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in

Morand-Fehr P. (ed.).
Feed manufacturing in Southern Europe: New challenges

Zaragoza : CIHEAM
Cahiers Options Méditerranéennes; n. 26

1997
pages 55-57

Article available on line / Article disponible en ligne à l'adresse :

<http://om.ciheam.org/article.php?IDPDF=97605969>

To cite this article / Pour citer cet article

Martin M. **New developments in the soyabean and legumes seed market and their effects on the feed ingredients market.** In : Morand-Fehr P. (ed.). *Feed manufacturing in Southern Europe: New challenges.* Zaragoza : CIHEAM, 1997. p. 55-57 (Cahiers Options Méditerranéennes; n. 26)



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New developments in the soyabean and legumes seed market and their effects on the feed ingredients market*

M. MARTIN
AMERICAN SOYBEAN ASSOCIATION
BRUSSELS
BELGIUM

SUMMARY - This conference is focused on the soybean producer and consumer market. Particularly, the author describes the South of Europe as a consumer market. He explains the future of European buyers in function of the changes of extracting enterprises and the importation role. Also, he talks about the soybean as a product, up to which extent biotechnology will influence new developments and the possibility to consider different types and uses of soya, and the influence of the environment in the future.

Key words: Soybean, commodities, south Europe, biotechnology.

RESUME - "Nouveaux développements dans le marché de graines de soja et de légumineuses et leurs effets sur le marché des ingrédients pour aliments pour bétail". Cette conférence porte sur le marché de la production et la consommation de soja. En particulier, l'auteur décrit le Sud de l'Europe comme un marché de consommation. Il explique le futur des acheteurs européens en fonction des changements dans les entreprises extractives et le rôle de l'importation. Il présente également le soja comme un produit où la biotechnologie apportera l'influence de nouveaux développements, permettant d'envisager différents types de soja et d'utilisations; les considérations environnementales influenceront le futur.

Mots-clés : Soja, commodities, Sud de l'Europe, biotechnologie.

I was asked to speak to you today about some developments in the soybean market, and that is what I shall try to do, with specific reference to Southern Europe. You have been hearing a lot of alarm bells ringing this morning, and I don't want to add to those, although there are some alarm bells in the soya complex, particularly in the Mediterranean, and I will try to explain that. Present soybean production is about 120 million tonnes. Our forecast for 2010 is a very significant increase in production, to about 160 million tonnes, with big increases in the US, a very big increase in Brazil, a big increase in Argentina. These increases we expect to come from both increased area and also from greatly increased yields. At the moment we are not seeing any significant increase from China, and China is perhaps the key to many of our problems, many aspects of this. Over the last ten years, soybean prices have been averaging around 220 dollars out of the producing areas, and soybean meal has been around 180-200 dollars, to give you a point of reference. Over the last 5 years, there has been a massive increase in poultry production world-wide. China leads in percentage terms, with a 128% increase over the last five years, with big increases in Brazil and South America generally, also in the United States, even in Europe and South Africa. As you all know, one-fifth to one-quarter of poultry feed is soybeans, so that explains part of what is going on.

Over the same period, percentage growth in the consumption of soybean meal is staggering, an over 50% increase in the consumption of soybean meal over the last five years in Asia. But around 40% increases in the Middle East and Africa as well, about 33% in Latin America, 20% in the United States, and about a 16% increase in consumption in Europe. There have been a lot of changes in Europe, of course, in feeding ingredient usage over the last five years, with a big increase in the use of grain. There has also been an increase in the use of tapioca in Asia, whose use has dropped in Europe, but which has picked up largely in Asia. Small increase in corn gluten feed, a reduction in the use of pulse, peas and beans. Soybean meal use is relatively steady, despite the ups and downs of prices. I think that what these statistics say is that the protein part of the ration is more or less fixed, changes are occurring in the energy part of the ration, not in the protein part. Perhaps that is also giving us an indication for the future.

*Transcribed from tape

Let us look now at Southern Europe. There is a market here in Southern Europe for 8 million tonnes of soybean meal and almost a million tonnes of full-fat soya. Of course, Spain and Italy are very big consumers, but I would certainly urge you to pay a lot of attention in coming years to Turkey. Turkey has the same population as Germany, and is growing. Ten years ago, nobody at all was using soybean meal at all in Turkey. The product simply did not exist. Now, the combination of soybean meal and full-fat soya there is about half a million tonnes. The Turkish poultry industry is growing at a massive 12-15% per year.

In the case of Greece, soybean meal consumption over the last ten years has just about doubled. Other Southern European countries show similar growth. Regarding intensity of use of soybean meal, a measure of the amount of soybean meal used compared to the total amount of feed produced, Spain and Italy are very intensive users, at around 23% of the ration - an average for all feeds - Portugal is also high at 18%, Greece much lower at 13% and Turkey is just beginning to use soybean meal at 8%. The European average, for what it is worth, is around 15%, I think.

Where, then is this soybean meal coming from? It is coming from imported meal and also from the European crushing industry. The crushing industry generally in Europe is undergoing considerable restructuring, and this restructuring is gathering pace right now in the Mediterranean. You will all be aware that a few days ago, ASEPROSA was sold to the Cereal Group, and I think this is just part of the process. As you know, there have been a lot of changes in Portugal recently, with the collapse and restarting of two crushing plants there. Some of these crushing plants - which are your suppliers - are in a pretty shaky state, to the extent that many companies are importing as well as producing soybean meal. I do not know if this is something you should be worrying about - does it matter where your soybean meal comes from? This is perhaps a question I will not take up now, but I advise you to consider it. My guess is that quite a few crushing plants will drop off the map over the coming years. What does this mean for your business, for your diversity of supplies, for your security of supplies? How has it happened? How did the crushing meal suppliers of soybean meal get into such a shaky state? These are questions I should be happy to discuss, but we do not have much time now. Let us discuss it a little, however. In Portugal, ten years ago, there were no imports. Local production then went down and down and imports went up and up, until in Portugal in 1993, with the collapse of the crushers, imports had more of the market than local production. Since then, the crushers have fought back valiantly and have increased their market share again. Let us look at Spain now. The same thing is going on here. Imports have always been significant in Spain, but there are periods when imports go up and up, and remember that as they do importers can bring in bigger ships, they can invest in port equipment, they can lower their costs, to the extent where now both importers and soybean crushers are both importing. So it looks as though there is a fight going on here in Spain which is not resolved yet, as recent events show.

Turning now to Italy. Over most of the last ten years, what we could call a gentlemen's agreement held, which obviously broke down. Something happened in 1993, and imports are rapidly increasing over local market share. Of course, what happened in 1993 was the collapse of the Ferruzzi company.

Greece: ten years ago, imported meal was of no importance at all, and again we are going towards a scissors formation, where imports will overtake locally produced meal.

So the trend I am showing you does not just apply in Spain - it applies across Southern Europe. At present, three new crushing plants are under construction in Argentina, and the Argentinean and Brazilian exporters deserve credit for the way they have increased their share of the Mediterranean market and continue to do so. I am not saying this is a bad thing for you as feed millers, but I am saying that this is a significant trend. We are talking about diversity of supplies, security of supplies, and I think you should be aware of it and factor it into your planning processes for future years.

Let us have a look now at what is going on with our neighbours to the south, because we do not live in an ivory tower, though many people in Europe would like to. In all the North African and Mediterranean border countries (I include Syria, Jordan and Israel) except Algeria and Libya, over the last four or five years we have seen a massive increase, in some cases a doubling in soybean meal consumption. This has very important implications for the supply of soybean meal into the Mediterranean. Again, it is something to be aware of and to factor into your considerations of how you

are going to buy soybean meal, how you are going to buy your protein from in the years to come, who you are going to be buying it from.

David Armstrong started on population this morning - all credit to him - John Brunton continued. It is such an important factor, let us hope we are all aware of it. Southern European population is stable, absolutely stable. But to the south, North Africa, and I am also including Turkey, conservative UN projections forecast a 75% population increase by 2025. Now, of course we are all in the food business here, but this surely has a lot of implications. It is interesting to note that one of the most important Iberian poultry companies is setting up production in Morocco. But how many of you, of your companies have technology agreements in North African countries or other countries. How many of you are doing business in Turkey, for instance? I think this holds the key to a lot about the future in this region of the world. To summarise, I should like to offer some ideas for your consideration over what may be influencing the protein markets, the price of soybeans. First, though, let me say that we have heard a lot about stocks-to-use ratio, which economists love and which give an indication to how markets may react. On soybeans, stocks-to-use ratio in the United States was 14% last year, and it will be 8% this. The same thing is going on as with wheat, partly explaining the price situation now, but more than that is the massive growth in demand world-wide. So population is, has to be, world demand for protein, has to be, the most important factor, and we all look to Asia here, but also to South America, and nearer to home we have to look around the Mediterranean. Biotechnology offers a very big solution. As I am sure you are aware, the first genetically-modified soybean variety is being grown commercially in the United States this year, the Round Up Ready Soybeans, Europe has approved the free importation of these soybeans to all European countries, all members of the European Union, without labelling, freely to be used for feed and food uses. So, what does this offer us? Biotechnology offers us the chance of lowering production costs. This is certainly the case of Round Up Ready. Figures of 30 cents on a bushel - currently around \$7 - savings to the farmers as he has to use much less herbicide than in the past. Biotechnology will help us to increase yields, and will enable us to change the composition of soybeans. This is not science fiction. The materials are there. High methiamin soybeans are a reality, soybeans with 40-42% protein are a reality. I was told recently that for one million dollars you can make any genetic change to the soybean that you wish, right now, so that if the food industry wants a change in the oil composition, that can be done. All you have to do is pay a million dollars. The point is that it is becoming cheaper and cheaper. They say that in a few years' time for the cost of PhD student you will be able to make any genetic change you want. The question is not, can we change genetically, yes we can, the bigger question immediately is consumer acceptance of changes and another big question is how the market reacts. We are talking about commodities here, and if we start changing, having different products, then you lose the benefits offered by treating the product as a commodity. Then, new uses. There is a lot going on in this area. Use of soya and all oilseeds for fuel, for lubricating oils, hydraulic liquids, big environmental advantages there, plastics. There are a lot of plastics being produced with soybeans. Adhesives, protein going into adhesives, into printing ink, into nutraceuticals (basically, food developed with a medical advantage). You may have heard of a new margarine in Finland which has taken the market by storm, they cannot produce enough of it, because it is a margarine which lowers cholesterol levels by 10%, and this is just in Finland. So we are going to see a lot more of these health-related food products, and soya will obviously play a large part in that. And just to finish up, some factors which are specific to the Mediterranean. I mentioned here local crushed versus imports, where are you going to be buying your soybean meal over the next five years and beyond? Is it important? I believe the feed industry should give it consideration, after all, you are looking at supply of one of your very major raw materials. Full-fat soya, as you saw, is growing substantially all over the world and certainly in this area, and as the traditional crushing is in increasing difficulties, so it encourages the increasing production of full-fat soya. North Africa is a very important factor, as I mentioned. Not just population, but the relationship between income levels and population is absolutely fundamental to our future in Southern Europe. And, lastly, the environment, by which I mean Dutch pig farmers coming down to Spain and Portugal, is this just a trickle, or is it the beginning of a major shift? Are we going to see more and more production of pigs and poultry specifically in Iberia? Well, I am ready to place bets on it, I do not know about you. I think it will be of great benefit to the Iberian feed industry. I don't think we will see Northern European poultry and pig production shift to Italy or Greece, but I do think Iberia will benefit. Lastly, emissions. Environmental controls and regulations are increasing all the time. I mention this because it is an increasing cost burden on the crushing industry. It is another nail in the coffin of the European crushing industry, it is weakening crushing margins, and I think it is an important factor to consider. Thank you very much.