



HD Sunny Verghese Interview

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Sunny Verghese is CEO of Singaporean agribusiness giant Olam International.

PIP COURTNEY, PRESENTER: The CEO of one of the world's biggest agricultural commodity trading companies is warning producers to get serious about climate change.

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Sunny Verghese from Olam International was in Australia this week to speak at a national cotton conference and check on some of his **company's** operations.

In his address to a cotton growers' conference on the Gold Coast this week, he challenged producers and processors to tackle environmental issues.

SUNNY VERGHESE, CEO, OLAM INTERNATIONAL: Even the hardest critics here who believe that this whole... hullabaloo about climate change is an imagination of the tree huggers - and I'm not one, but I must say that the evidence is overwhelming.

PIP COURTNEY: But Sunny Verghese is also passionate about developing Olam's agricultural assets in Australia. Late this week he visited the factory near Mildura which processes Olam's almonds.

SUNNY VERGHESE: Almonds are in an up cycle now and therefore we are positive to almond prices in the market. It is driven by two factors. One is, demand is quite robust. So demand is going at between eight per cent and nine per cent. And supply, because of weather and other disruptions, is constrained, so we expect a lower crop in the US than what was originally envisaged. As a result of that, we see firmer almond prices. So almond prices today are at a fairly historical high.

PIP COURTNEY: As well as interests in wool and grain, Olam owns Queensland cotton. With 11 gins in Queensland and New South Wales, it has the capacity to process more than one **million** bales of cotton a year.

Much sought after for his views on the world's most-traded agricultural commodities, I caught up with Mr Verghese at this week's Cotton Conference.

Sunny Verghese, welcome to Landline.

SUNNY VERGHESE: Thank you.

PIP COURTNEY: Olam operates in 65 countries. What makes Australia an attractive place to invest in?

SUNNY VERGHESE: From an agricultural production standpoint, we believe that Australia is the most advanced among most agricultural producing countries. A good example is cotton - Australia yields an average of 10.4 bales per hectare, is way ahead of most other countries, including the US.

So even though costs in Australia are high from a labour cost point of view and from an energy cost point of view, you still, because of high productivity, have Australia as a cost-competitive producer of many of these agricultural commodities and not just cotton - the supplies to the grains complex and the supplies to almonds, two other sectors that we are involved in Australia. We believe that Australia has a true comparative advantage to produce agricultural commodities like this cheaper and better than others.

PIP COURTNEY: Your **company's** best known to our audience for almonds. You bought the Timbercorp MIS scheme assets in Victoria and as a result of your investment, we're now the second-biggest almond producer in the world. But you recently **sold** that operation for \$200 **million** and you're leasing it back. Why did you do that?

SUNNY VERGHESE: When you go upstream into plantations and farming, you have very high asset intensity in terms of fixed capital investments and you need to first be able to **acquire** the land, develop the land, grow the crop, take it to maturity, after which that asset becomes monetisable.

We did not invest in agriculture land because we see it as an investment asset class - that if you invest in agricultural land there will be ag land inflation and that's the source of value. That was not the logic with which we invested. We invested because we understood how to produce almonds or produce cotton or produce other grains that we are involved in farming and we want to capture the production economics. So we don't need to necessarily own the asset - so if you want the **milk**, you don't need to necessarily own the cow.

But there is a point in which nobody's interested in the land because it's raw land. You got to first develop it, you've got to bring it to maturity. Once it becomes a cashflow-generating asset, you can take out the asset intensity, but still participate in your value creation logic, which is about capturing the production economics. So we own the flows in the US - we own the trees and the flows. In Australia we own the flows and we are interested in capturing that value, the production economics, which is why we have now **sold** the plantation and leased it back for the remainder useful life of that orchard. We still will capture the production economics, which is what we are after.

PIP COURTNEY: There's a lot of talk here about the negative impact that the huge stockpile of cotton in **China** is having on the industry. Are you worried?

SUNNY VERGHESE: There is definitely worry, it's the biggest elephant in the room. **China's** stock is equal into almost 50 per cent of annual world consumption - 12 **million** tonnes, 13 **million** tonnes of stock. So how **China** will manage that is the key driver to future price direction in the cotton markets.

So I think all cotton-producing countries will be watching with some anxiety and definitely a lot of interest as to how the **Chinese** government is going to play this out.

PIP COURTNEY: Really hot summer temperatures hit your cotton assets pretty hard. Are you a climate change believer? And if so, are you worried about how it's going to impact on your Australian assets and your other agricultural assets around the world?

SUNNY VERGHESE: Absolutely, because we are now invested in 11 agricommodities in terms of farming them or growing them across 20 different countries, so we have a fairly proprietary view on the impact of climate change in our upstream production and farming assets. And it is absolutely a reality that climate change is going to significantly impact agriculture.

PIP COURTNEY: What's Olam doing to future-proof itself against climate change?

SUNNY VERGHESE: So firstly, we do footprinting of how much carbon dioxide emissions we generate, how much biowaste we generate and how much water footprint we have. We have given a target that in our tier one manufacturing and processing facilities, we will reduce water usage per tonne of product that we supply by 10 per cent by 2015 and in our farms by 10 per cent by 2020. Similarly, we have mapped the carbon dioxide emissions that we generate across all the commodities in each country. So we will report every year how much carbon dioxide emission per tonne have we reduced compared to the hard targets that we have set.

My view is that there's no point if I say I have generated half a **billion** dollars of after-tax earnings, but I have depleted \$200 **million** of natural capital from the environment. Because then I have to question myself, what is point of all of this overwhelming effort if at the end of the day you've really depleted the natural capital and therefore left a huge bill to pay for future generations?

So as I mentioned in my speech, if you see the episodes of extreme weather events in the last ten years, which is in excess of 2,000 extreme weather events globally, compared to about 450-470 weather events in the mid-'70s, you will understand what the impact of climate change is.

PIP COURTNEY: You talk about depleting your natural capital. And you talked in your speech about how 90 per cent of **China's** water is polluted. How is that going to affect their ability to feed themselves?

SUNNY VERGHESE: That's right - for **China**, one of the biggest development challenges is environment and pollution. I don't think there's any other government in any part of the world that's investing as much money now in research to solve this problem.

China's at the cutting edge now. So I think you'll see a lot of innovation out of **China**. Because you can't breathe in Beijing. In many days of the year, it's almost impossible to breathe. So people are experiencing the cost of all of the development without it being balanced and without it being sustainable.

Therefore, **China** knows that for its survival, it needs to tackle this problem.

PIP COURTNEY: In your speech, you said India and **China** have no hope in hell of feeding themselves.

SUNNY VERGHESE: Yeah. So 'hope in hell' is probably a very strong word. If that's the headlines, then I'm sure I'll get a lot of calls. But I think it's going to be very challenging for **China** and India to really produce all the food that they need, because the governments in all of these places really have no clue - not just **China** and India, I'm talking globally now - of how to address the food security problem. Because when food prices go up in **China** and India, it's a very sensitive issue.

Onion prices go up in India, the government can fall. Because onion is used in every sort of cooking in India. It's a common ingredient used in every kind of cooking. So onion prices go up, the government can fall. So what was the government's first natural response is to impose price controls. When you impose price controls, that's precisely the wrong policy measure. When you have rising prices, which is a result of shortage of supply, you need to engineer a supply response. If you need to secure the supply response, you need an undistorted price signal to go from the market to the farmer to incentivise them to produce more. The moment **China** or India puts price controls - in **China**, edible oil price goes up, they put price controls - it just exacerbates the problem.

PIP COURTNEY: Australian farmers hear much talk about the looming boom that lies ahead for them in feeding Asia's growing population. Has that boom been overstated?

SUNNY VERGHESE: I think it'd be... probably not the right view to say that Australia will be the food basket of the world, but Australia will be the most competitive producer. Australia will set the standards on water usage efficiency, on agronomic practices, on breeding better varieties, and therefore Australia will always be very competitive.

But at the end of the day, Australia will be a part of the solution, but will not be the solution. Cannot be the solution, because it has also got constraints in terms of how much it can produce and how much it can export. But given the fact that today Australia exports two-thirds of its agricultural production, which is a much higher proportion than any other producing country - **China**, India, everything is all consumed locally what they produce, or even in the East European countries or even... excepting for Latin American countries.

So I think Australia will be a major catalyst for agricultural innovation and growth.

Australia, however, should continue to find the next practice. I always say that trying to be best practice is lousy strategy because the whole world wants to be best practice. Everybody is trying to be best practice. So everybody's achieving best practice, which means you're all middle of the pack. What does distinguish Australia is that it has always invented next practice in agriculture. But in order to stay at the forefront, it needs to invest in research, continue to invest in research, to find that next practice, the next breakthrough, which becomes the global standard for everybody else to aspire for. In many commodities, Australia really sets that tone. But it cannot rest on its laurels - it has to continue to work hard to retain that edge.

PIP COURTNEY: Sunny Verghese, thank you for your time.

SUNNY VERGHESE: Thank you.

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