

15 July 2009

Food and feed chain dossier

with regard to minute presence of GM events not yet authorised in the EU in imported raw materials, notably soya and soya beans

Market situation Economic implications

The discovery, in June 2009, of minute traces of GM maize events not yet authorised in the EU in US consignments once more places Europe's agricultural trade, industry and producers in an extremely precarious position. Mid-July, a considerable volume of US soya meal is being denied access to the EU, because of non quantifiable presence of a not yet authorized GM event. Potentially damaging to all importers of agricultural commodities, the situation is particularly acute for those operators reliant on imports of U.S. soya beans, due to insufficient European stocks and inadequate alternative sources. The economic impact of a total loss of US soya bean imports until March 2010 is currently estimated to be in a range of 3.5 to 5 billion euro. This dossier provides further information on the current state of the soya bean market and on the economic implications for the food and feed chain in case the crisis cannot be averted between September 2009 and March 2010.

Market situation in soya beans supplies for the EU industry

- Due to very low soybean crops in South America in spring of 2009, global soya bean stocks at the start of the 2009/2010 campaign (September/August) are expected to be 21% lower than a year ago (Source: USDA).
- Stocks in South America are unusually small (estimates at 15.2 mln t in Argentina and 13.7 mln t in Brazil). This is down from 21.8 and 18.9 mln t respectively a year earlier. This must be considered in conjunction with huge drop of the soya production in Argentina (crop estimates fell from 52 mln t in October 2008 to 33 mln t in March 2009) creating an unwilling seller situation in Argentina. This produces an environment where the market has to seek other sources of supply or it curtails or defers demand. South America soybean stocks will be tight until February 2010 when new crop harvest starts which could see an important increase.
=> no additional sourcing in South America possible: the 2009 crop was reduced by 19 mln t compared to 2008.
- In addition to the low crops in South America, an unexpected huge demand for soybeans by China is responsible for the severe reduction in stocks. According to USDA, China will import nearly 40 mln t of soybeans in 2008/09 compared to 37.8 mln tons the year before. China depleted the 08/09 US stocks and bought massively Brazil 08/09 crop for this summer period.
- Furthermore, the supply of alternative oilseeds like rapeseed will be significantly lower due to lower plantings and lower yields compared to last year. For example, the Ukrainian rapeseed crop in 2009 is forecasted at 1.6 mln t only compared to 2.8 mln t in 2008. Accordingly, the EU will have to half its imports of rapeseed from Ukraine from approximately 2 mln t to just one mln t in 2009/10.
- Due to economic crisis and reduced credit availability, EU is having currently a very low stock of soya beans and soya meal, probably the lowest stock/usage ratio in the last 10 years. Any interruption on soya bean/soya meal flows/imports into EU will affect furthermore the feed compound/meat industry and impact the normal and adequate supply of protein and soya oil of the feed and food industry.
=> not enough stocks in the EU available.
- Europe's total demand for soya beans (EU production and imports) will be around 1,2 to 1,4 mln tons per month (14.4-16.8 mln t a year) and approximately 2,8 to 3 mln tons of soya meal per month (34-36 mln t a year). Big part of this programme on imports into EU will be done out of US origin as from September/October 2009 until March 2010 and then shift back to South America provided no major weather

problems and decent crop developments during the remainder of the growing season in the USA.

=> until early next year, March 2010, US and Canada sourcing imperative to satisfy EU demand

- According to Eurostat, the EU imported 14.4 mln t soya beans in 2008 (Jan-Dec) out of which nearly 60% were imported from Brazil and 25.4% from the US (3.6 mln t). In 2009 industry will require much higher US share of imports to compensate for insufficient South American supplies.
- In the 2009/10 marketing year, the EU forecast is to import a total of approximately 15 mln tons of soybeans and 23.1 mln tons of soybean meal. Due to the low stocks in South America,
=>between mid September 2009 and the next South American campaign in March 2010, the EU industry would need about 7.5 mln t soya beans from the US to cover the needs of the markets.

Economic consequences of lack of soya beans and meals due to minute traces of non-authorized GM events (maize) in US goods

The presence of minute quantities of EU non-approved GM events in foreign materials has the capacity to jeopardise all agricultural imports from the US. On a yearly basis, the EU continues to import cereals¹ with a value equivalent to €1 billion (see Annex 1).

Equipment used for loading and transporting agricultural commodities is not restricted to use with a single commodity. As a result, all operators currently involved in trading commodities face the risk of economic damage associated with the presence of illegal foreign materials. It is difficult to assess the totality of the economic risk facing the cereals trade as a result of the potential presence of MON88017 and MIR604. The report below focuses on the specific and immediate risk associated with the supply of soya beans.

1. Total impact on food and feed chain

The economic impact of a total loss of US soya bean imports until March 2010 is currently **estimated to be in a range of 3.5 to 5 billion euro**. This corresponds essentially to a lack of revenue of the crushing industry and to increased costs of raw materials for compound feed and food industry supplies.

2. General implications on the sectors concerned

- a. Legal uncertainty, which reduces business confidence, adding to negative economic impact;
- b. Contribution to increases in world prices for alternative (substitute) sources of raw materials;
- c. Reduced willingness of third country suppliers to supply the EU with raw materials due to increased risk of cargo refusal and legal disputes.

3. Implications for the EU crushing industry:

- a. No replacement of the US quantities by other sources possible, due to low stock in Latin America and no stocks in Europe. Because of reduced South American soya crop, South East Asia countries will focus on buying Indian meals, which will therefore be available for Europe only in very limited quantities because of freight disadvantage.

¹ Maize imports from the US have stopped; imports of US corn gluten feed and DDGS are close to zero; rice imports from the US have also been significantly reduced in recent years as a result of EC legal requirements with regard to EU non-approved GM events.

- b. In the absence of a solution, these 7.5 mln t of US Soybeans will not be processed leading to a turnover value reduced by **around 2 825 mln €**. (- lost soybean meal sales: +/- 6 mln t times 315 €/t = 1 890 mln €. - soybean oil sales: +/- 1.5 mln tons times 625 €/t = 935 mln €)

4. Implications for the EU compound feed industry:

- a. The EU compound feed industry is already facing a significant increase of prices and therefore of costs. This situation will put the industry that is already suffering in an even more uncompetitive position ultimately also impacting EU livestock farming.
- b. During October 2009 to March 2010, 15 mln tons of soybean meal will be needed - these 15 mln tons would have to be bought completely on the South American market, increasing demand by 6 mln tons due to the loss of EU domestic crush, see above. We can expect for the period October 2009/March 2010 an extra cost of 750 mln € (i.e. 15 mln x 50).
- c. We would expect prices of other feed stuffs to increase as well (leverage effect), and to trigger further extra costs of up to 300 mln €
- d. The additional cost would amount to about **1 050 mln €**. This cost comes on top of the cost related to the impossibility to use US maize gluten and DDGS.

5. Implications for food sectors:

- a. EU would have to source an extra 1.5 mln t of vegetable oil to replace the soya bean oil produced from US bean imports; if available, this will only occur at an increased price of at least 100€/t resulting in extra costs of 150 mln €. Prices of other oils are likely to increase as well (leverage effect), and to trigger further extra costs of up to 160 mln €.
- b. Additional cost burden on the EU food industry are likely to amount to about **310 mln €** because of increased raw material costs;
- c. Disruption to EU processing activities; companies at greatest risk are small/medium sized businesses that dominate the EU food sector;
- d. Possible reduction in consumer product choice and higher prices.

6. Implications for farmers:

- a. Bearing in mind the fact that soya meal represents 35% of feed ration for white meat production, potentially increasing production cost again, due to higher soya meal prices, would plunge the pig meat and poultry sectors into a deep crisis. The worst case scenario (lack of feeding stuff) would mean production being permanently delocalised to third countries, at a time when the EU is trying to seek out new markets through bilateral agreements.
- b. In the dairy sector, the price of milk has now fallen to 1997 level but the cost of production remains at 2005-2006 level. It is clear that increasing production cost will lead to losses in the sector and will more quickly drive farmers out of production due to bankruptcy. EU crop farmers also will suffer

from lost market opportunities due to the lesser export of EU livestock industry products to third countries.

- c. The 65 mln tons of compound feed needed during October to March would lead to an increase in feed costs of approximately **975 mln €** (15 €/t times 65 mln t).
- d. Animal products imported into the EU may be fed with not yet EU authorized and/or EU withdrawn GM events.

Poultry case study: Extra production costs will need to be compensated by higher consumer prices, which might be difficult because of cheap imports and competition/substitution on the market. Hence the average specialized farmer will lose half of its current income or even more.

- EU Production: 8.000.000 ton carcass weight represents about 11.000.000 tons live weight.
- Poultry feed: 11.000.000 tons and feed conversion rate of about 1.8 results in almost 20.000.000 tons.
- Price for poultry feed: price increase of €10/ton (broiler feed contains 15-20% soy bean meal)
- Cost increase at farm level: at least 200 million €.

Annex**Eu27 Imports of cereals and soy products from the US in 2008 (source Eurostat)**

	Tonnes	Euro
Barley	622	219 911 €
Buckwheat	44	33 277 €
Canary Seed	138	84 705 €
Durum Wheat	342 174	120 676 647 €
Maize	46 576	51 773 442 €
Millet	20 347	6 509 568 €
Other Cereals	2 107	10 529 318 €
Rice	127 105	70 144 062 €
Rye	40	15 776 €
Sorghum	2 834 849	571 004 922 €
Triticale	2	5 513 €
Wheat Common	808 750	229 557 375 €
TOTAL Cereals	4 182 753	1 060 554 516 €
Soybean Meals	476 752	145 593 036 €
Soybeans	3 660 261	1 263 177 943 €
TOTAL	8 319 766	2 469 325 495 €