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## Multigrain: Meeting Surging Global Demand for Grain

## Challenge & Innovation

In August 2007, Mitsui & Co., Ltd. ("Mitsui") invested in Multigrain AG ("Multigrain"), a Swiss-based holding company that manages subsidiaries engaged in soybean, corn, cotton and other grain operations mainly in Brazil, opening the door to a business sector that holds significant long-term promise in an era of surging global demand. Leveraging its business engineering capabilities and long history of business in Brazil, Mitsui is working with trusted partners to develop this highly promising Brazilian agricultural business to meet escalating global demand for agricultural products, while also contributing to the development of regional economies in Brazil.

### Surging Demand for Soybeans and Other Grains

Global demand for soybeans has been rising exponentially since around the year 2000, driven by an increasing world population, buoyant economic development in China and elsewhere, and a significant reduction in soybean production in the United States as a consequence of increased use of farmland for corn-based bioethanol. According to the United States Department of Agriculture (USDA), annual global soybean production, which stood at just over 220 million metric tons per annum (mmta) in 2007/08, is expected to rise to around 290 mmta in 2017/18.



Part of Xingu's farmland portfolio

Running in parallel with the current high demand for soybean and other grains is a fundamental trend that is beginning to change the face of agriculture worldwide: the global competition for crop land. The fact that bioethanol is gaining momentum as a viable source of renewable energy, in combination with other factors such as changing weather patterns, changing regional land uses, and revised agricultural incentives and regulatory environments in various agricultural nations, means that there is significant projected new demand for additional land to grow crops. Brazil has entered the spotlight as one of the few countries capable of meeting this demand. Brazil has the perfect climate for high-quality soybean production-enjoying ideal temperatures, low rainfall at planting and harvest times, and ample rainfall in between. It also has an unparalleled amount of available farmland—namely, existing arable land that can be brought into production without contributing to deforestation of the Amazon rainforest. According to the Food and Agriculture Organization of the United Nations, Brazil has around 250 million hectares of land available (a similar amount to that in the United States), and only around 60 million hectares of this is cultivated (compared to approximately 180 million hectares in the United States).

### Mitsui's ¥10 Billion Investment in Brazil

Mitsui's entry into the Brazilian agriculture business was decisive. In August 2007, it agreed to acquire a stake in Multigrain, which harvests and exports soybeans and other grains in Brazil. Mitsui's partners in operating this joint venture are CHS Inc. ("CHS") and PMG Trading S.A. ("PMG"). Then in November 2007, Mitsui purchased shares in Xingu, a major agricultural producer in Brazil with extensive farmland, and transferred the shares to Multigrain. Mitsui's total investment will reach around ¥10 billion.



Farmland in Maranhão State

Mitsui chose its partners carefully. CHS is a Fortune 500 company and a leading energy and grain-based foods company in the United States. Mitsui has a longstanding strategic relationship with CHS, including 50/50 partnerships in the United States in margarine, shortenings and dressings producer Ventura Foods, LLC, and wheat and barley exporter United Harvest LLC. CHS brings to the partnership leading-edge agricultural production expertise, and a strong desire to meet its global customers' demands for Brazilian soybeans and other grains. PMG, meanwhile, is a Brazilian grain company with which Mitsui has a 20-year relationship in soybean export. The deep local industry knowledge PMG provides is also crucial to Multigrain's success.

The strategic fit of Multigrain and newly acquired Xingu is equally complementary, with the Xingu acquisition enabling Multigrain to expand its product range and increase its farmland portfolio. Multigrain's core business prior to the acquisition was origination and export of soybeans, while it also engaged in the export and sale of sugar, wheat importing, milling and domestic fertilizer sales. The Xingu acquisition adds corn and cotton cultivation to the product mix, as well as cotton ginning—the process of refining raw cotton. Multigrain's farmland portfolio is boosted to the tune of around 100,000 hectares in three different Brazilian states—equivalent to approximately 2% of the total cultivated land of Japan.

### Harnessing Mitsui's Business Engineering Capabilities

Mitsui aims to work with CHS and PMG to develop Multigrain into a comprehensive agribusiness with a coherent management system from production through to processing and exports. Several challenges exist, particularly with respect to Brazil's infrastructure, and this is another area where Mitsui can leverage its business engineering capabilities and business experience in Brazil.



Irrigation facilities at farmland in Bahia State

Mitsui is putting its broad network to work to strengthen Brazil's infrastructure and increase the efficiency of Multigrain's business. Mitsui has a stake of around 18.2% in Valepar S.A., the holding company of Vale (formerly known as Companhia Vale do Rio Doce), the world's largest iron ore producer and a major developer of Brazilian transport infrastructure, and is working with Vale on a range of projects to develop Brazil's rail infrastructure and port facilities. Meanwhile, Mitsui subsidiary Mitsui Rail Capital Participações Ltda is providing rolling stock leasing options. Mitsui is also playing its part in chartering vessels to transport the grains to their destinations in Asia, and subsidiaries such as Fertilizantes Mitsui S.A. Industria e Comercio, one of Brazil's most recognized fertilizer companies, are involved at other stages of the value chain. Mitsui and its partners are also developing the country silos, flour mills, ginning facilities and other infrastructure necessary for advanced agricultural production, while strengthening the efficiency of the production process with a range of advanced technologies and processes. One interesting aspect of Brazil's relatively undeveloped and isolated agricultural infrastructure is that it makes possible the production of non-GM agricultural products that are no longer economic in more developed countries. Meeting this small but persistent demand may be the subject of future feasibility studies.

### Three-pronged Approach

What does the future hold for Multigrain and Mitsui's grain business? Mitsui's approach is three-pronged. First and foremost, Mitsui plans to continue to reinforce and expand Multigrain's existing businesses in Brazil, through developing transport infrastructure, improving production efficiency and increasing its farmland holdings. Mitsui hopes that this will contribute to global food security in challenging times for global food supply-and to further job creation in regional economies in Brazil. Second, Mitsui will explore the possibility of entering new agribusiness areas to meet potential new demand, such as the cultivation of sugarcane for subsequent use in production of sugarcane-based bioethanol. And third, Mitsui will actively seek opportunities to further stabilize its food supply capabilities and mitigate production risk by diversifying into other regions.



Silo in farmland of Xingu in Bahia State

In these challenging times for global food supply, Mitsui believes that it has the capabilities to seize the opportunities presented and truly make a difference. Mitsui's participation in Multigrain in Brazil is a promising first step in the march towards ensuring a stable, high-quality supply of grain and other foods to important markets around the world.

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