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Creating Opportunities from Challenges

The World of Oilseeds and Edible Oils Towards increasing challenges for the Canola value chain

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Presentation Structure

- *Rabobank's global operations*
- *The overall picture*
- *Trends & drivers in the world of edible oils*
- *Forward looking and some implications for the Canola industry*

Rabobank Nederland

- Dutch Coop established in 1898 as an agricultural bank.
- The largest in the Netherlands
- “AAA” (or equivalent¹) rating by two private rating agencies.
 - ✎ The only non-governmental financial institution that maintains this rating
- 12th largest bank in Europe, by balance sheet
- Among the top 40 banks in the world
- Over USD 300 Bn in assets

Rabobank International

- The international arm of Rabobank Nederland
- Strong focus on the agribusiness sector
- Clients throughout the value chain
- Expanding into primary production financing Australia, Ireland and U.S.

Rabobank International

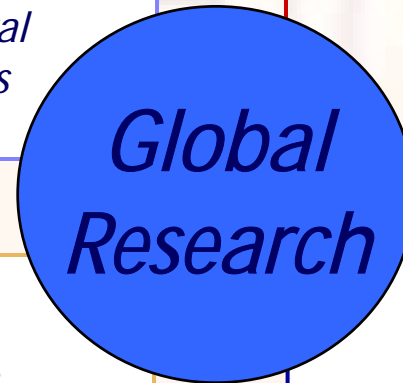
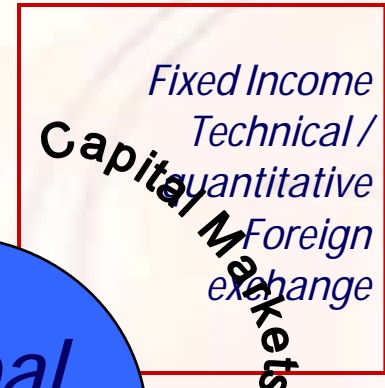
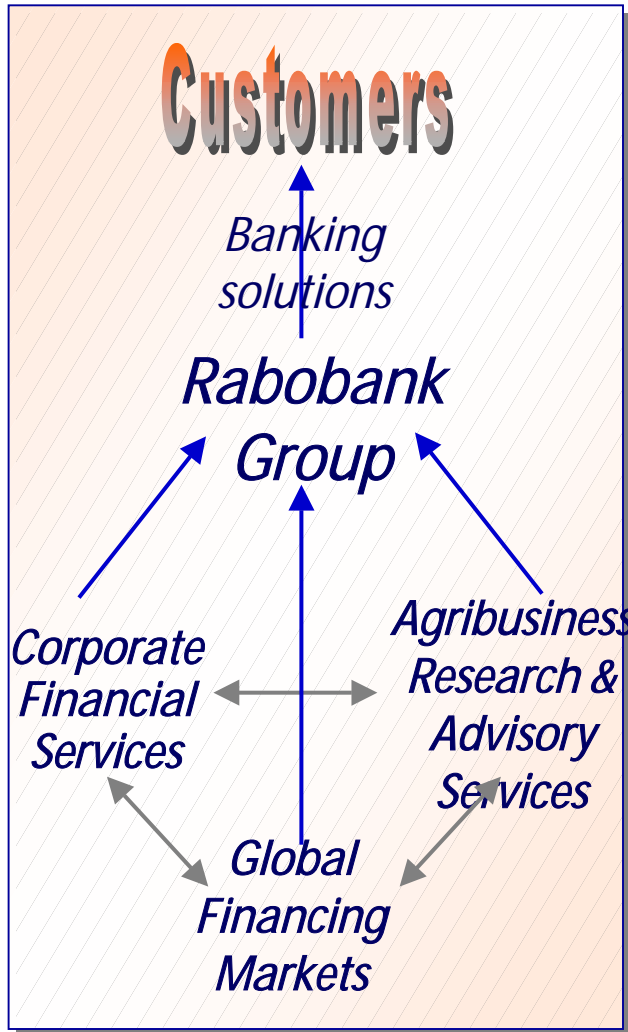
Strong balance sheet, international network & know how



About 147 offices in 38 countries

Rabobank International

.. providing a range of banking solutions..



Over 160 research professionals

Rabobank International

.. with sector knowledge as a competitive advantage



● presence of a FAR team

Senior Level Dedication

*Food & Agribusiness Research (FAR)
team with global view and presence*

Product Specialists

Rabobank Canada

- *Present since 1997*
- *Schedule II bank*
- *Focus on Grains, Oilseeds, Animal Proteins & Dairy*
- *Senior Debt; Structured and Corporate Finance; Food & Agribusiness Advisory*
- *Transactions in the CAD \$20M->\$100M range*

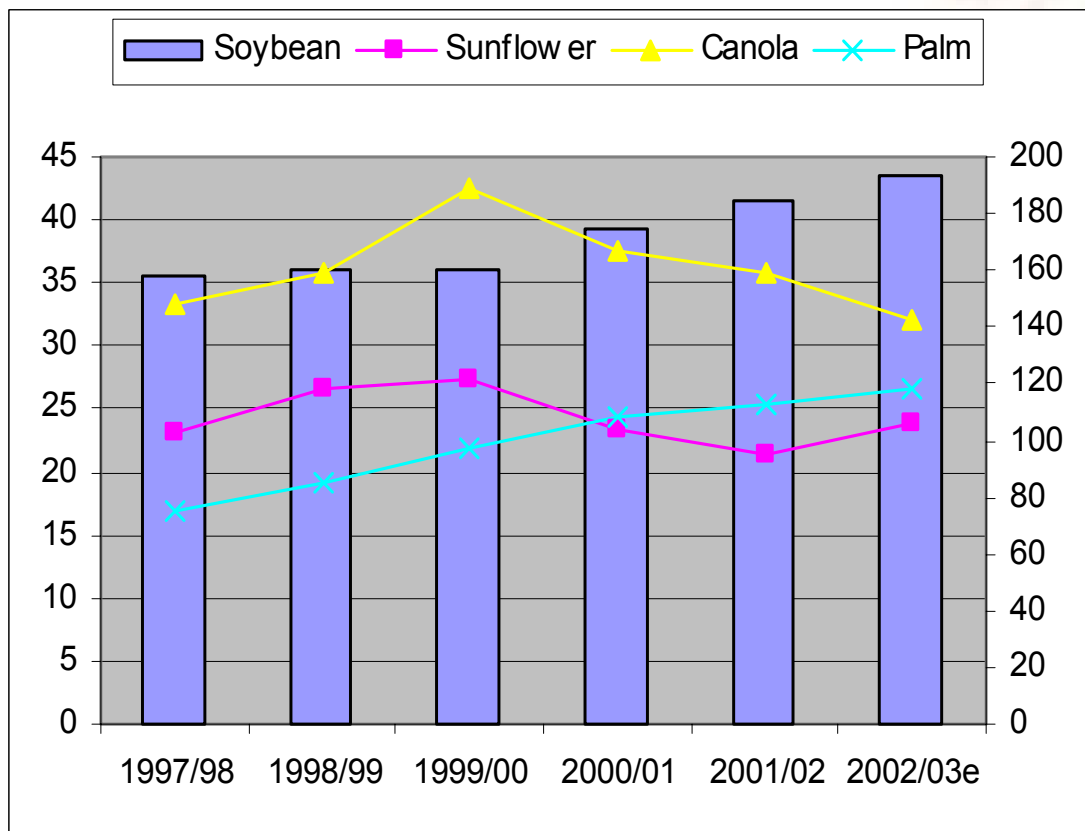


The World of Edible Oils

The Overall Picture

Oilseed production

Production of major oilseeds (M tons)



Source: USDA (FAS-PSD)

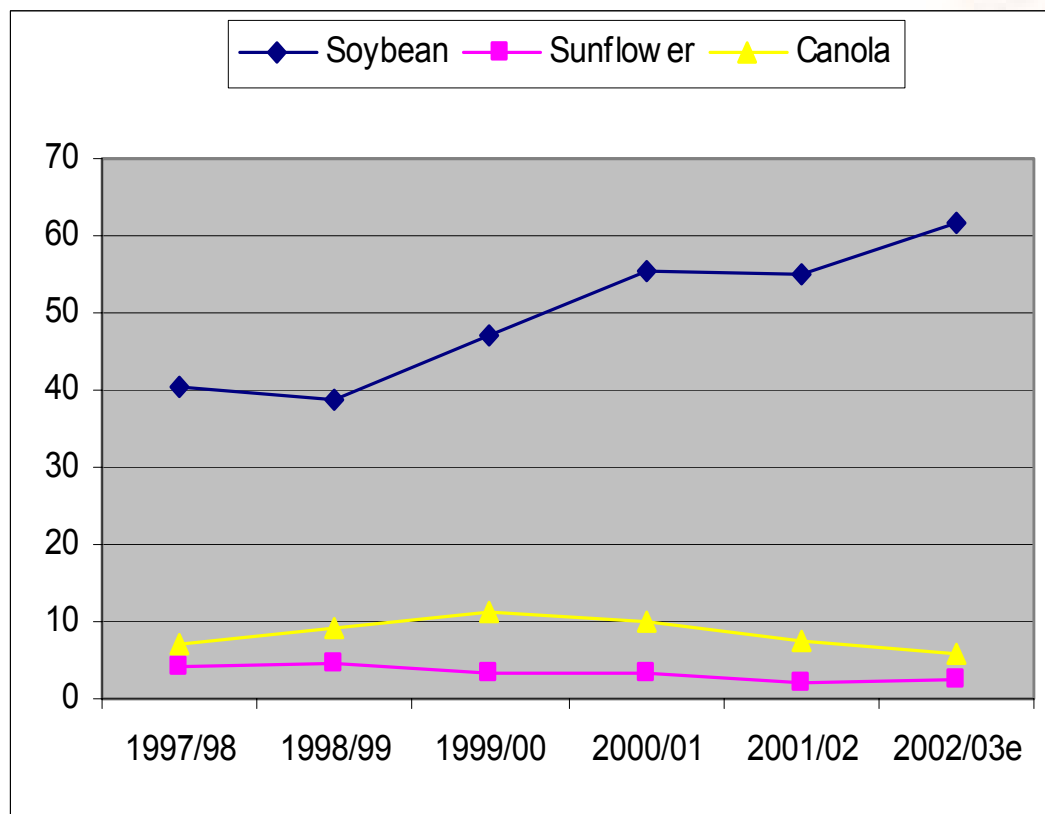
- Soybean and palm have strengthened their position
- Soybean increase largely driven by demand for animal proteins

↳ BSE crisis

How sustainable is the increasing demand for animal proteins?

Oilseed trade

Major oilseeds exports (M tons)

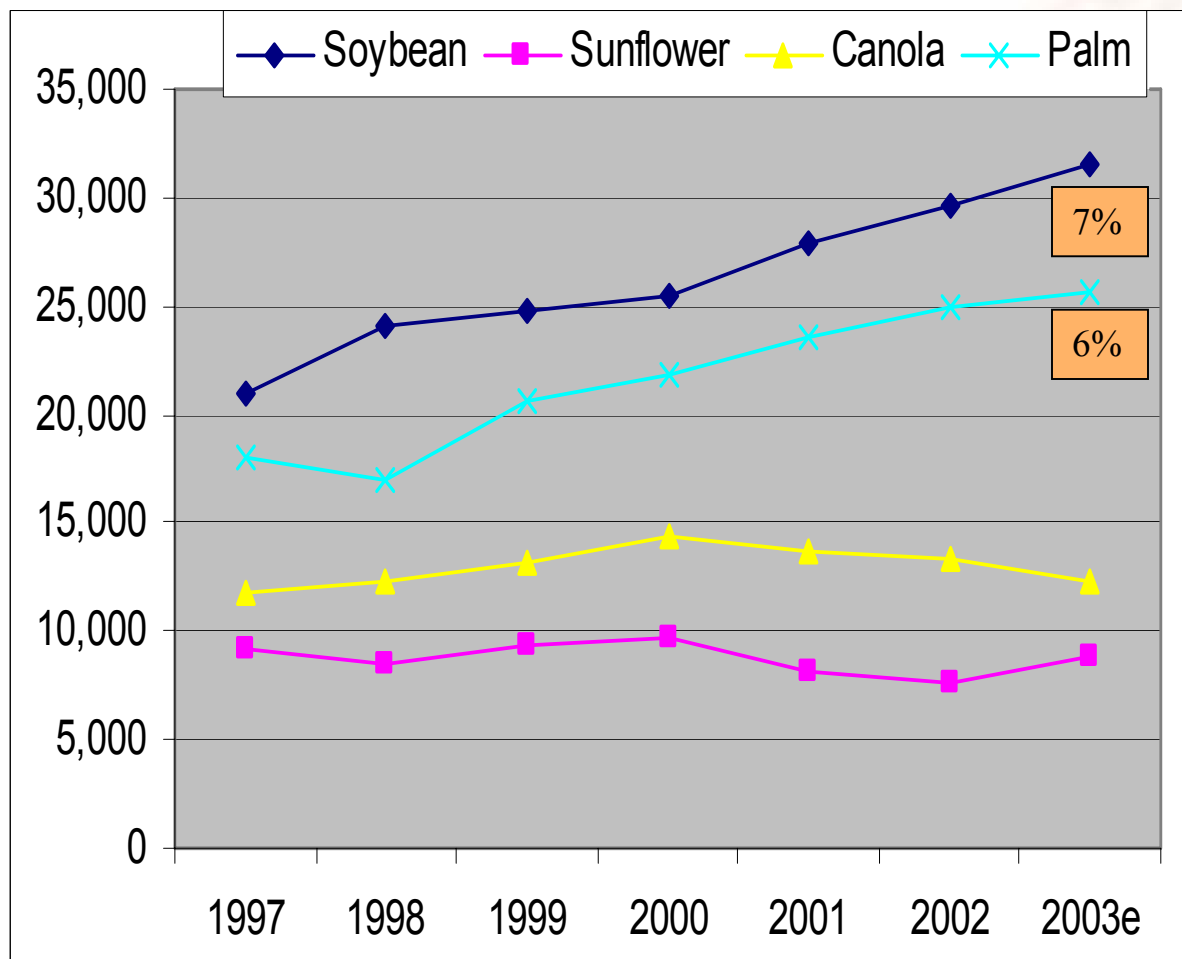


Source: USDA (FAS-PSD)

- Soybean (relatively) high trade reflects the product's improved crushing yields
 - ↳ Production increase applied to higher bean trade. Crushing at destination (China)
- Canola trade decline reflects the lower production

Oil production

Production of major oils (000 tons)

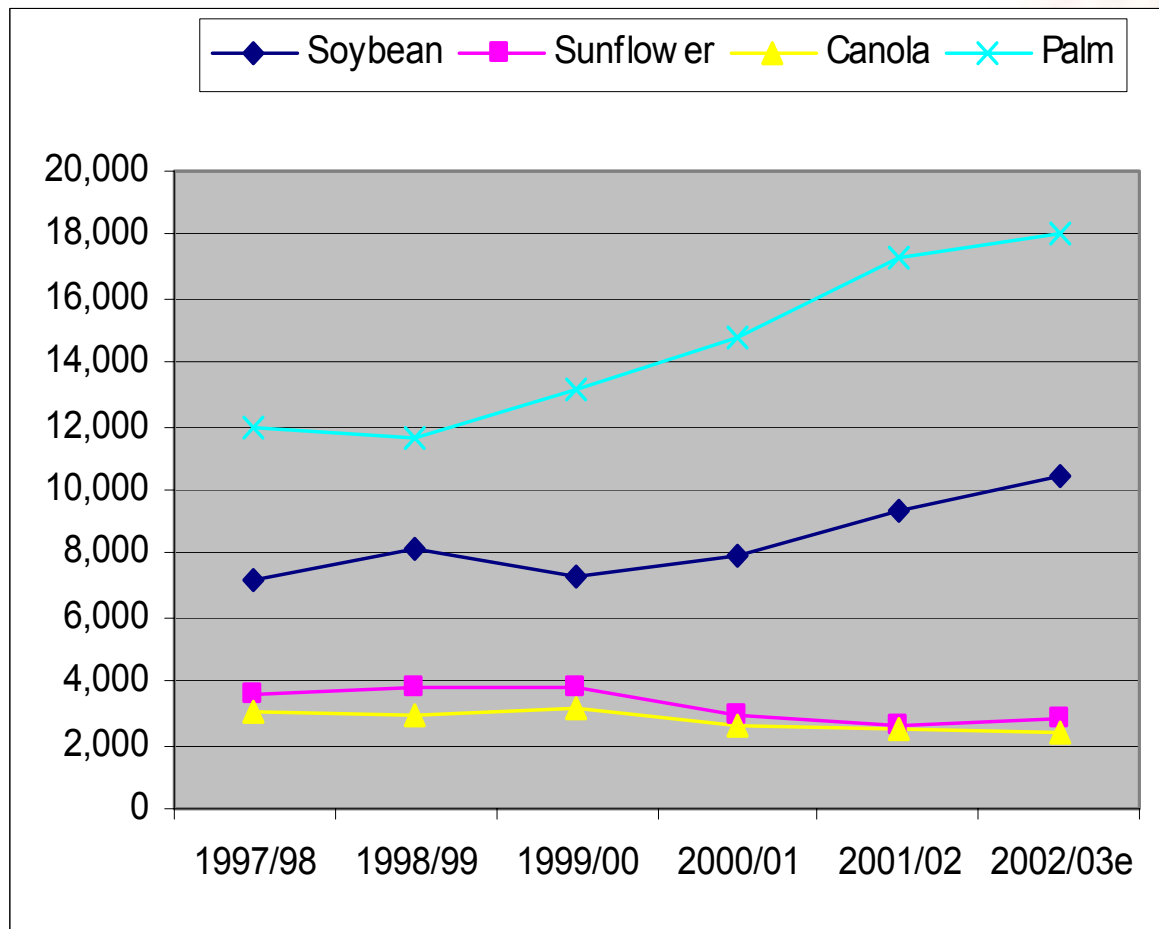


Source: Oil World & RI estimates

- Soybean and palm have strengthened their dominant position
- Decline in canola production partially compensated by crushing of carry-over stocks

Oil trade

Exports of major oils (000 tons)

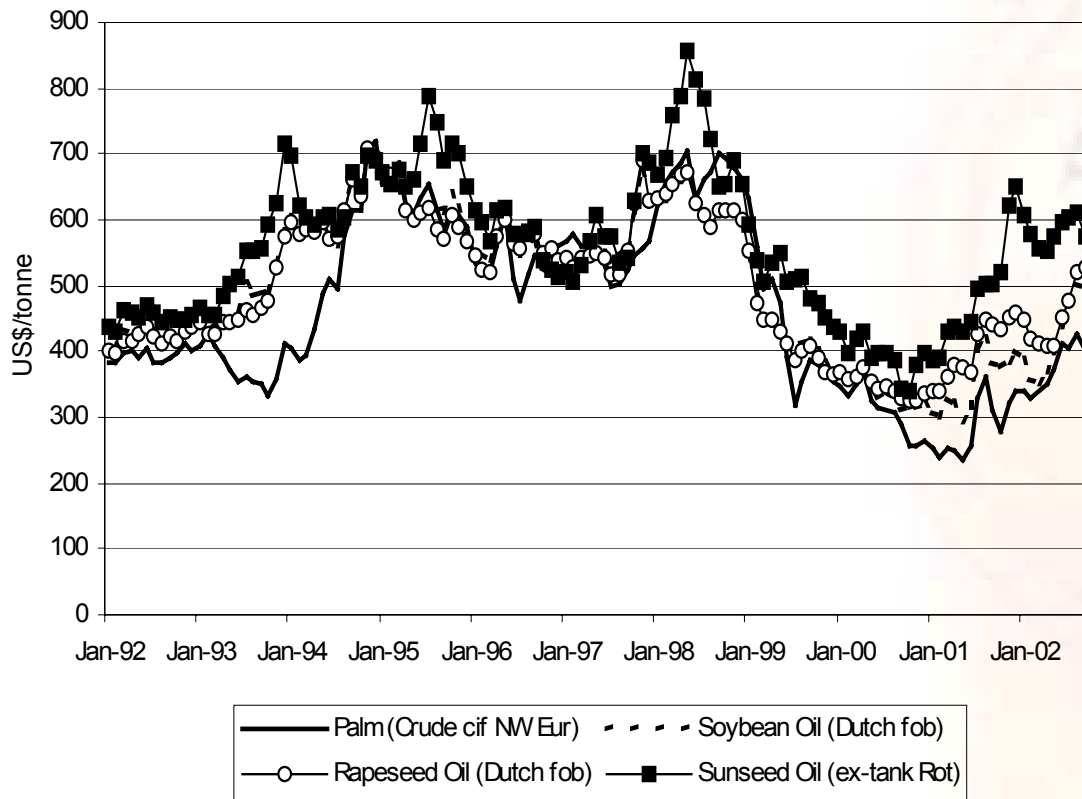


Source: USDA (FAS-PSD)

- Race between soy and palm oils
- Palm trade leveling off following the stabilization in production?

Prices

Prices of the four major oils



Source: Oil World

- Sun continues to be traded as the premium oil
- Canola's increase follows its lower availability and shows its strength
 - ↳ lack of substitutes for certain uses



***The World of Edible Oils.
Trends & drivers***

Trends

- *Global sourcing & delivering*
- *Internationalization*
- *Increasing substitution in final use*
- *Food service as an increasingly important customer*

Global sourcing

“In a declining margin business companies will lower their procurement and delivery costs on a worldwide basis”

- U.S. farm Bill to encourage production of corn (relative to soybeans) in the U.S.;
- Crushing to be optimized world-wide
 - ↳ Plant closings in EU, U.S. (Bunge; ADM)
 - ↳ Expansions in China & Brazil. Argentina next?
- Mercosur’s productivity change biased towards oilseeds (soybeans and to a less extent sunflower);
- Tariff and non tariff distortions in India and China to encourage domestic crushing, but based on a global sourcing;

US & EU settings pose a challenging environment

- Loan rates favor wheat and corn

USD/Bu

Wheat: 2.58->2.80

Corn: 1.89->1.98

Soy: 5.26->5.00

- Application of export credit programs extended
- EEP to be applied under a more flexible “unfair trade practices criteria”
- Mkt development programs
- Country of origin labeling



Higher corn and wheat production in US
Higher asset (land) prices
Restricted market (US) access
Fierce competition in third markets access

But

- Not so straight forward once we consider production costs
 - ✦ Production of soybeans should still be more attractive for US farmers

Increasing US protectionism fueled by EU's response

Source: RI analysis based on USDA (ERS) & George Morris Center

Mercosur's oilseed production to increase further

- Larger growth rates than the respective economies
- Production of Argentina, Brazil, Paraguay & Bolivia combined to exceed that of the US for first time in 2002/2003.

↪ 2001/02

- 72 M tons (Arg+Bra) vs 78 M tons US

↪ 2002/03 forecasts

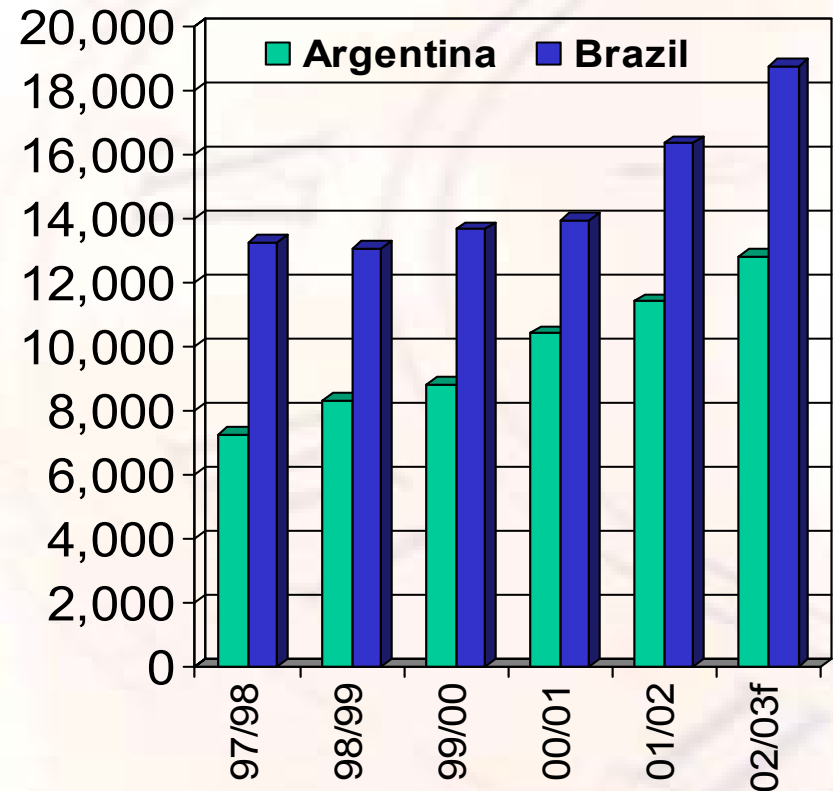
- + 14% Argentina
- + 16% Brazil

- Processing sector continues to attract multinational companies

↪ Recent expansion of ADM in Brazil

- Expectations are of increasing growth
- Different approaches to GMO adoption

Argentina & Brazil. Soybean harvested area (000 has)



Source: Oil World

*Will double digit expansion be maintained?
Where are prices going to be set?*

driven by region's cost advantage

- Exchange rate regimes to favor competitiveness in world markets
- Economic uncertainty to favor soybeans over corn in the case of Argentina
- New production frontiers
- Limitations arising from logistics setting

Direct ex-farm production costs for soybeans (USD/ton).
2002/03 CY

	US	Brazil	Argentina
Land rental	48.00	24.00	36.00
Labour	24.64	18.06	13.49
Seeds	19.81	8.40	11.89
Chemicals	21.47	17.04	21.17
Fertilizer, lime and gypsum	8.27	30.07	4.98
Total	122.18	97.57	87.53

Source: RI estimates based on Sparks, USDA-ERS and market data

Internationalization

- Industry is becoming increasingly global
- The three largest global companies now command about 45% of the crushing capacity in the main origination and consumption regions
- Different business models are structured for this process

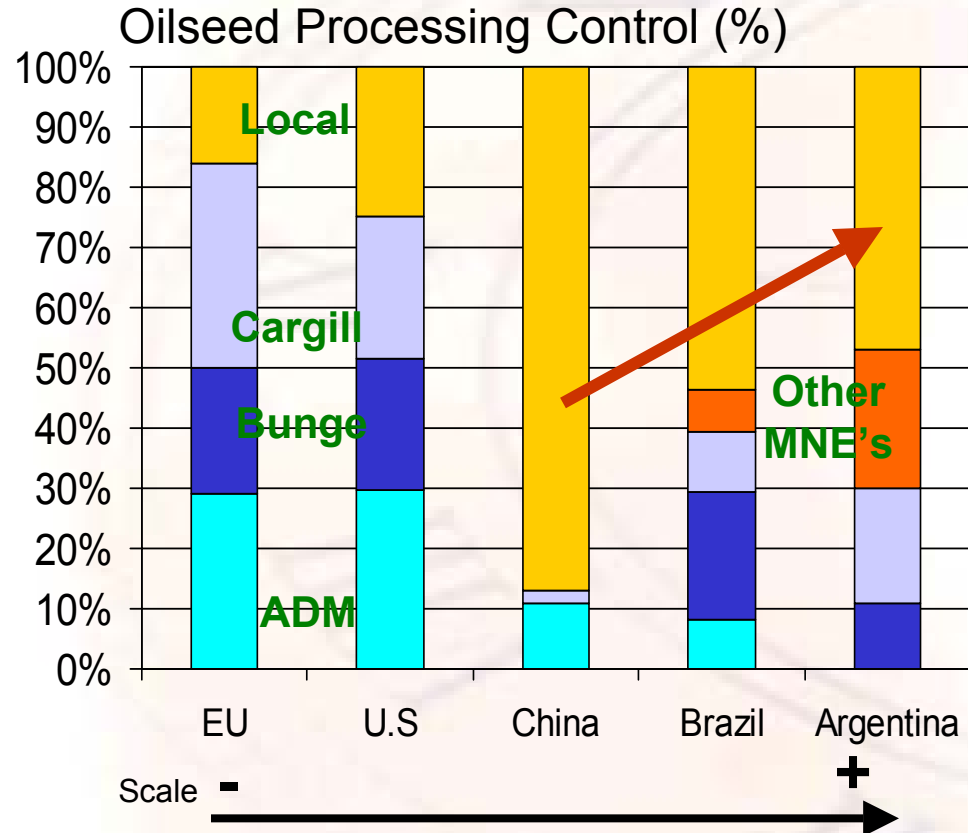
↪ Direct asset ownership

↪ JV's

↪ Trade

Differences by company & destination

Flexibility



Source: RI estimates based on industry data

Room for further internationalization

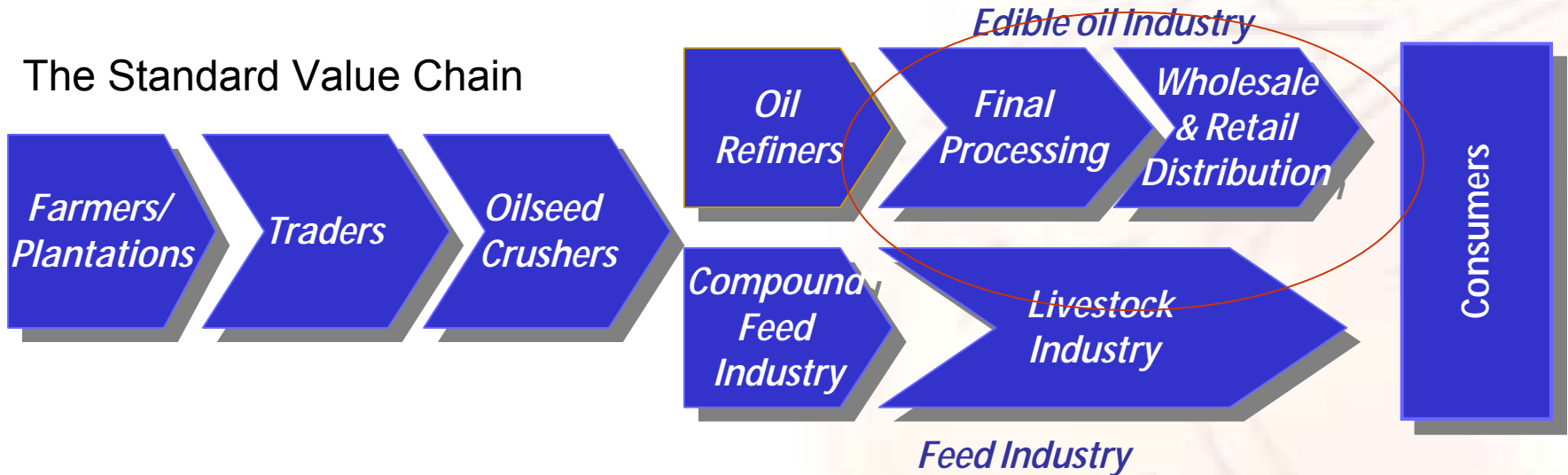
But internationalization modes vary..

	China	Brazil	Argentina
ADM	Actively present as shareholder in Wilmar	Expanding its crushing plant in Rondonopolis	Only present as a trader
Bunge	Only as a trader	Actively present	Acquisition of Buyatti's share in T6 and of André Group's facilities
Cargill	Incipient JV's	Actively present	Acquisition of Buyatti after Chapter 11
Competitive mapping	Local & regional conglomerates (CP; Kwok, Wilmar)	Louis Dreyfus; Maggi Group; Coops	AGD; Vicentín; and Louis Dreyfus; Glencore;

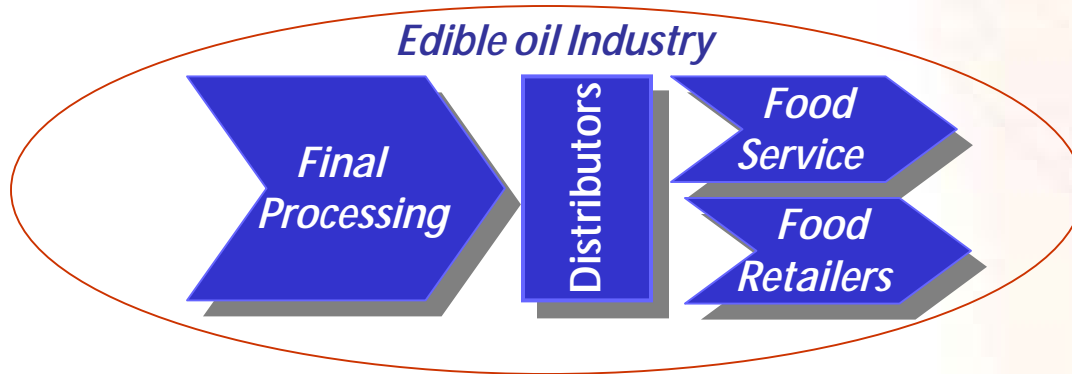
Further internationalization to lower procurement & delivery costs even more

Increasing importance of food service

The Standard Value Chain

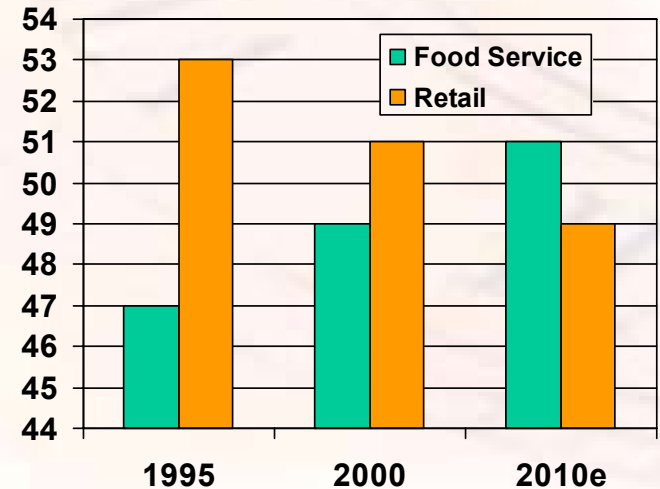


Revised Value Chain for the Edible Oil Segment Share in US consumer food expenditures (%)



Backward impact on the value chain?

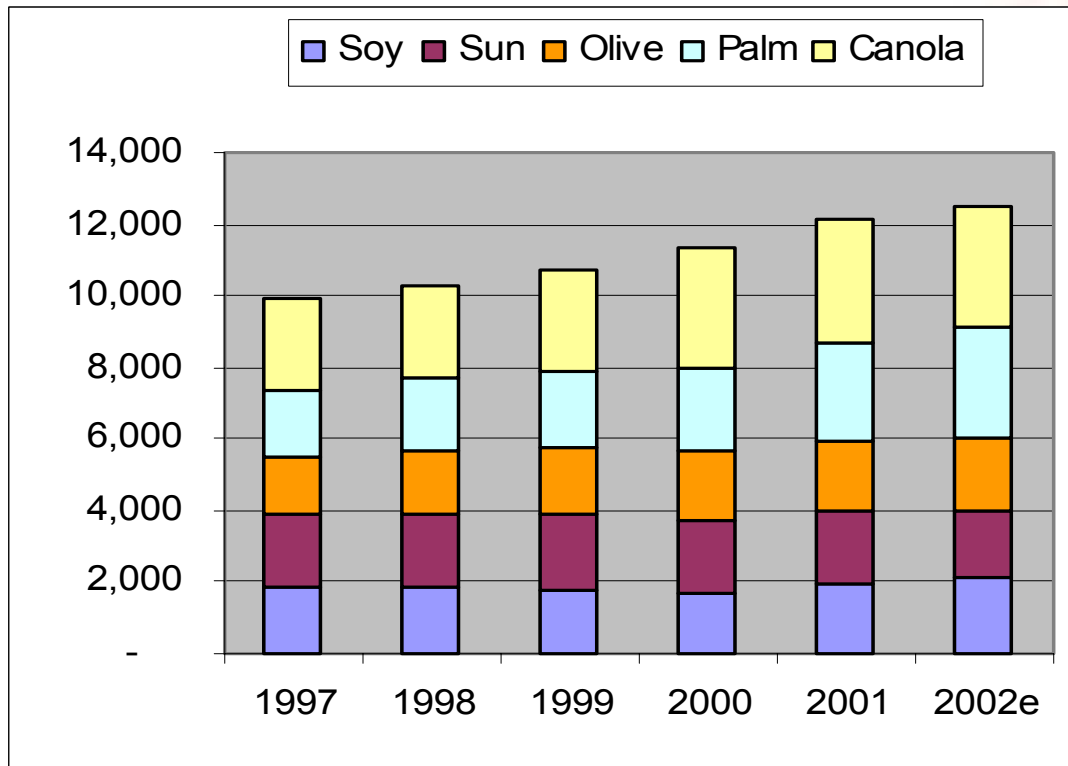
Pricing Relationships



Source: Mc Kinsey & Co.

Increasing substitution in final use

Consumption of the main oils in the EU (M tons)



Source: Oil World

- Increasing consumption of canola
- Despite increasing supply, soybean oil is not a preferred oil in developed economy such as the EU
- Substitution has a differential effect across oils

Challenges & Opportunities for Canola

Challenges

- Geographic diversification of competing oils
- Soybean crushing non longer just a meal driven business?
- R&D efforts more devoted to soybean applications;
 - ↳ Industrial uses & bio-diesel

Opportunities

- Palm production leveling off?
- Sustain and develop further edible properties of canola oil
- Enhance differentiation efforts
- Meet traceability requirements from EU market
- Expand (bring know how) into lower cost of production regions
 - ↳ Argentina?

Rabobank International....



*The financial link in the
global food chain.™*