriate. What is needed is better enforcement and monitoring of regulations.'

James Spinney, Associate director, Strand Hanson

Investment and strategy

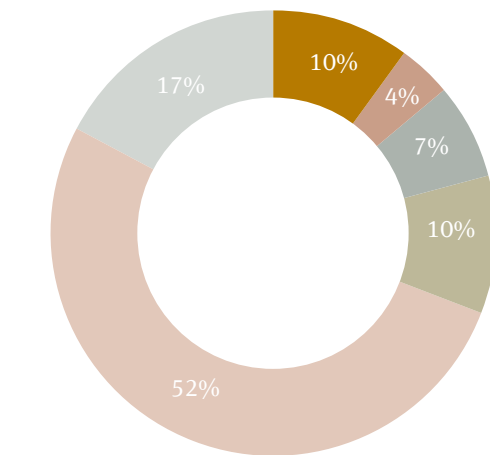
Is your organisation investing or considering investing in transport or other infrastructure?



Respondents are evenly divided over the subject of investment or potential investment in transport or other infrastructure; 48 per cent are considering investing in it (compared to 42 per cent in 2012).

Our survey suggests that the market is feeling more positive about further investment. Reluctance to invest appears to stem from the fact that the riskiest markets are where infrastructure and transport investment is most needed. Respondents are wary of investing in these regions, because the margins are thin and the market is susceptible to price volatility. A number of respondents also believe that infrastructure is the responsibility of the state and not private investors. This attitude contrasts starkly with higher margin industries such as the mining sector, which has experienced much more investment in infrastructure from the private sector.

If yes, which of the following form part of your strategy for the next 12 months?

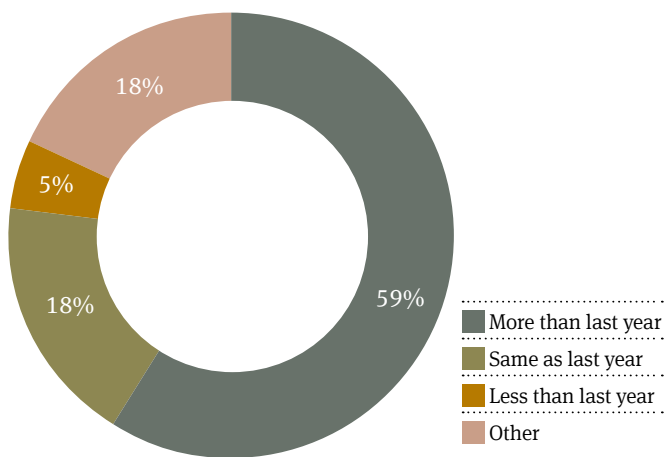


- Acquisition of a shipping line
- Joint venture with shipping/other transport companies
- Investment in port development projects
- Investment in rail development projects
- Investment in road/motorway development projects
- Investment in development of processing plant
- Investment in development of water treatment plant
- Acquisition of warehouse facilities
- Other

Over half of respondents who are investing in transport and infrastructure identify the acquisition of warehouse facilities as the most common strategy for infrastructure investment over the next 12 months. A sizeable number of these respondents also see investing in the development of a processing plant and in port development projects as key to their strategies.

Investment in road/motorway developments and rail development projects are also on the agenda for some respondents, though this is identified less often as forming part of the respondent's strategic plan.

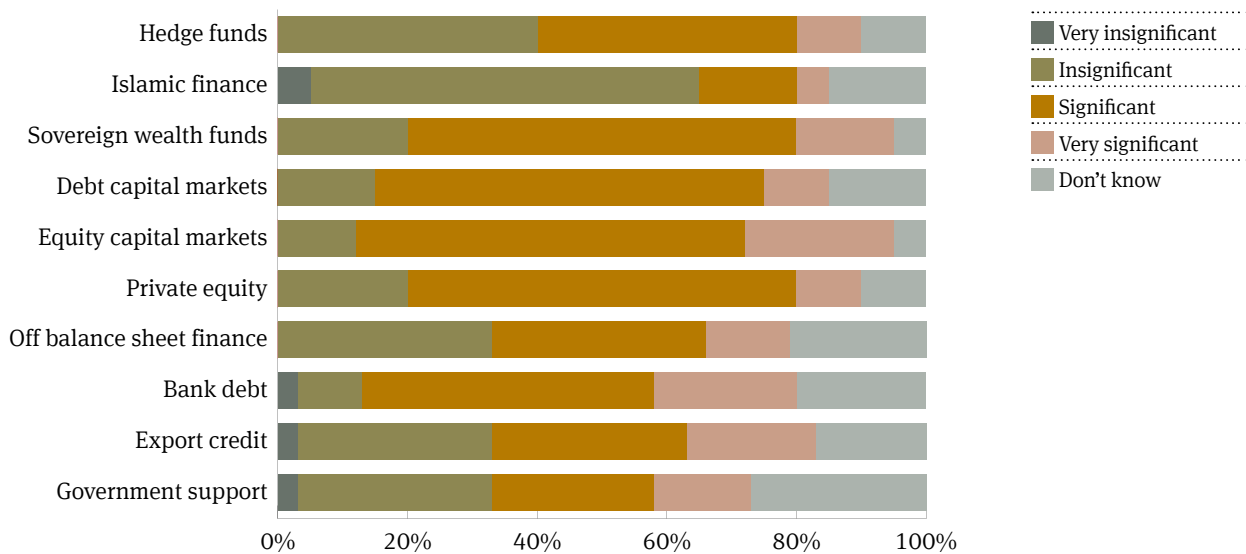
What level of investment are you looking to make in the agribusiness sector over the next 12 months?



Many respondents (59 per cent) expect to increase their investments in agribusiness in the next 12 months. This contrasts with our 2012 survey when 67 per cent of respondents indicated that they would increase their investment programmes. Only a very small proportion of our latest respondents expect a reduction in investment in the next year.

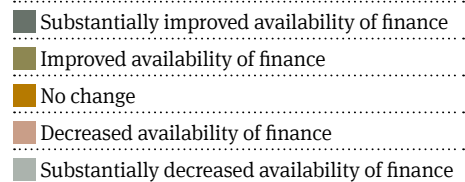
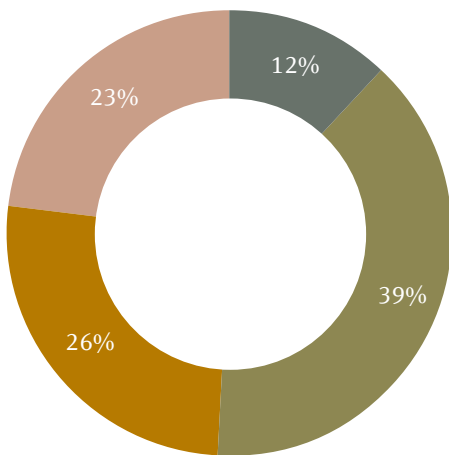
Finance

How significant a role do you expect the following forms of finance to play in the agribusiness sector?



Respondents indicate that the market for finance has become rich and varied and thus multiple sources of capital and funding are available to the agribusiness industry, including private equity, bank debt, sovereign wealth funds and the capital markets. This supports the findings of our 2012 survey, which noted a variety of finance sources in use in the agribusiness sector.

How has the availability of finance to the agribusiness sector changed over the last 12–18 months?



Over half of respondents see some improvement in the availability of finance, with 12 per cent saying that the environment has substantially improved. That said, nearly a quarter of respondents (23 per cent) observe a reduced availability of finance.

Respondents also note that while finance is generally available lenders are still quite conservative compared to pre-2008. They point to the fact that non-specialist agribusiness lenders have largely withdrawn from the market, but comment that this may change with improving levels of liquidity.

Respondents take the view that farming and agribusiness is not the most attractive sector for lenders because of the thin margins that exist and because the sector is susceptible to unusually high levels of volatility. Even so, sentiment appears to be improving.

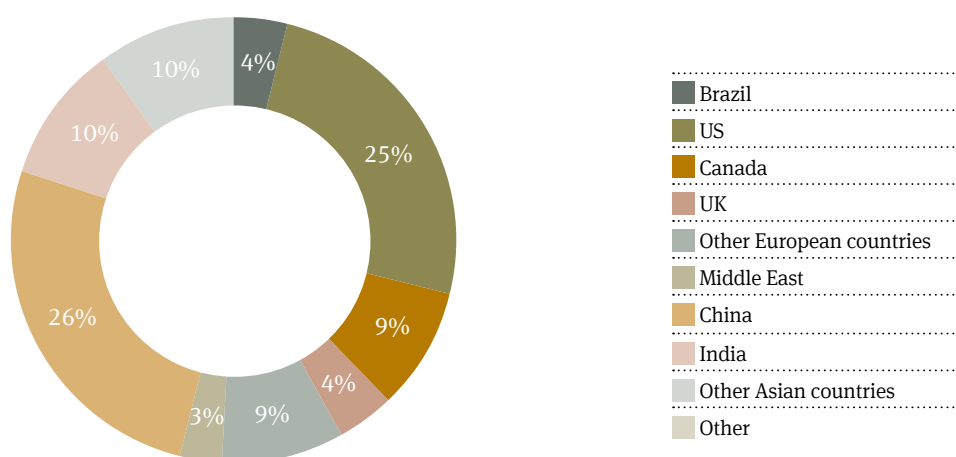
‘Availability has improved generally as the world recovers from the banking crisis.’

Ian Hanrahan, Director consumer & agribusiness, ANZ

‘There is quite strong competition out in the field. Other banks are interested in agribusiness. They see it as a sustainable industry with good growth prospects.’

Jeff Davis, Head counsel, Group legal, Rabobank Australia

From which markets do you anticipate the greatest foreign investment inflows into your jurisdiction in the next 12–18 months?



The United States and China are expected by respondents to be by far the biggest investors in the global food and agribusiness sector. Our survey highlights China as the most significant new factor in the industry in the last few years, with the US continuing to be prominent. The Middle East, as a region, is seen as only a peripheral player in the market.

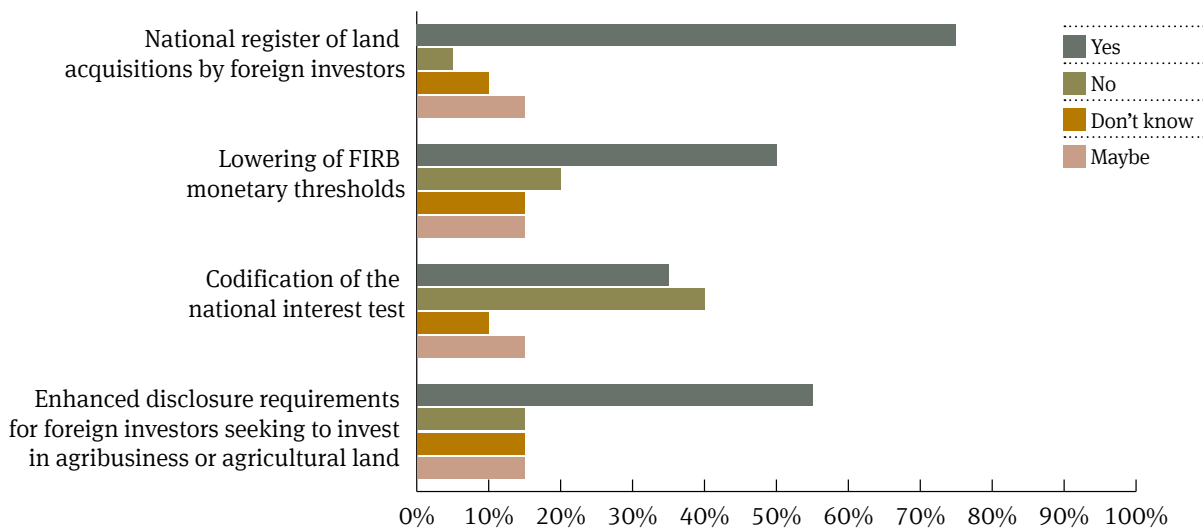
‘As a general point, China is a big investor everywhere.’

Andrew Slatter, Head of agribusiness, ANZ

Regional focus

Australia

Which, if any, of the following regulatory reforms do you expect the Australian Government will make in relation to foreign investment in agricultural assets in the near future?



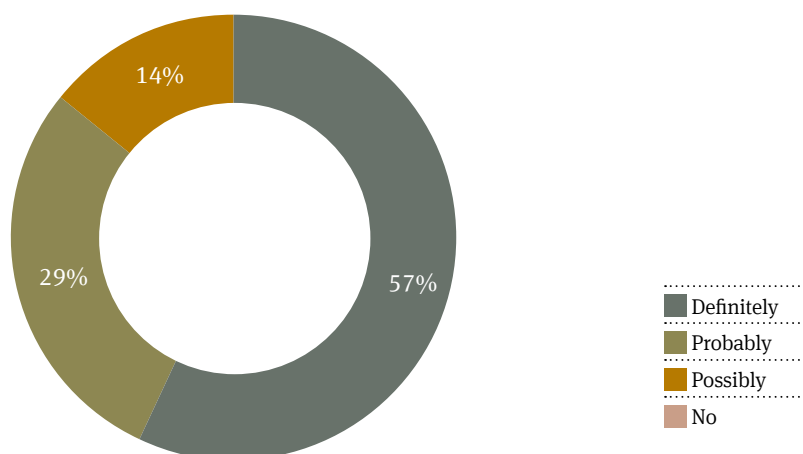
Respondents expect the Australian Government to undertake regulatory reforms concerning foreign investment in agricultural assets in the near future. Other key reforms highlighted by respondents are a national register of land acquisitions; the lowering of the thresholds after which foreign investment consent is required; and enhanced disclosure requirements for foreign investors seeking to invest in Australia.

‘I agree with the respondents here. The national interest test needs to remain open to allow for the changing national interest over time. However, the Government needs to provide clearer guidance on how the test will be applied as the uncertainty around foreign investment approval is worrying our clients and discouraging investment.’

Shane Bilardi, Partner, Norton Rose Fulbright Australia

There has been a lot of discussion about the so called ‘dining boom’ – the opportunity for sustained growth of the Australian agribusiness sector driven by a growing Asian middle class.

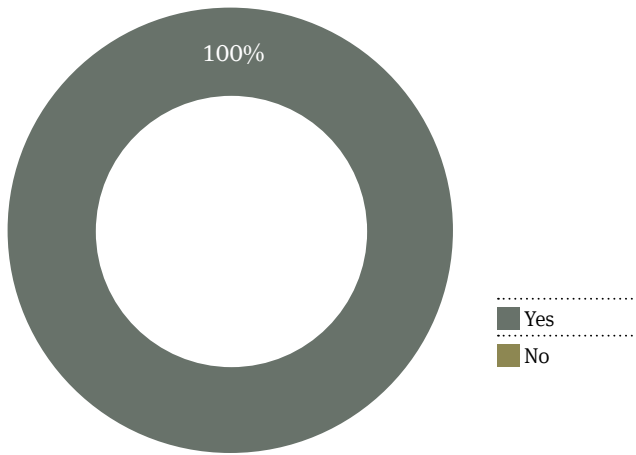
Do you believe that the ‘dining boom’ will be realised in Australia?



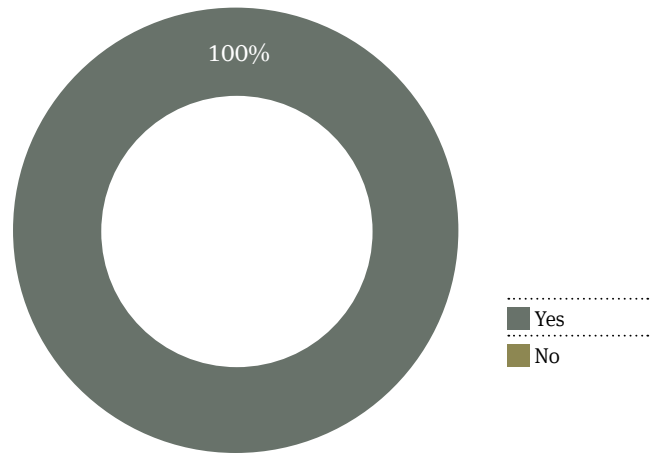
Respondents are buoyed by the advent of a growing Asian middle class. Some 57 per cent see this as a definite opportunity for sustained growth for the Australian agribusiness sector; a further 29 per cent regard it as a probable reason for growth.

Canada

Are you involved in any of the consultations being undertaken in connection with the Canadian regulatory modernisation initiative for food and labelling regulation in Canada?



To what degree do you find recall outreach by regulators of assistance?



All Canadian respondents report that they are participating in the regulatory modernisation initiative. This response may reflect the success of the industry consultation initiatives that have taken place in Canada relating to the 'change agenda' of Canadian food regulators.

Canadian respondents find recall outreach useful.

Hot topic

US food safety rules

The US Food and Drug Administration and FSMA

The FSMA/protecting food safety

The Food Safety Modernization Act (FSMA), enacted on January 4, 2011, is the US Food and Drug Administration's most sweeping reform in over 70 years. FSMA gives the FDA a new public health mandate in response to the changes that have occurred in the global food system over the last 25 years. It incorporates a greater scientific understanding of foodborne illness and its consequences, recognizing preventable foodborne illness as a significant public health problem and a threat to the economic health of the food system.

FSMA is based on the need to protect food safety in the global food system.

It requires the FDA to implement new rules and mandates in the following areas:

.....
prevention

.....
inspection and compliance

.....
agency response

.....
importation

The FDA/ drafting new rules

The FDA is in the process of drafting appropriate rules and guidance, which will underpin the standards required by FSMA. The industry will need to put systems in place to comply with these rules.

The FDA/inspection mandate

FSMA provides the FDA with a fresh mandate covering the frequency with which food and feed facilities are inspected and its public health prevention framework calls for a complete change in the FDA's use of its inspection authority. As a result, the FDA is set to adopt a wider range of inspection, sampling, testing, and other data collection mechanisms.

The FDA/enforcement tools

New enforcement tools are now available under FSMA – including mechanisms for administrative compliance and judicial enforcement – and the FDA will make use of these tools.

FSMA gives the FDA the authority to suspend food facility registrations. It exercised this power for the first time in 2012 with the suspension of Sunland Inc (a New Mexico producer of nuts and nut-and-seed spreads whose plant was connected to a salmonella outbreak that affected some 35 people across 19 states) and is expected to enforce compliance still more often in the future.

The FDA has not yet taken a great deal of action under FSMA, but that could all change soon.

Methodology

From December 2013 to March 2014 Norton Rose Fulbright interviewed over 80 senior executives from organisations across the food and agribusiness sector, including agricultural producers, chemical producers, equipment suppliers, supermarket chains, commodity traders, banks, consultants and not-for-profit organisations. The geographical spread of the interviews included all major agricultural markets across the world's continents, including Europe, Asia, Africa and Australia as well as North and South America. The survey was conducted through one-to-one telephone interviews with respondents being free to remain anonymous if they so wished.

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7500

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3800

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50+

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