

# Pergam chief confident that biofuels boom will boost farming investment

Martin Arnold talks to Olivier Combastet, a French fund manager setting his sights on land in South America

Most French farmers would have welcomed the collapse of the Doha round of talks on trade liberalisation, quietly cheering as the prospects faded for a cut in US and European farm subsidies. But not Olivier Combastet, chairman and founder of Pergam Finance, a French investment firm with €800m of funds under management. Although he also owns a 100-hectare cattle farm in the Corrèze region of central France, Mr Combastet viewed the Doha collapse as a setback.

The trade talks stalemate undermined part of the business case for his latest venture: a \$75m fund to buy farmland in Uruguay and Argentina, restructure it with help from local farmers, and profit from the expected rise in prices for both the land and its produce.

Part of his decision to launch the fund 18 months ago was based on a surprisingly unpatriotic reason: to anticipate a Doha-inspired cut in US and European farming subsidies, which would hurt his fellow farmers in France, but make farmland elsewhere more attractive.

While he remains convinced this will eventually happen, Mr Combastet says there are many other, equally valid, reasons for buying farmland in the South American pampas.

"Firstly, the price of land in these countries is a quarter or a fifth of the price of land in Europe or the US," he says. "Secondly, we want to profit from what we expect will be a revaluation of primary agricultural produce. Thirdly, from a strictly financial viewpoint, these assets are completely uncorrelated to financial markets, helping investors to diversify."

He says the original business case for his fund, called Campos Orientales, has if anything been strengthened since he first started fund-raising.

This is because the recent jump in the oil price has triggered a boom in demand for biofuels, the "green" vehicle fuels derived from plants such as sugar cane, corn or soya that produce fewer greenhouse gas emissions than fossil fuels.

Mr Combastet reckons South America will be one of the big winners from the biofuels boom, as it is well placed to grow large amounts of the products, such as soya, used to make the greener fuels.

"Uruguay and Argentina are the last places in the world, along with Brazil, where you can expand on a big enough scale needed to satisfy the demand for ethanol-producing crops, with millions of hectares of arable land," he says.

"What we are seeing currently in the markets for corn, soya and wheat is very encouraging for us. There are real problems of supply starting to appear because of demand for biofuels from the US."

Furthermore, he says the rapid economic growth of China and India is boosting demand for agricultural commodities. Rising urbanisation and pollution in China and India are also reducing the amount of farmland available there. He says China's farmland is falling by 1 per cent a year.

Meanwhile, climatic uncertainty in the world, with more droughts, floods and hurricanes, is creating more volatility in agricultural commodity prices due to supply shortages.

Exane BNP Paribas, the French brokerage, said in a report in January: "Agricultural



**OLIVIER COMBASTET:** Farming is becoming 'a sexy investment' again

MAXPP

commodities are an asset class for which prices are very low and demand is on the verge of booming, while supply sources are diminishing."

All this, in Mr Combastet's view, means farming is becoming a "sexy investment" again, after years of suffering from overcapacity and falling prices.

Investors, for now, seem to agree. Luxembourg-based Campos Orientales has raised \$75m and aims to collect slightly more again in a second round next year. Eventually, Mr Combastet plans to raise \$150m-\$200m and to list the fund on a European stock exchange after three years.

The fund has a minimum investment of \$1m and Mr Combastet says more than half his investors are based outside France, while many are wealthy families looking to diversify their holdings.

Mr Combastet has teamed up with Argentina's Hirsch family, which has made a substantial investment in his fund, and is responsible for finding properties to buy and managing them. The Hirsch family owns 100,000 hectares of its own and is a big shareholder in Bunge, the New York-listed agribusiness.

Campos Orientales made its first acquisition

last year with a 10,500-hectare cattle farm, which has since been transformed into half-cattle and half-crop production, boosting its productivity.

The fund's target is for a return on investment of 12 to 16 per cent. But Mr Combastet accepts that there are risks and advises investors not to put more than 5 per cent of their portfolio in his fund.

The most obvious risk is political. Uruguay is relatively stable, often dubbed "the Switzerland of South America". But it is heavily dependent on the Argentine economy, which has been anything but stable, suffering a crushing debt crisis and devaluation in 2001-02.

Mr Combastet says his fund is immune to the risk of another devaluation by Argentina, as the price of land and the products the farms sell are all in US dollars. Ironically, he says a devaluation would help, reducing the cost of local workers in US dollar terms.

However, Argentina's crisis showed what dangers can confront farmers in the region. To combat a jump in domestic beef prices, the government introduced a controversial ban on beef exports, which has still only been partly lifted.

## CURRICULUM VITAE

### OLIVIER COMBASTET

**Born:** 1961  
**Educated:** Institut d'Etudes Politiques, Paris, and International Studies Abroad, Paris  
**1986:** Deputy administrator, Gel 2000, now-defunct French frozen food retailer  
**1989:** Triangle des Trois Frontières, Belgian property development  
**1991:** Managing associate and owner, France Asset Management  
**1995:** Chief executive, Gel 2000  
**1996:** Adviser, Cristal Gestion, Crédit Suisse  
**2001:** Founder and chairman, Pergam Finance

## PERGAM FINANCE

**Based:** Paris and Geneva  
**Founded:** 2001  
**Assets under management:** €800m  
**Staff:** 14  
**Owned:** Majority held by Olivier Combastet