Prospects for Vegetable Oil Prices for 2006 Onwards

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to

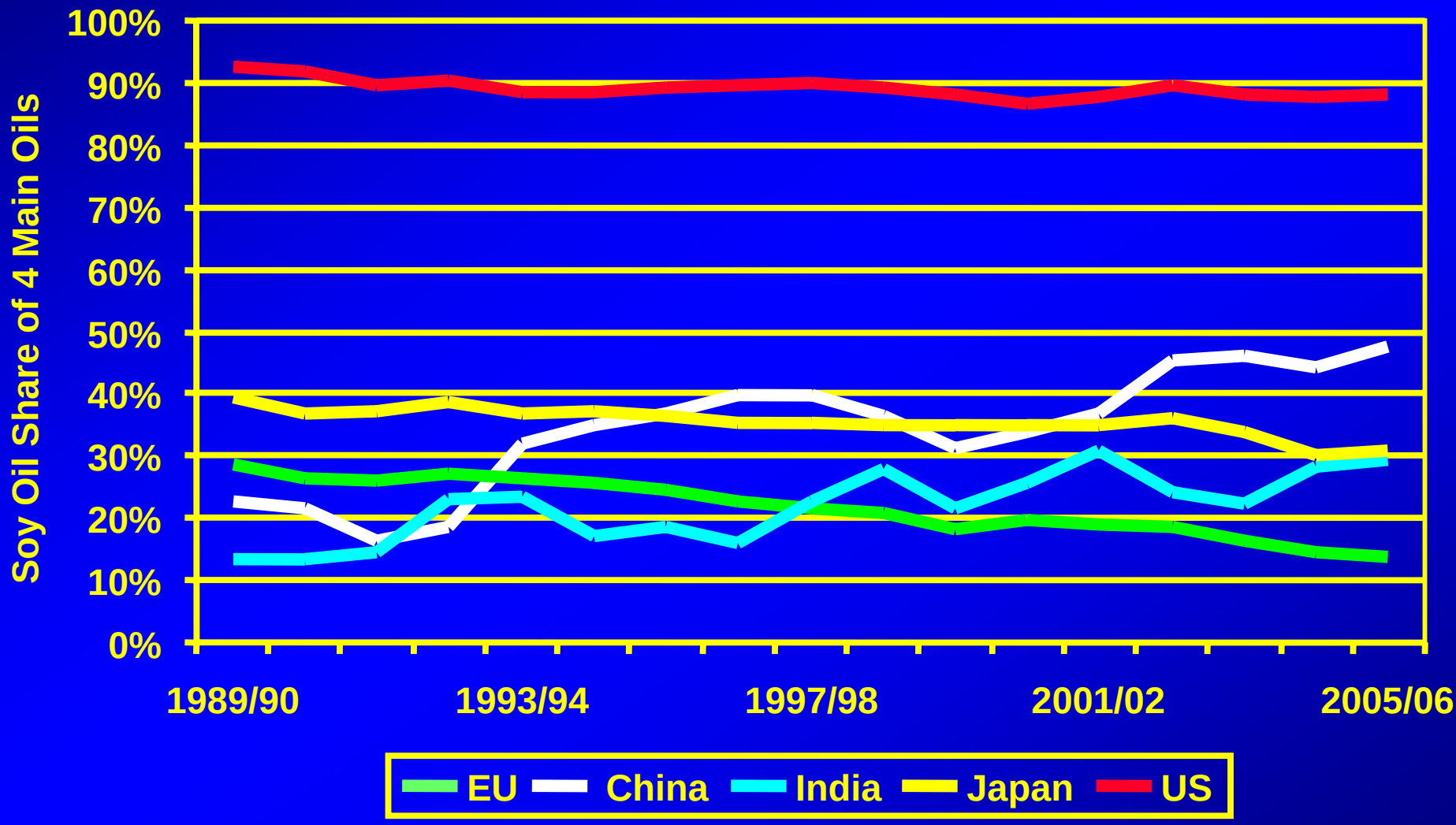
4th Global Oils and Fats Business Forum
San Diego, 9th September 2005

Outline of the Presentation

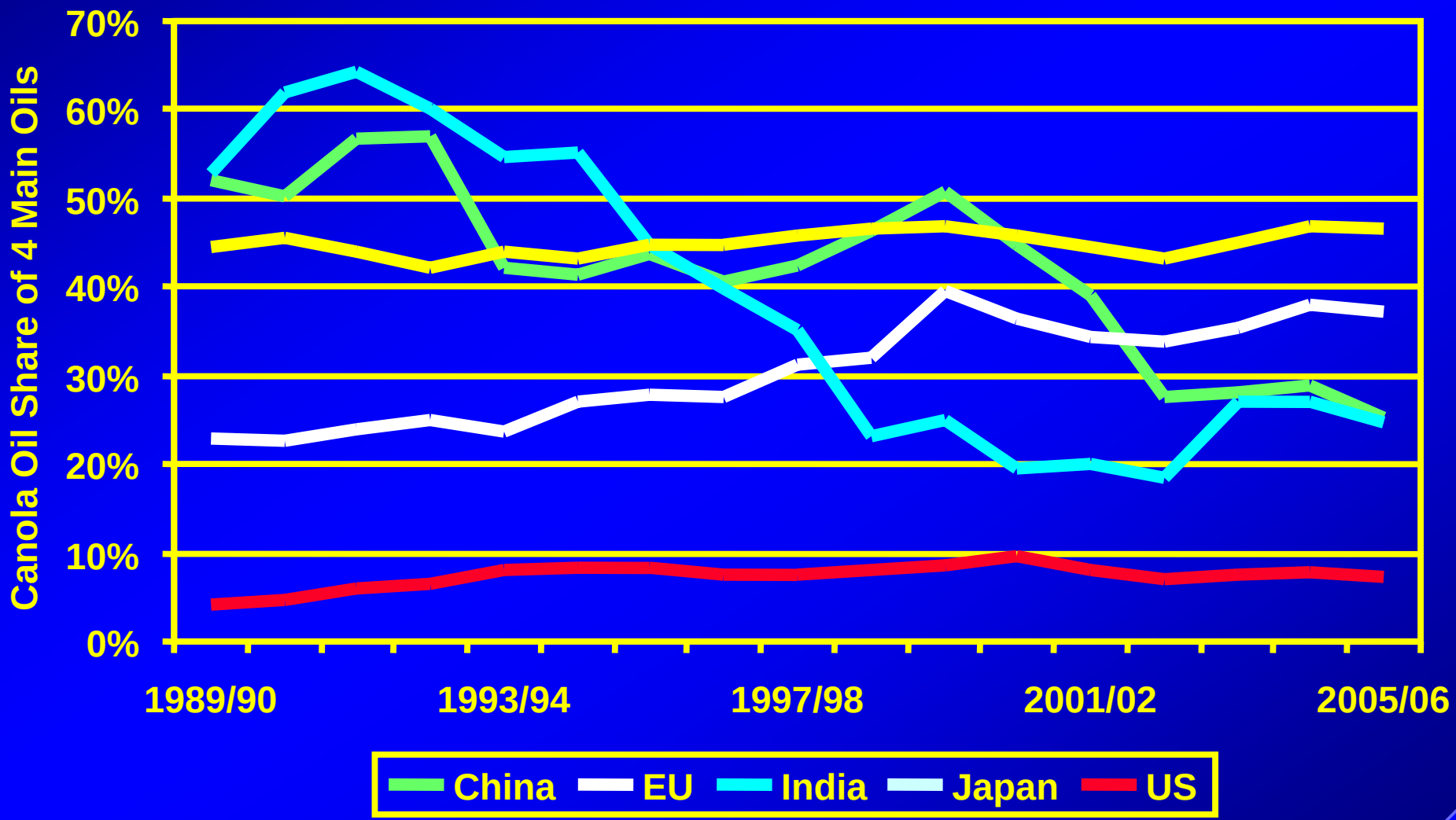
- Composition of oil and fat demand in major markets
- Oil and fat use in spreads and hard fats
- Balancing global markets for soybean and palm oils and for oil and meal
- Price competitiveness of palm vs. soy oil: the “India Factor”
- US and global soy and palm oil prices

The Composition of Oil and Fat Consumption in Leading Countries

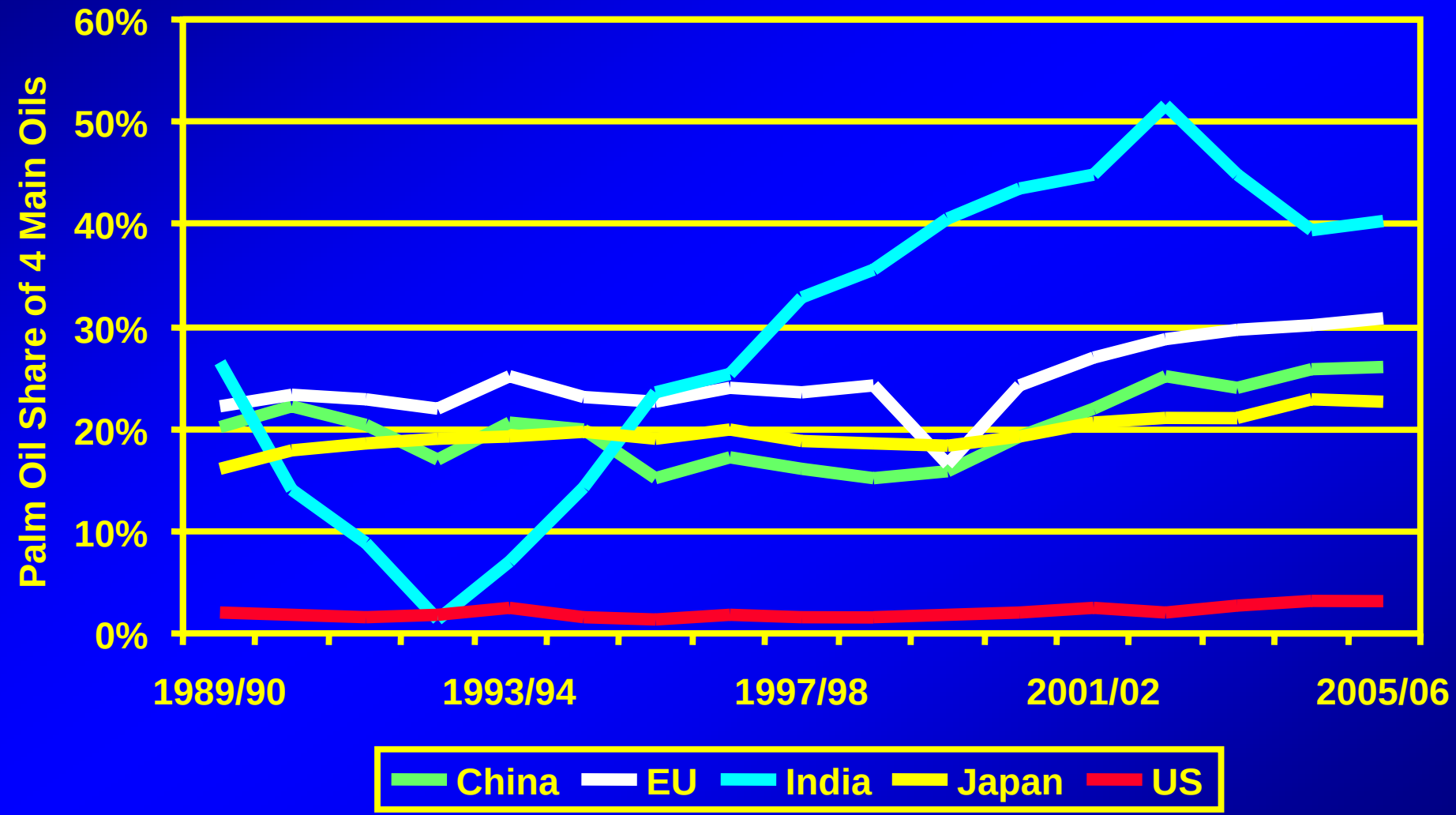
Soy Oil Market Shares in Leading Markets



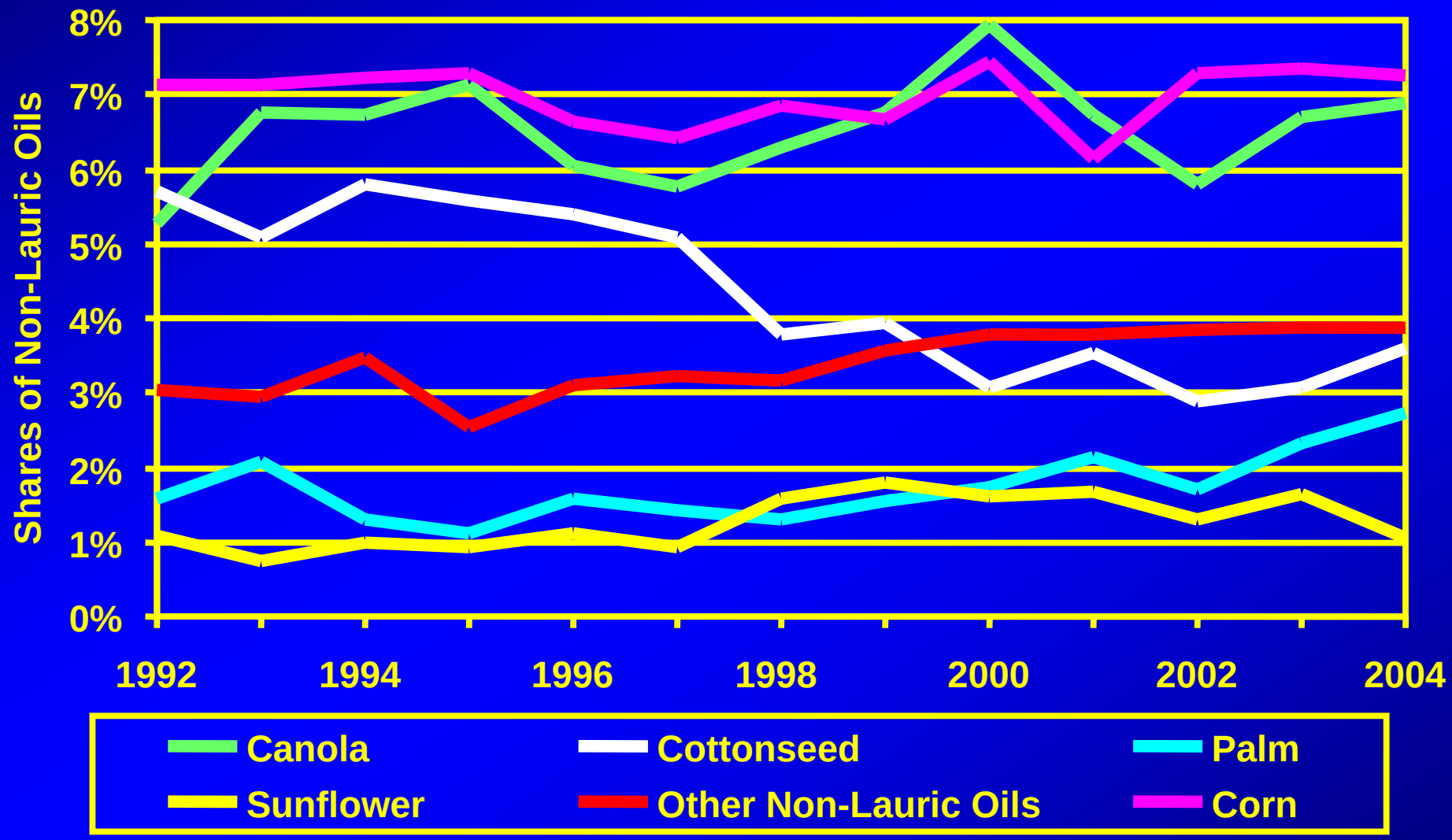
Canola Oil Shares in Leading Markets



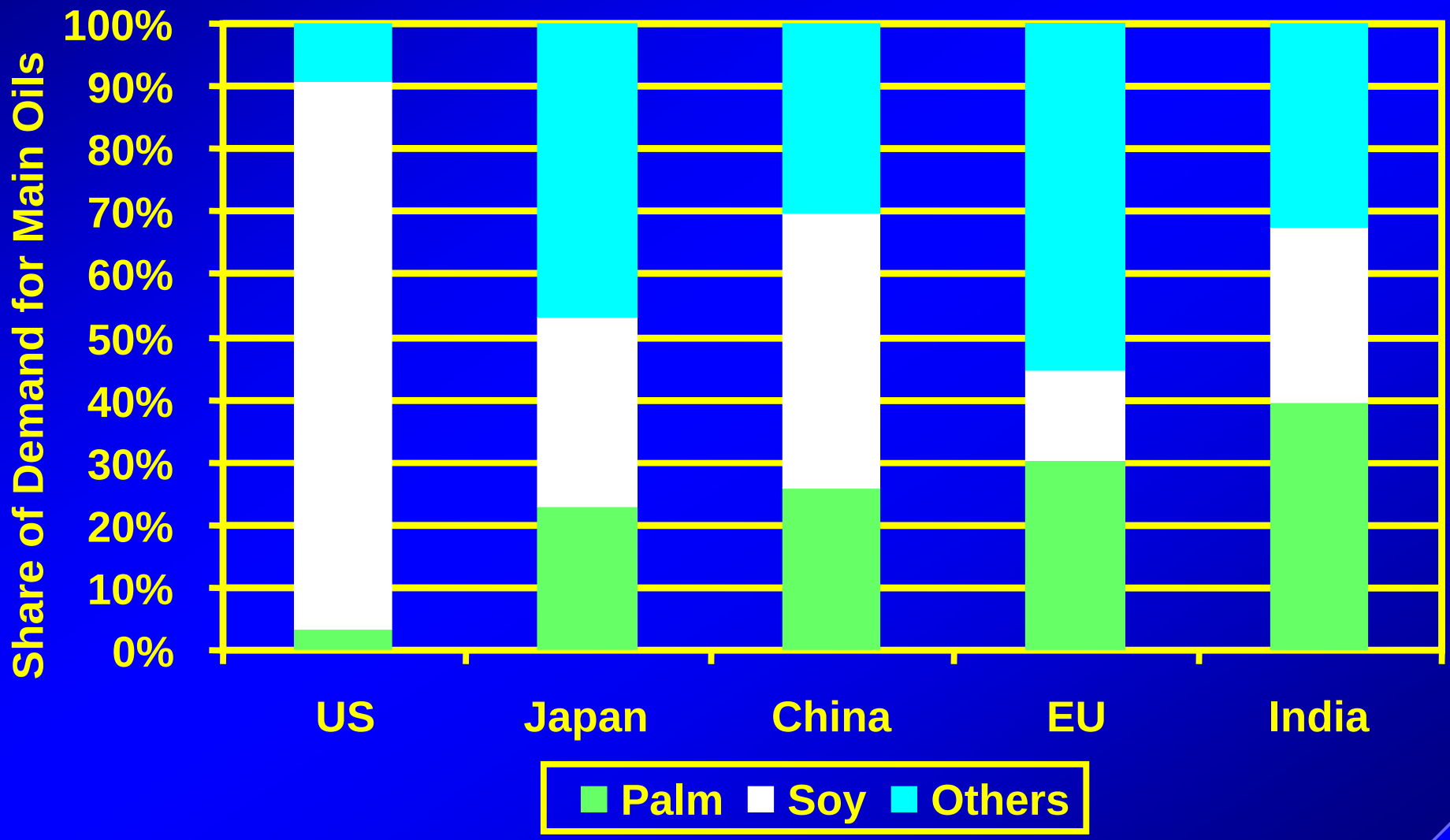
Palm Oil Market Shares in Leading Markets



US Market Shares of Oils Other than Soy Oil



Soy, Palm and Other Oils' Shares of Leading Countries



Composition of Oil Demand

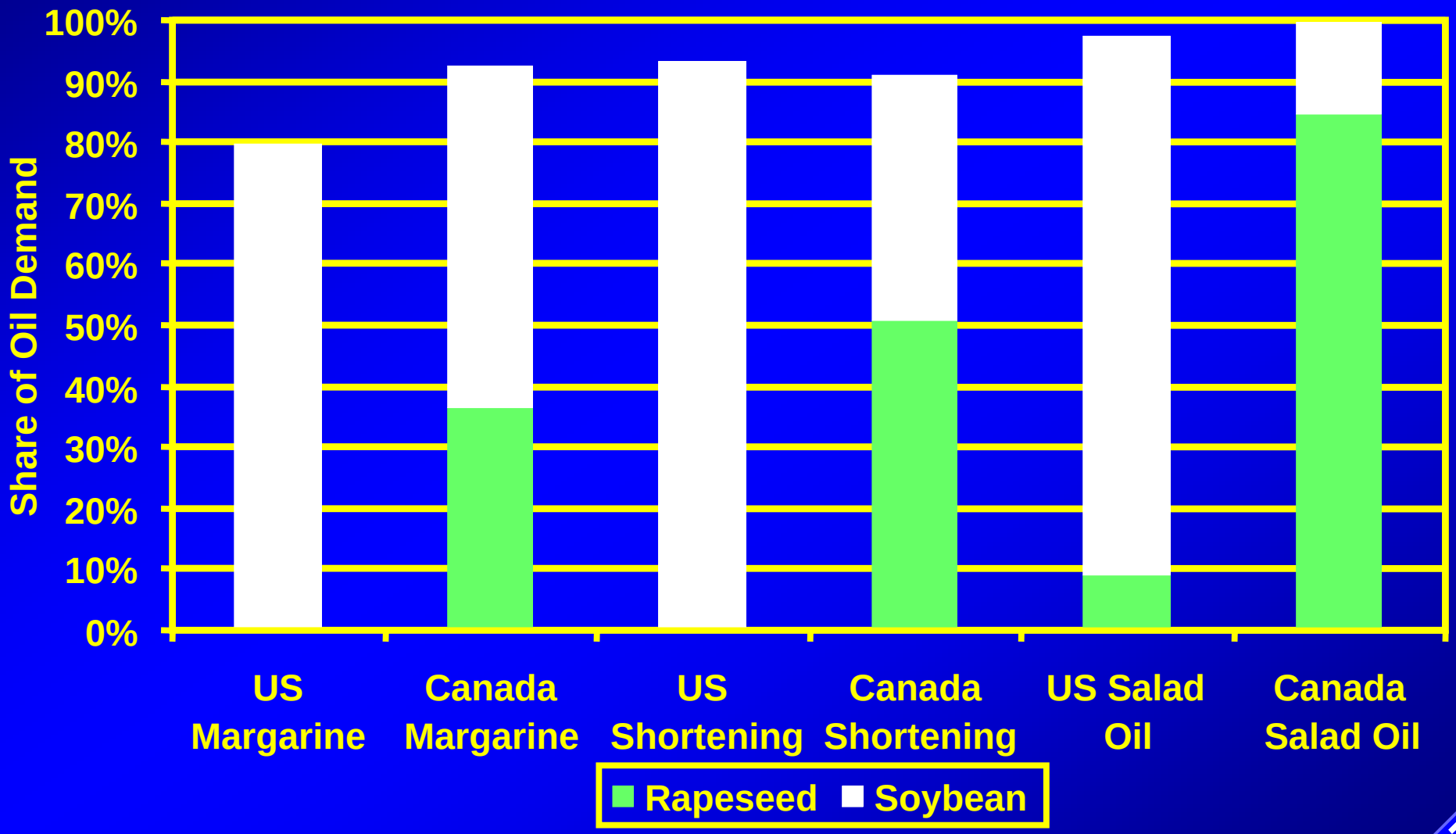
- The US is the odd man out in its pattern of oil demand and its heavy reliance upon soy.
- In no other country does soy oil hold more than 50% of the market (China is closest).
- In all other markets, canola has over 25% and palm over 20% of the demand for major oils.
- US palm oil demand is growing, but is still barely one tenth of the volumes you would expect to find in other countries.

Use of Naturally Stable Oils

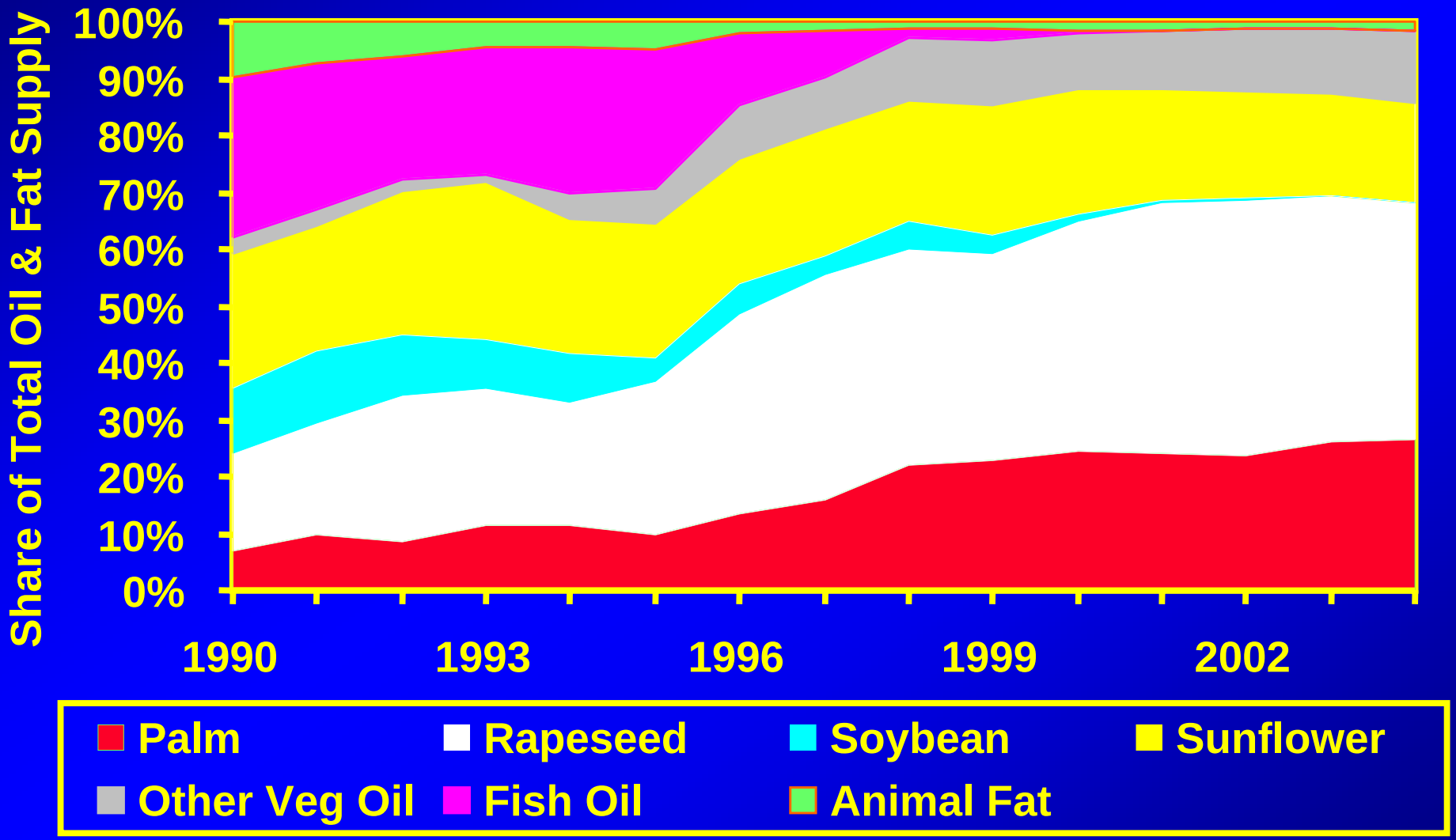
- Soy and canola oils have 7-9% linolenic acid.
- The US has a challenge finding alternative naturally stable domestic oils.
- Cottonseed and corn oils are by-products, whose supply is difficult to expand (though corn dry milling may provide a partial answer).
- NuSun is held back by US farmers' reluctance to expand plantings.
- Novel oils, like low linolenic soy, will take time to build up the volumes and fill the gap.

Oil and Fat Use in Spreads and Hard Fats, Where TFAs Are a Factor

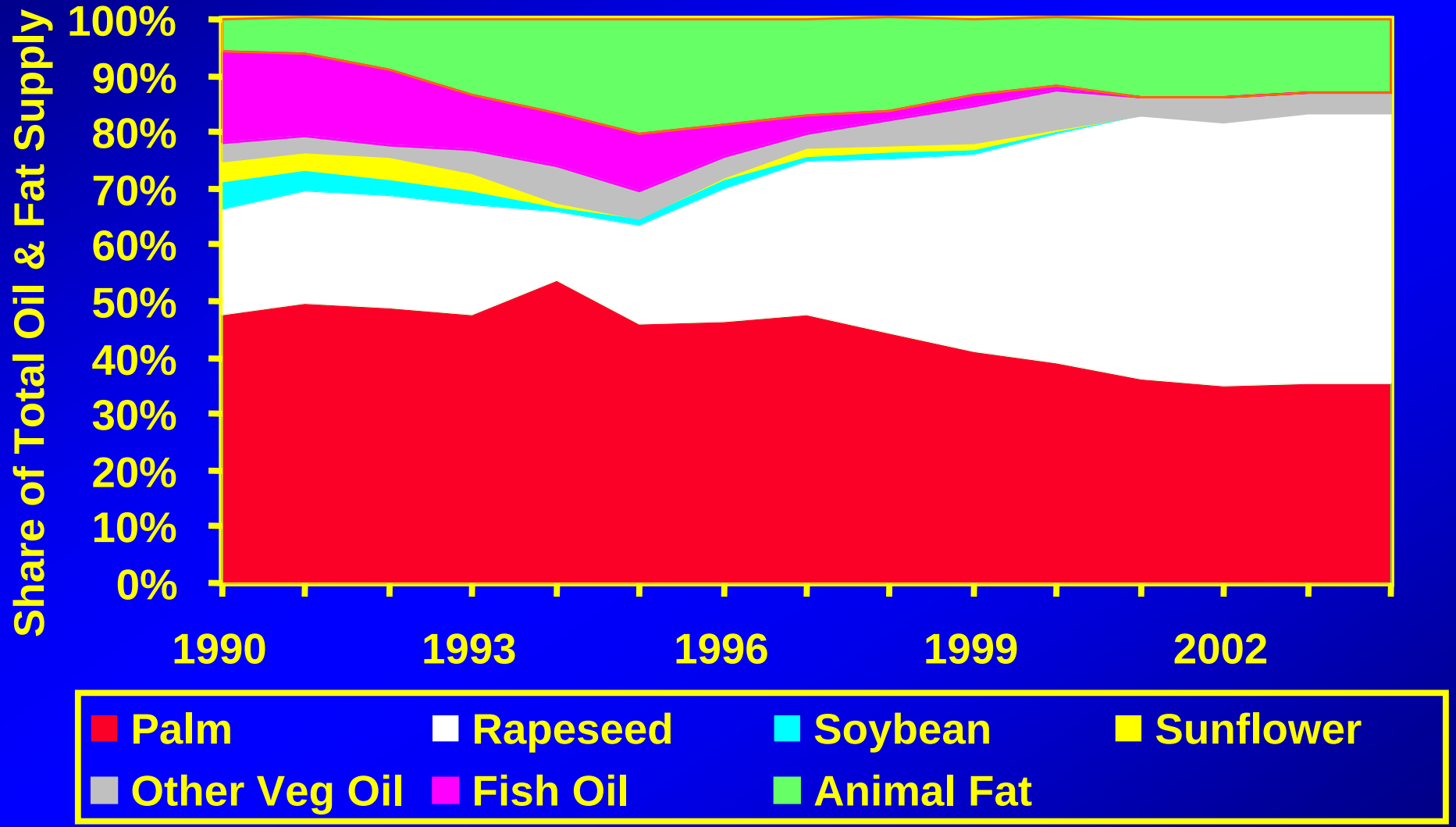
Canadian vs. US Soy and Canola Oil Use



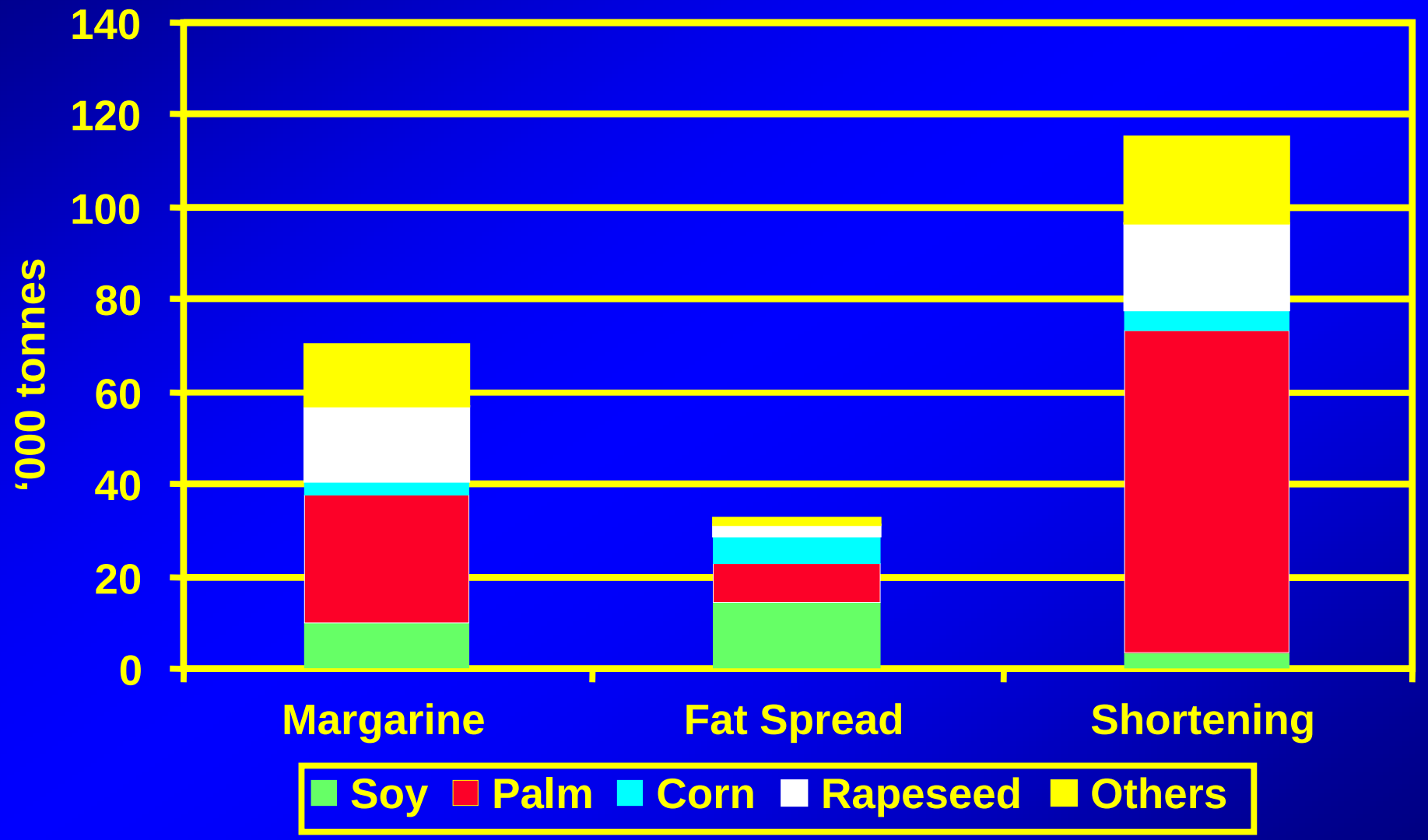
Oils Used in UK Margarine and Spreads



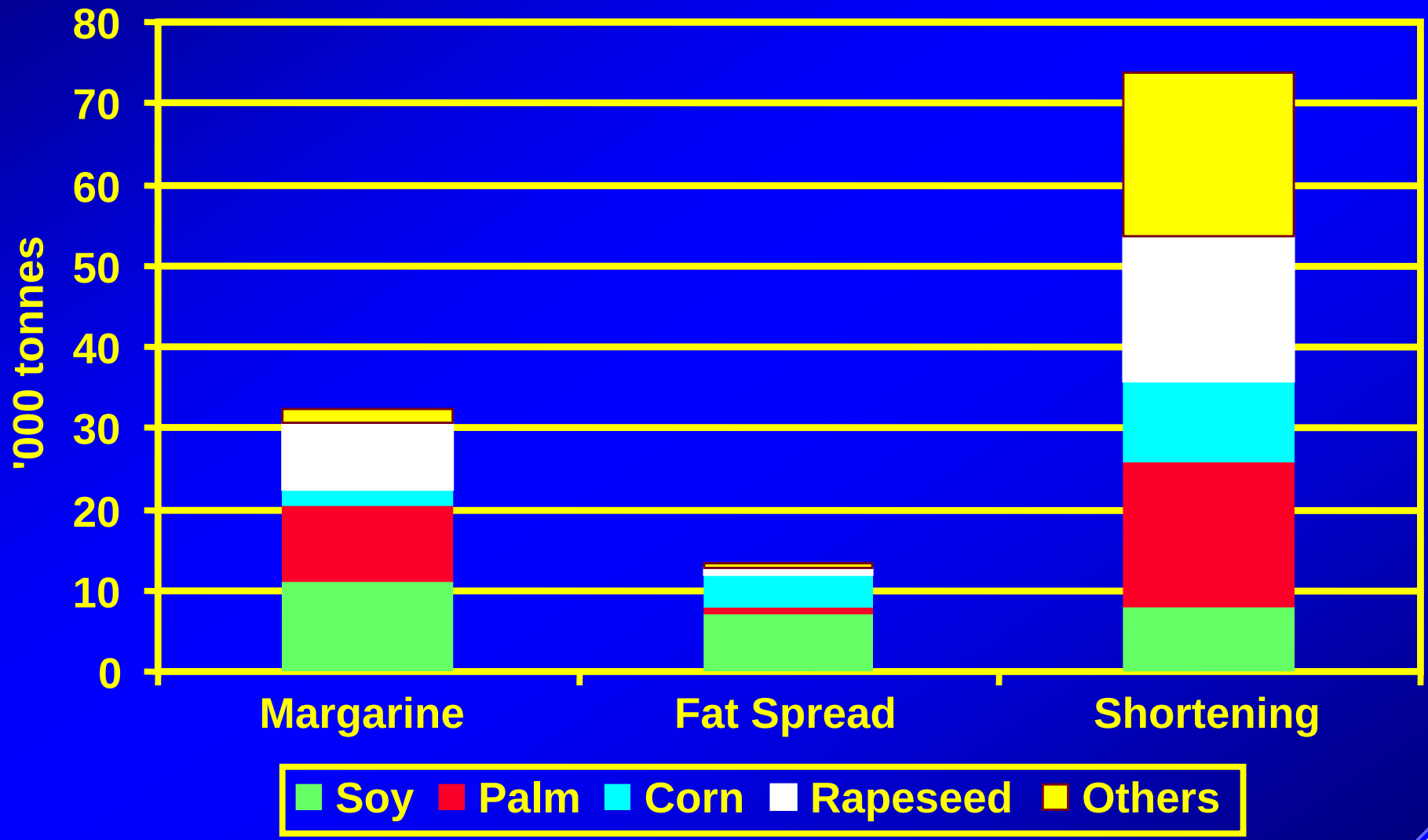
Oils Used in UK Shortening



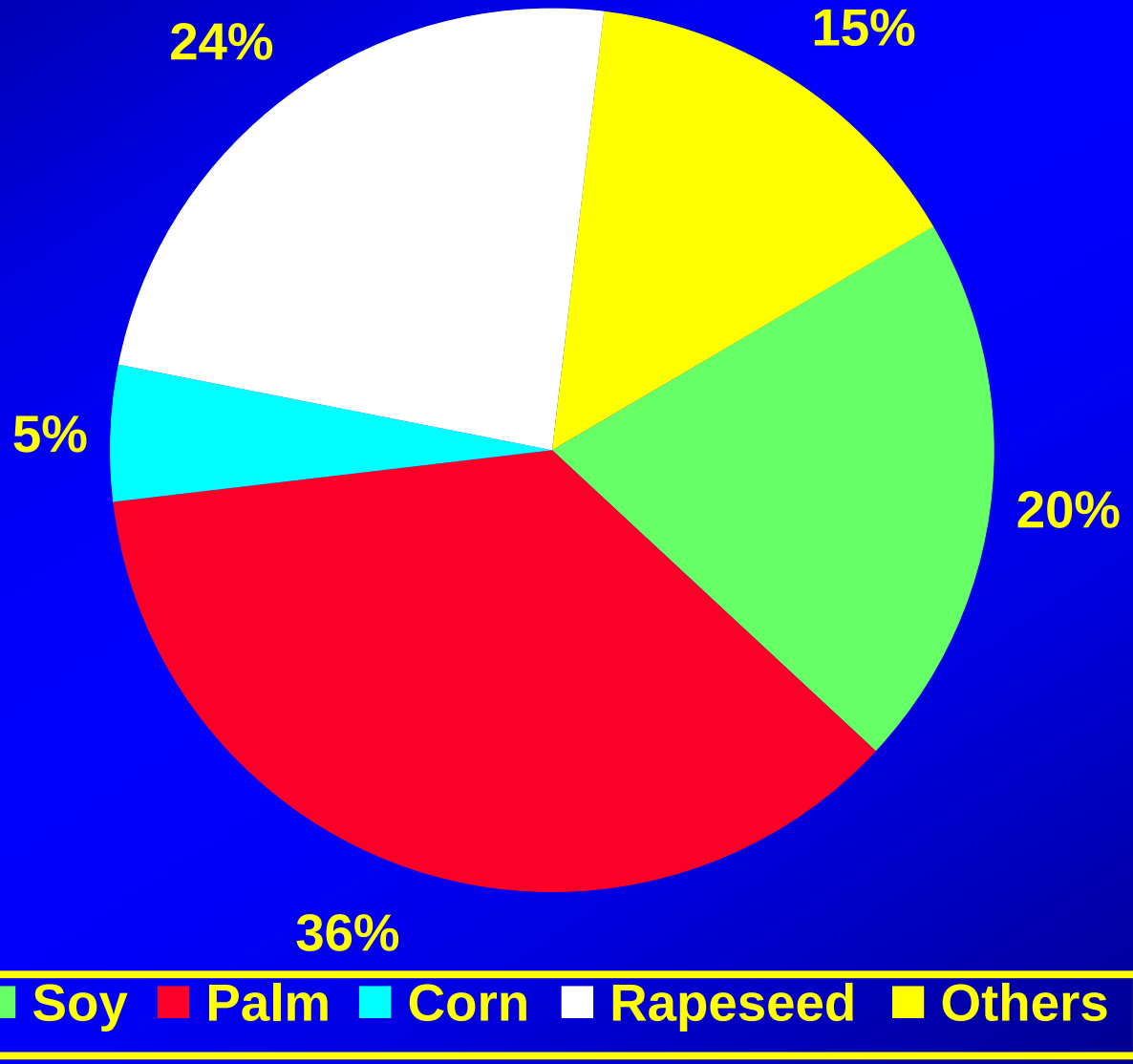
Non-Hydrogenated Oils Used in Japan



Hydrogenated Oils Used in Japan



Allocation of Japan's Spread/Hard Fat Use

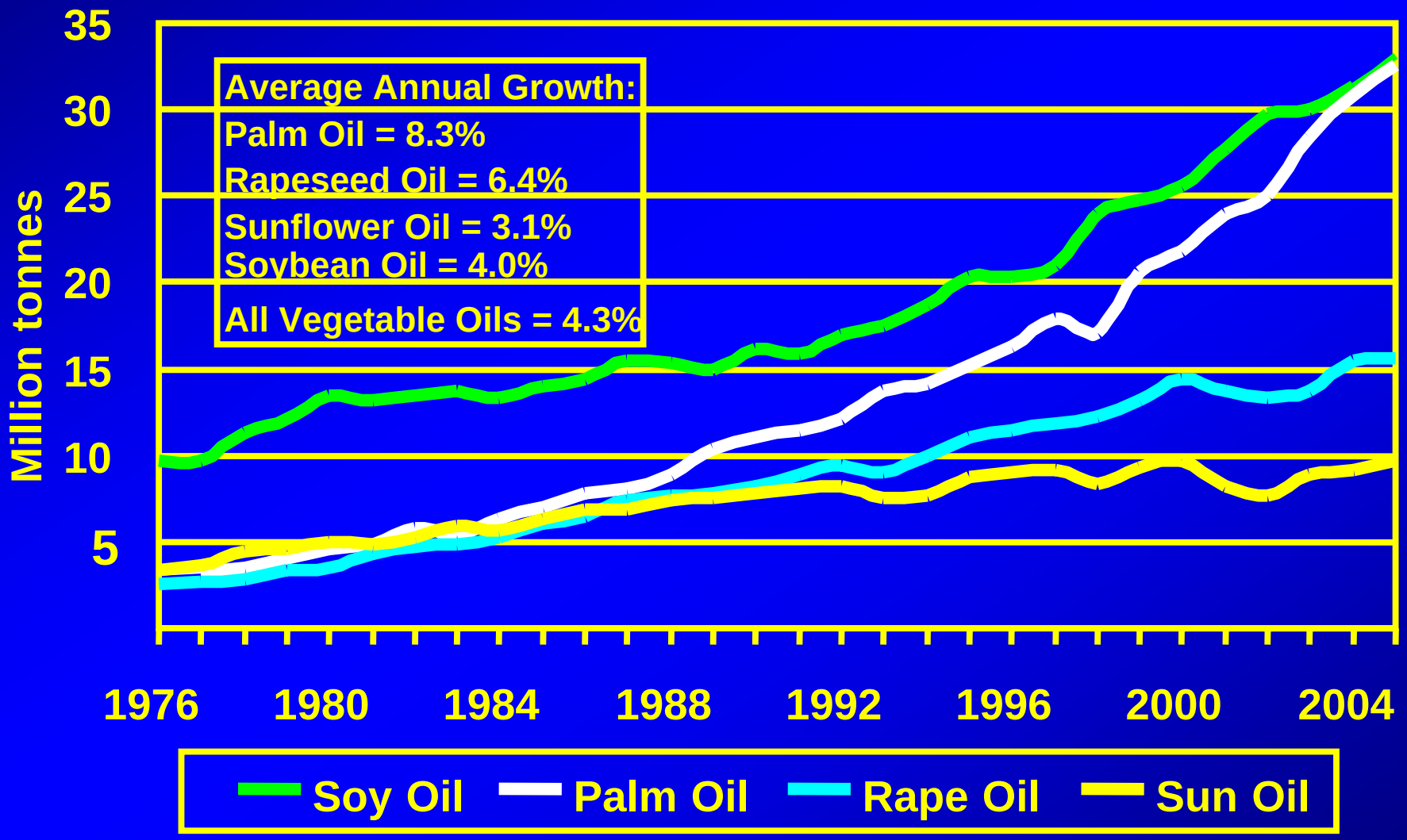


Oil Demand by End-Use

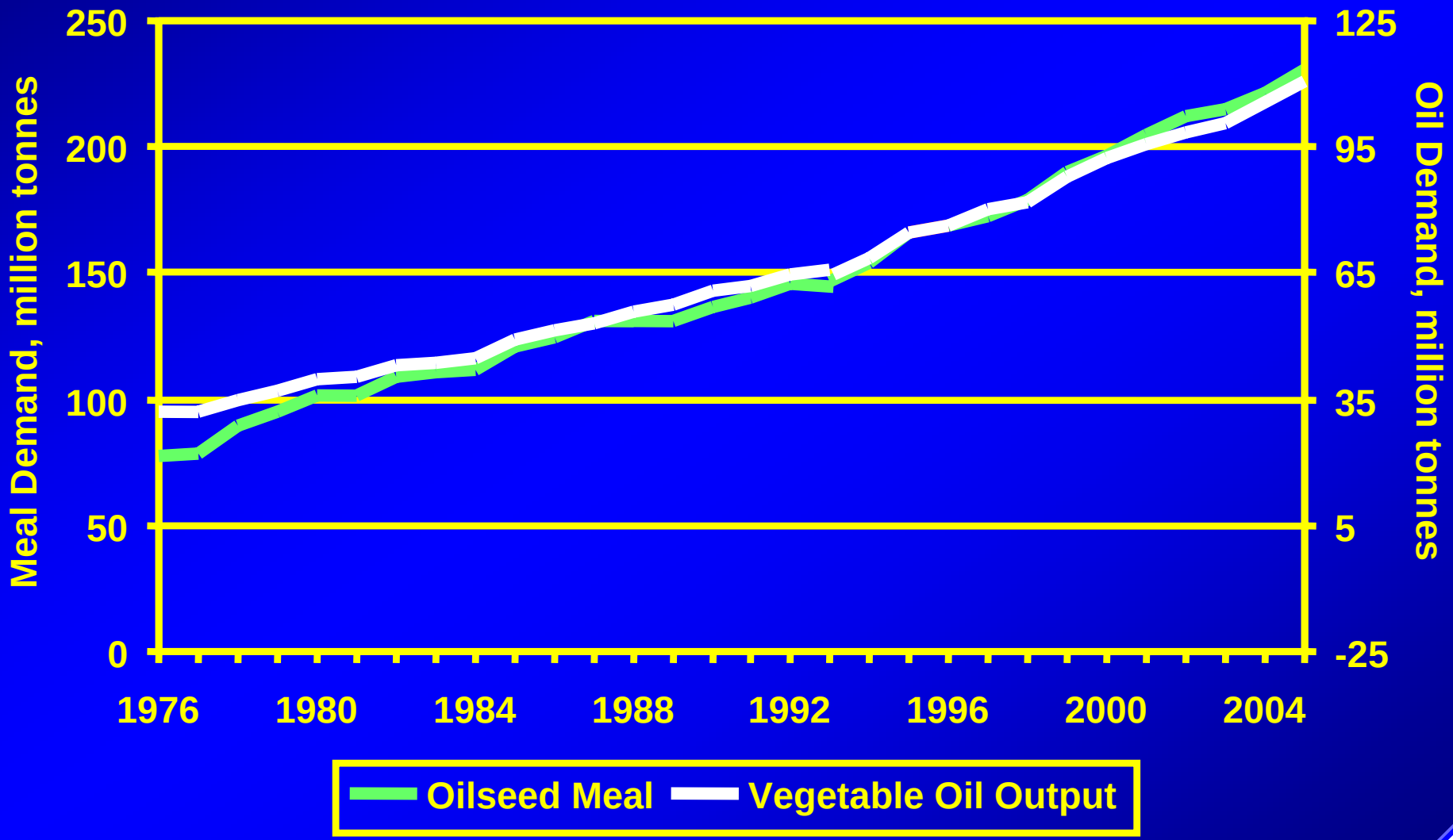
- The US-Canada contrast is striking.
- However, it is not as striking as that of the US with Japan and UK.
- In the UK, we see how palm is making gains in spreads with interesterification, but losing out a little to rapeseed in shortening.
- The Japanese split is between hydrogenated, which is divided between several oils, and non-hydrogenated, led by palm. Palm leads Japan in the overall spread/hard fat category.

Balancing the Global Markets for Soybean and Palm Oils and for Oils and Meals

Global Oil and Meal Production Growth



Global Oil and Meal Production Growth



Balancing Oil and Meal

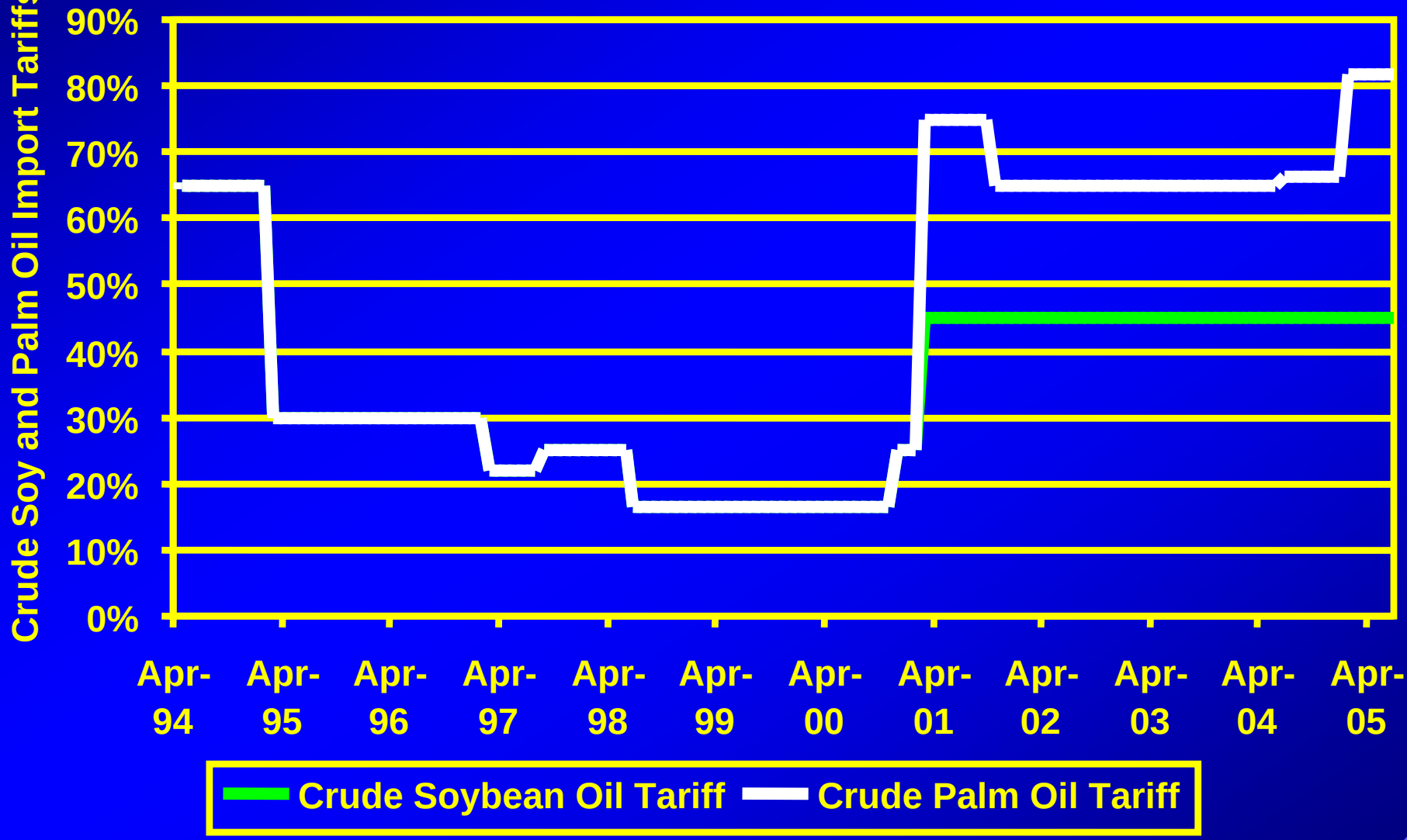
- The world needs both oil and meal; surprisingly, demand is growing for both at the same rate.
- The world needs two tons of meal for each ton of oil.
- Beans give too much meal; palm not enough.
- Therefore there is a kind of natural balance.
- Palm is slowly increasing its share of the world vegetable oil market, but if it grows too fast, there won't be enough meal. Soybean prices will respond and by-product soy oil output will also benefit.

The Price Competitiveness of Palm vs. Soybean Oils – The "India Factor"

India's Import Tariffs

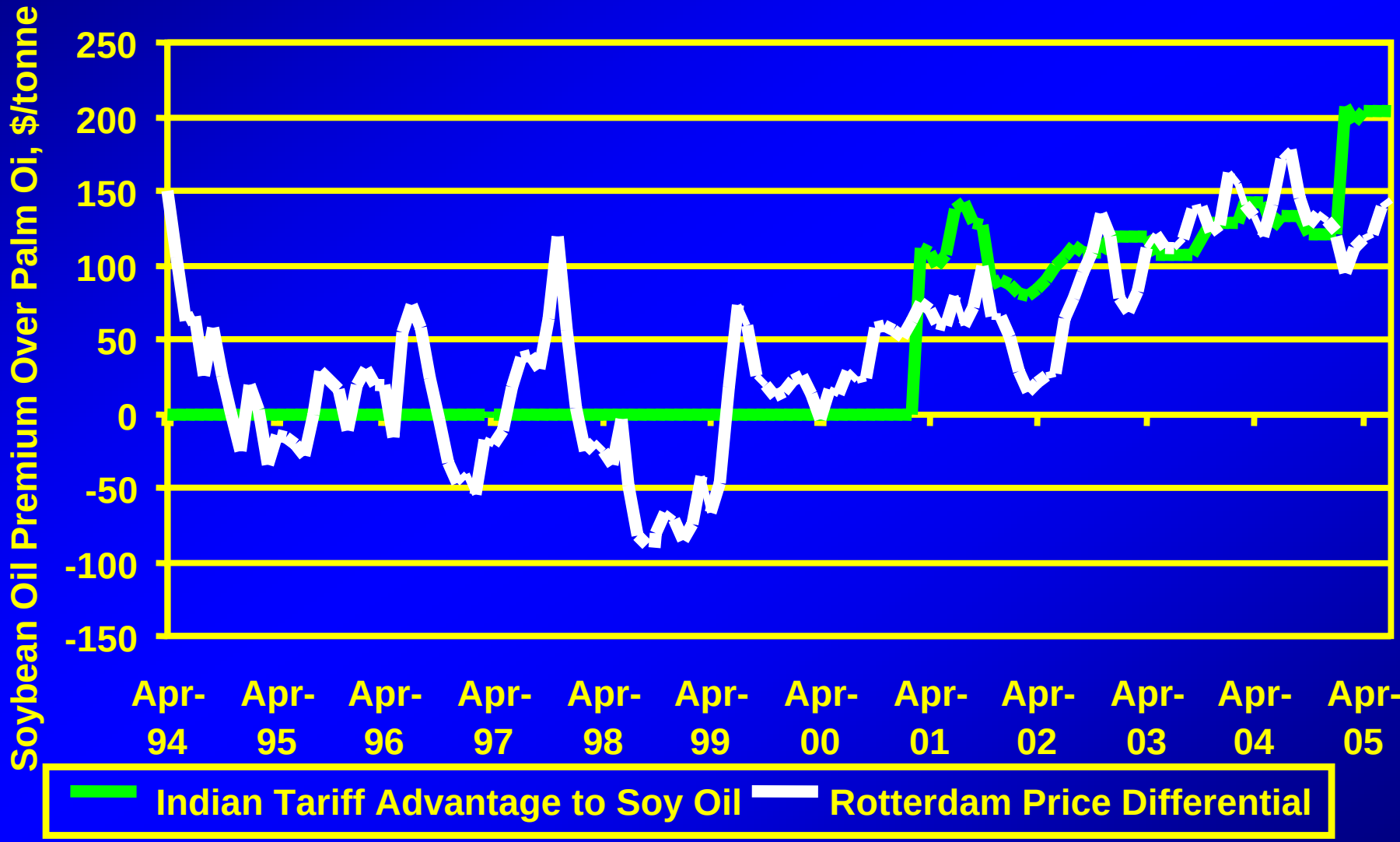
- In the WTO Uruguay Round, India conceded a 45% bound rate on its import tariffs on soy oil, as against a bound rate of 300% on palm oil.
- India first liberalised oil imports in 1994, but it was only after February 2001 that the impact of the concession became clear, as import tariffs on all oils apart from soy oil rose above 45%.
- India's pivotal role as an oil importer – and one able to switch between soybean and palm oils – has transformed world market vegetable oil price differentials.

Indian Import Tariffs on Crude Palm Oil and Crude Soybean Oil Since 1994



Rotterdam Price Differentials Between Crude Soybean and Palm Oils

Actual Rotterdam Price Differential vs. the Tariff Advantage to Soybean Oil in India

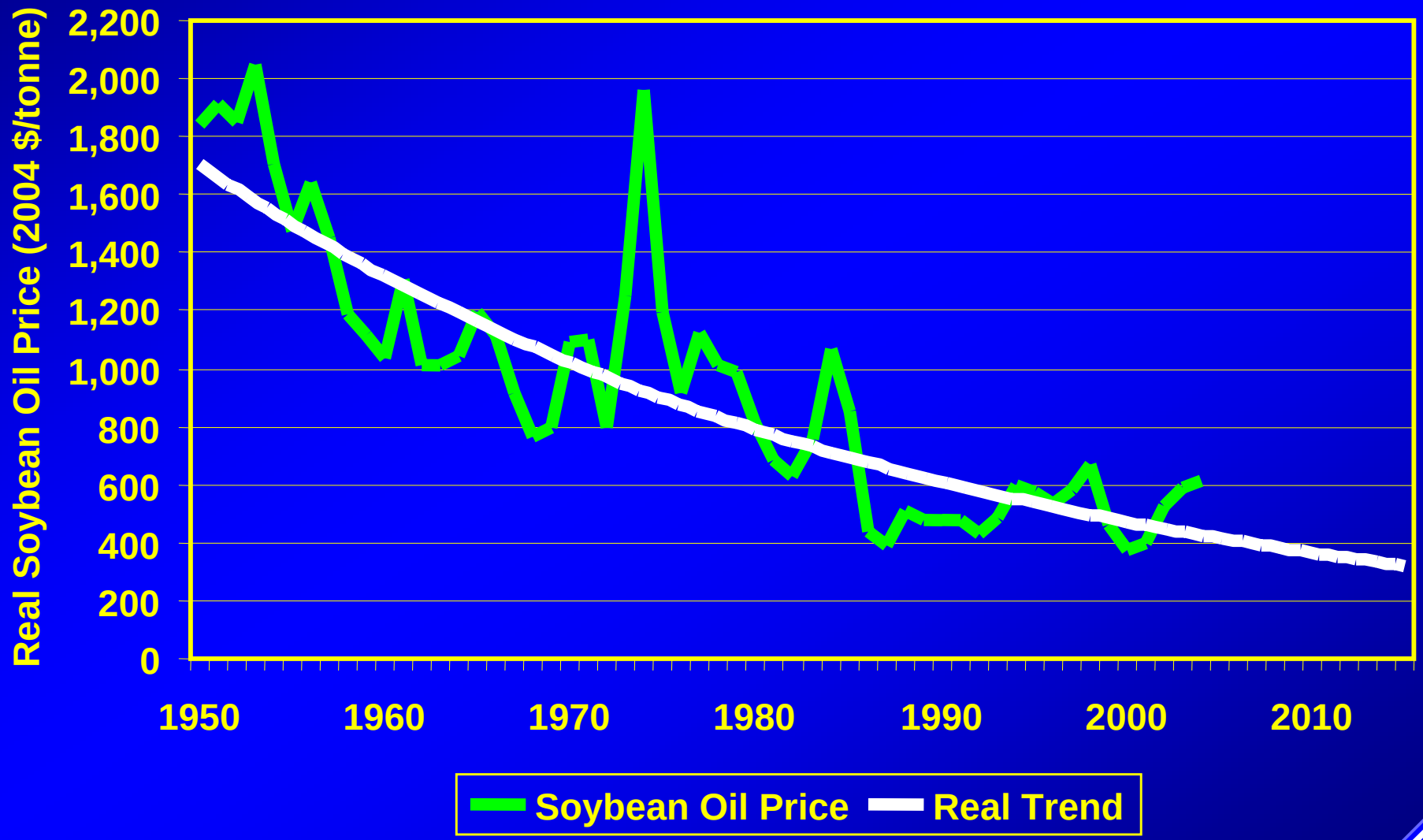


Palm vs. Soybean Oil Prices

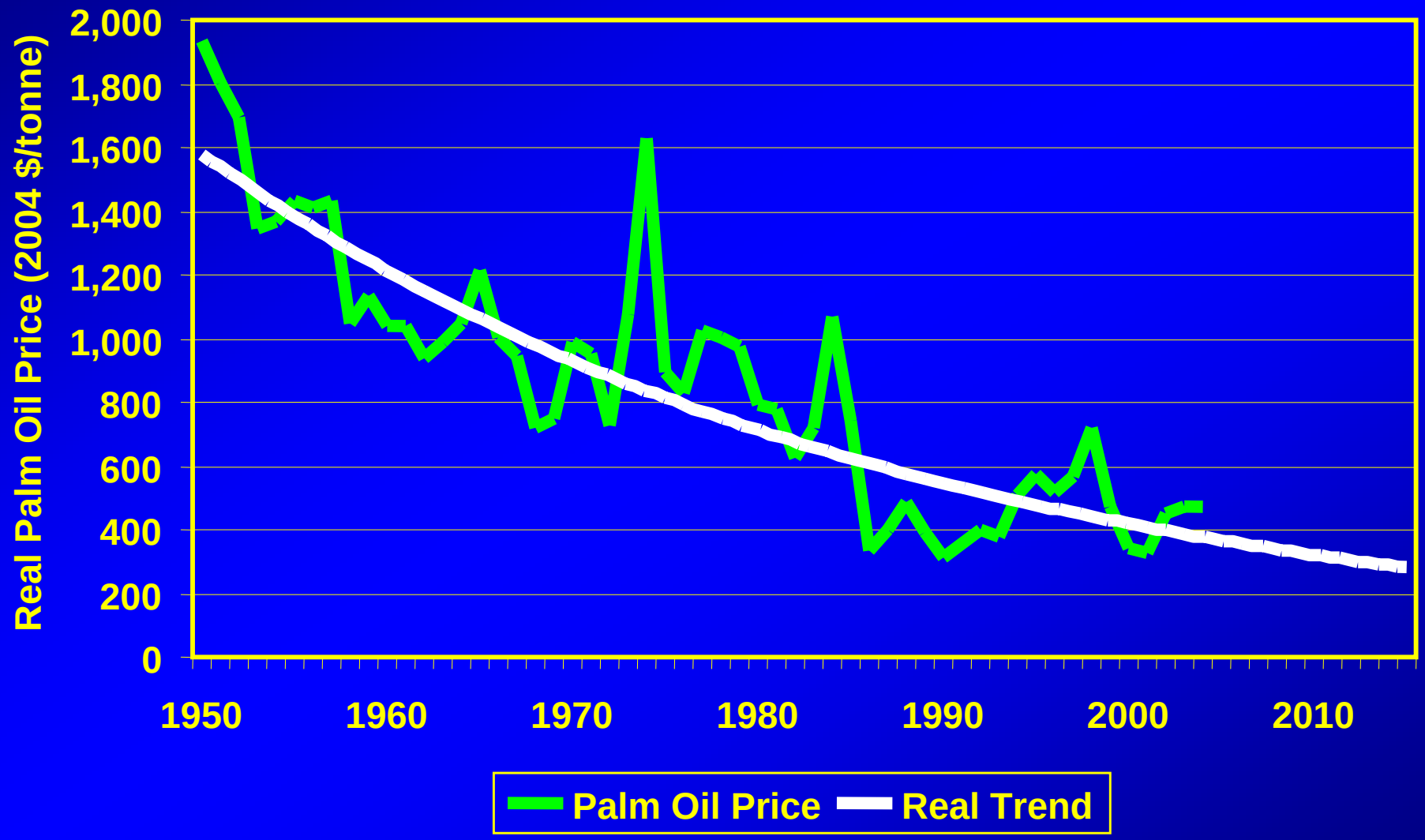
- India plays a key role in determining the structure of world vegetable oil prices. Its tariff advantage in favour of soy oil is almost exactly reflected in the EU soy oil premium over CPO.
- From 1994 to February 2001, there was no tariff advantage in favour of soy oil, and the average EU premium for soy over CPO was $8/tonne.
- Since 2001, the average Rotterdam soy premium has been $102, while the average Indian tariff advantage in favour of soybean oil has been $119.

The Price Outlook for Palm vs. Soybean Oils After 2006

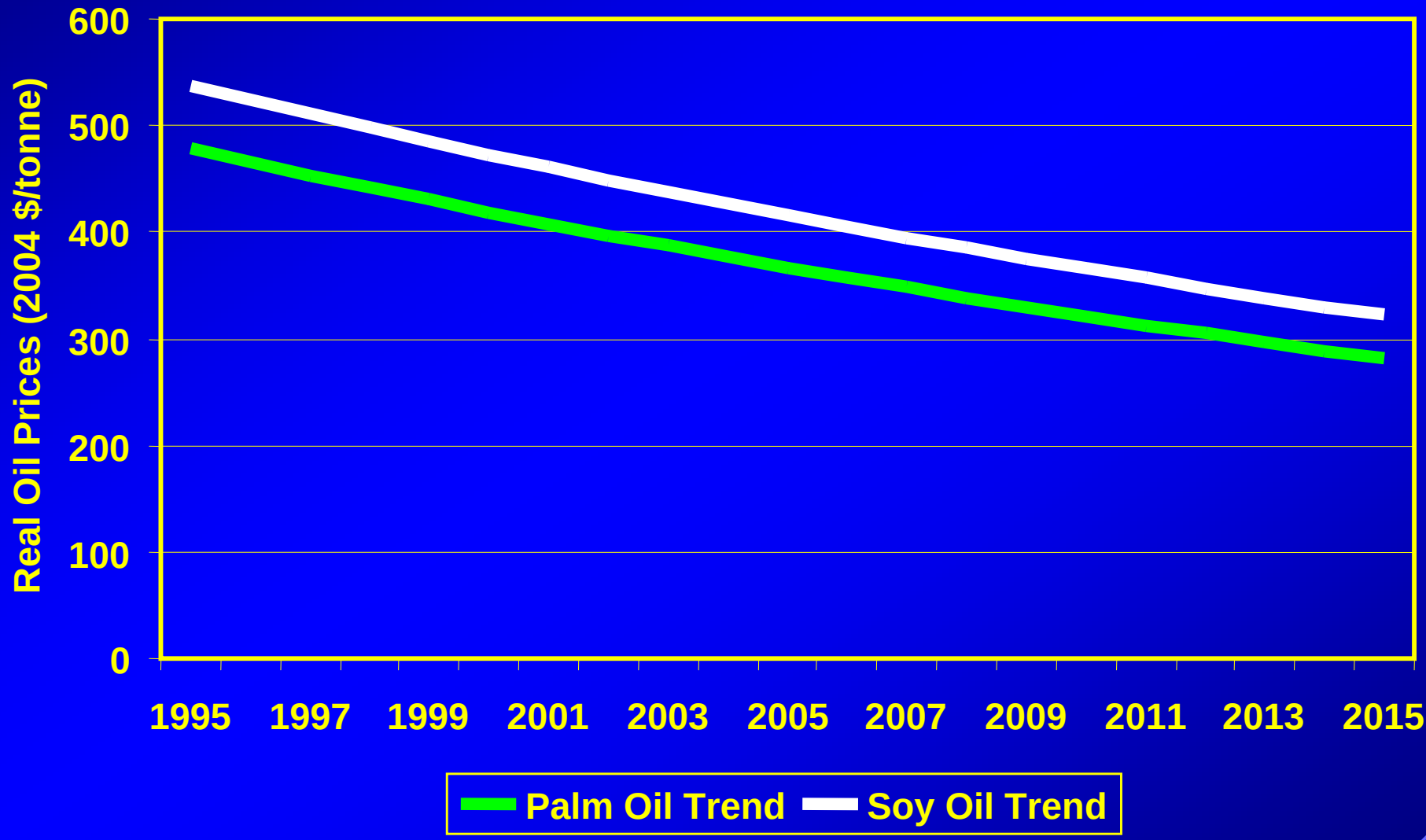
Long Run Real Price Trend for EU Soy Oil



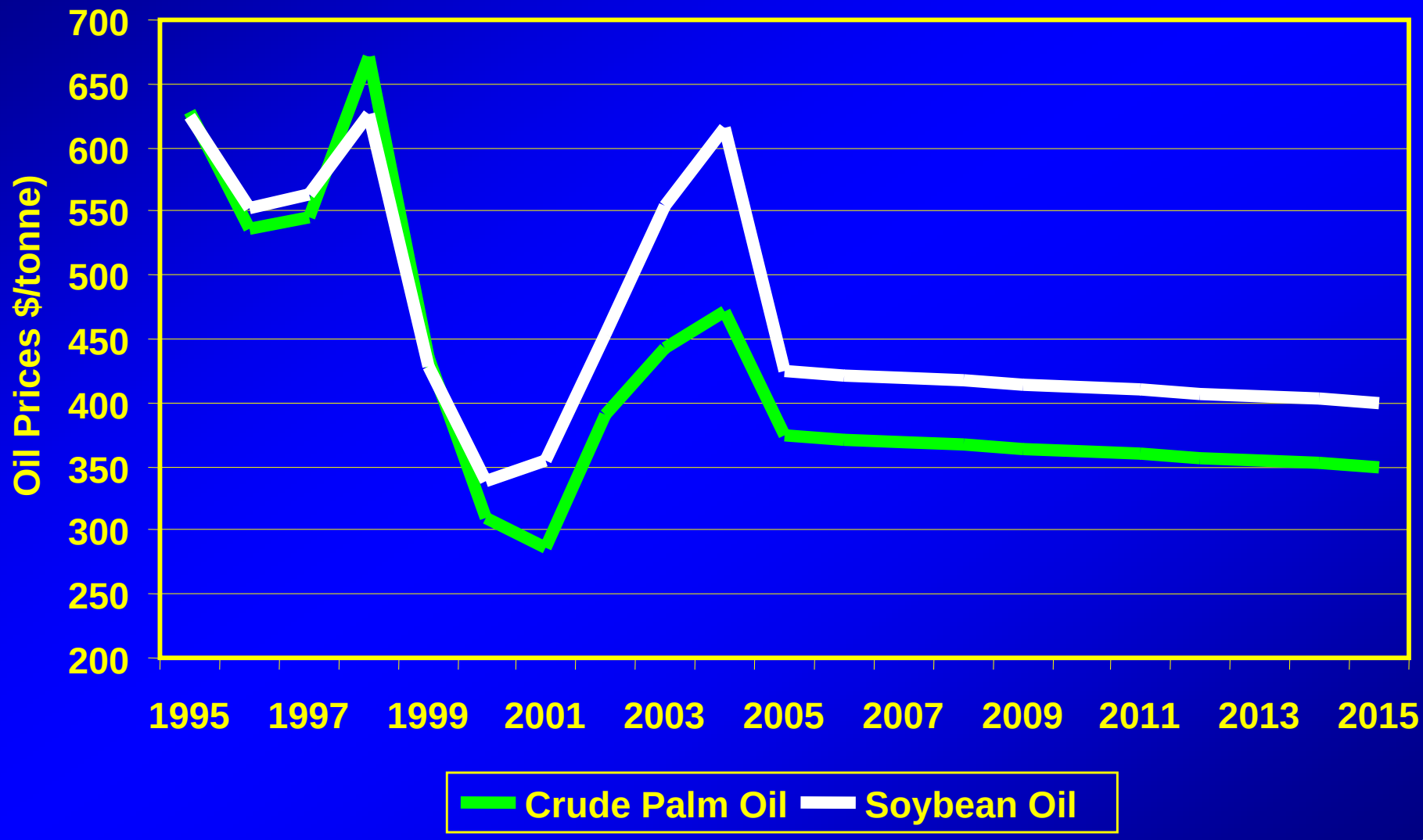
Long Run Real Price Trend for EU Palm Oil



Future Real Trends for Palm and Soy Oil



Actual & Trend Prices for Palm and Soy Oil

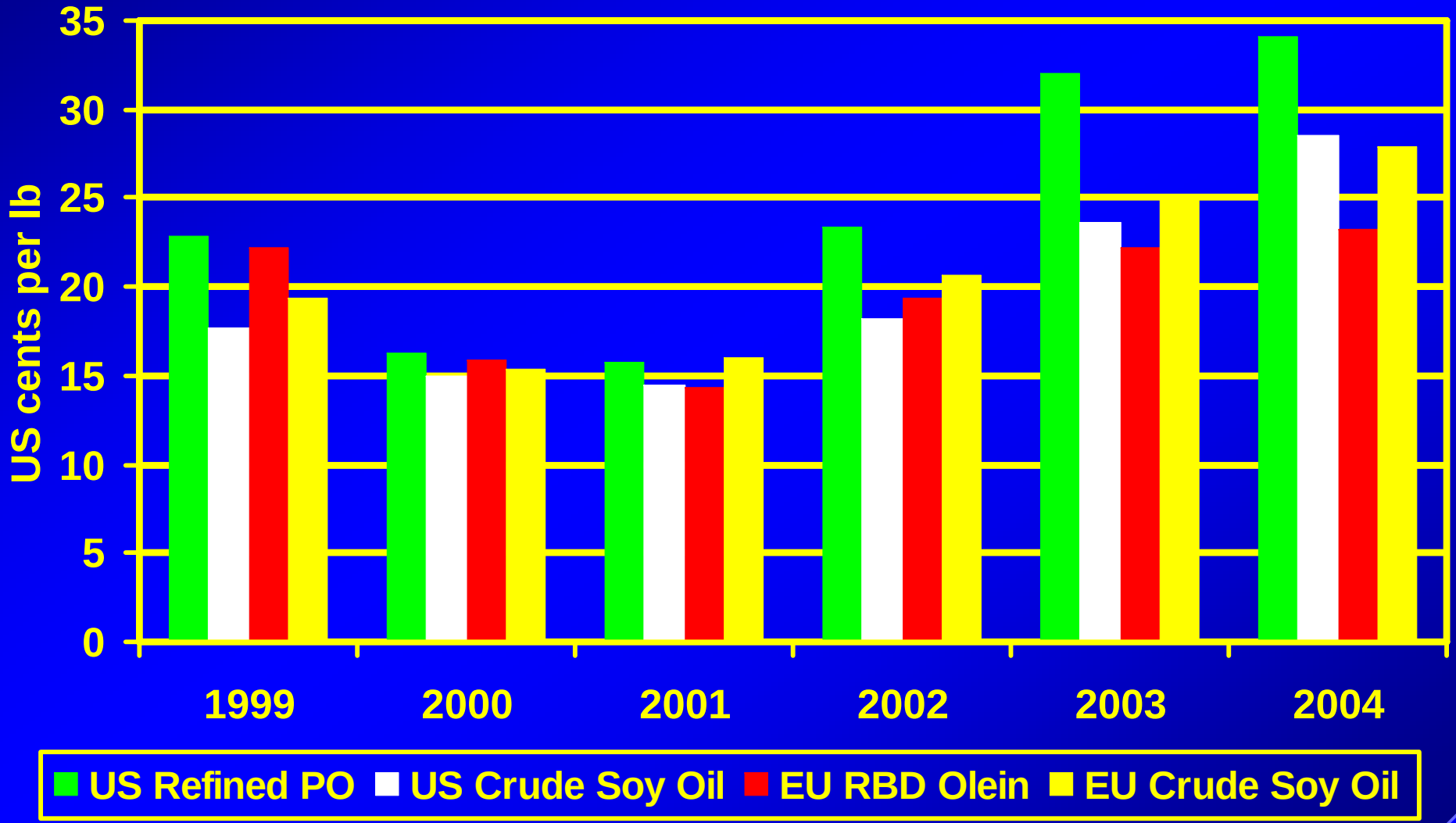


Price Outlook

- In real inflation-adjusted terms, the prices of all oilseed products are falling at around 2.5% a year, thanks to technical progress and larger scale processing plants.
- Recently both palm and soy oil prices have been above trend, with soy helped by Indian import tariff policy.
- On the basis of trends, with the Indian bias in favour of soy oil eventually moderating, we'll see the gap come down to $50, with EU soy and palm prices of $400 and $350 in 2015.

The Contrast Between US and EU Price Relativities Between Palm and Soybean Oil

US vs. EU Price Differentials Between Crude Soybean Oil and Refined Palm Oil



Conclusions for US

- Because of the small market for palm oil, it is a premium oil in the US, unlike the situation in other markets.
- It is to be expected that, with palm oil demand growing fairly fast and the TFA concerns playing to its strengths, US prices will start to fall into line with those elsewhere.
- When this happens, we should expect to see the palm share of the US market move to the 5-10% range, two or three times its current market share.