

**POTS**  
*2<sup>nd</sup>* INTERNATIONAL PALM OIL  
TRADE FAIR &  
SEMINAR *2008*

Changing Marketing Landscape - Challenges for Business Sustainability

24 - 26 August 2008

**CAN THE OILS AND FATS INDUSTRY MEET  
THE DEMANDS OF THE GLOBAL  
FOOD AND FUEL SUPPLIES?**

**THOMAS LEE BAUER**  
*Rabobank International*

**SESSION 4**  
**ENVIRONMENT SUSTAINABILITY AND**  
**INTERNATIONAL COMPETITIVENESS**

# **Can the Oils and Fats Industry Meet the Demands of the Global Food and Fuel Supplies**

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Rabobank International

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## Abstract

The global consumption of Oils & Fats is has grown rapidly over the past decade due to rapid economic growth. Large industrialising nations such as China and India have driven increased food use, which has led to strong price growth averaging 6.5% per annum over the last decade. More recently, the biofuel and oleochemical industries have contributed to demand as countries seek to diversify away from dependency on fossil fuels. Rabobank considers the growth trends in food & fuel consumption and highlights possible strategies in the Oils & Fats industry which will allow players to capitalise on strong demand in light of current supply constraints.



## Can We Meet Global Demand for Food & Fuel?











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## Rabobank International

Dedicated to Food & Agribusiness

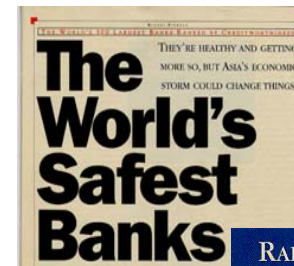
## A Knowledge Leader in Food & Agribusiness

-  Animal Protein
-  Beverages
-  Clean Technology
-  Dairy
-  Farm Inputs
-  Food
-  Fruit, Veg & Flowers
-  Grains & Oilseeds
-  Non-Food
-  Soft Commodities



# Rabobank

## A Global Food & Agribusiness Bank



RABOBANK IS THE ONLY PRIVATE BANK IN THE WORLD TO ENJOY TRIPLE-A STATUS ACROSS THE BOARD.

- **AAA** since 1981
- 110-year-old Cooperative bank
- Dutch Market Leader; All Finanz services provider

# A Global Network of Analysts and Resources



**Susan Hansen (Clean Tech)**  
 • Clean Tech team leader  
 • Expert on Biofuels and EU Policy

**Dan Cherubin (all sectors)**  
 • Chief Information Officer  
 • Agriculture policy team

**Ken Shwedel (Farm Inputs)**  
 • Covers food and grains markets  
 • Policy developments in Central America

**Andy Duff (Soft Commodities)**  
 • Focused on Latin American agriculture  
 • Follows developm'ts in Brazil & Argentina

**Veiverne Yuen (Grains & Oilseed)**  
 • Covers both Oilseeds and Clean Technology  
 • South East Asian food production

**Brady Sidwell (Animal Protein)**  
 • Focused on North East Asia  
 • In-depth knowledge on China

**S. Venkatraman (Fruits & Veg)**  
 • Works extensively throughout India  
 • Food Processing expertise

**Luke Chandler (Grains & Oilseed)**  
 • Grains & Oilseeds team leader  
 • Monthly commodity market outlook

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# Global Client Network



agropur, The Coca-Cola Company, Del Monte Quality, LAND O LAKES, DIAGEO, fyffes, Con Agra, Dole, MAPLE LEAF, VINCOR, SLEEMAN, BUNGE, ADM, DAIRY CREST, AGCO, Dean FOODS, ROBERT MONDAVI, Saputo, Aricore United, Tyson, Kellogg's, Campbell Soup Company, SaraLee, Young's, Heinz, Smithfield Foods, Inc., Sunkist, TATE & LYLE, PEPSICO, SCHREIBER.

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# Asian Client Network



COFCO, Dairy Farm, MITR PHOL, EAG, Astra Agro Lestari, SINGCHEM, SATS, DaChan, wilmar, IOI GROUP, SIA PACIFIC, Golden Hope, INDO-FOODS.

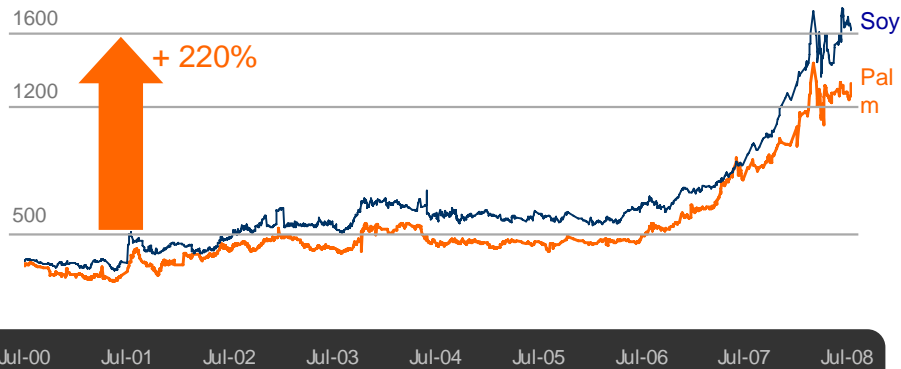
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# Overview

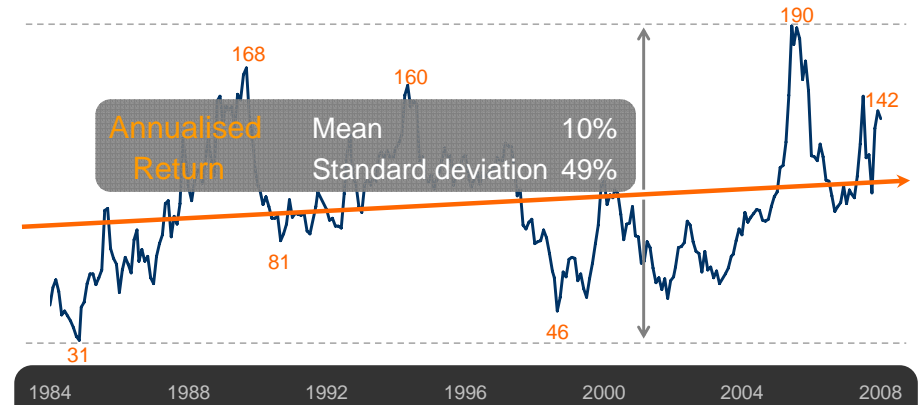
What's happening today

## Rising Commodity Prices



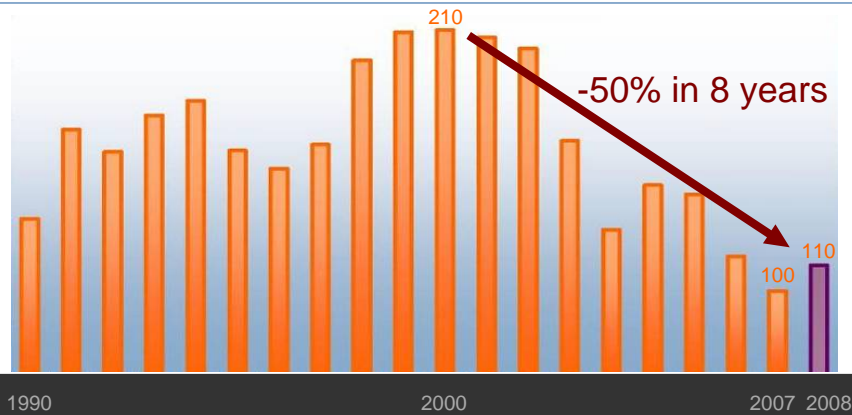
Palm & Soy, Rotterdam (USD/tonne)

## Volatile Short-Term Price Movements



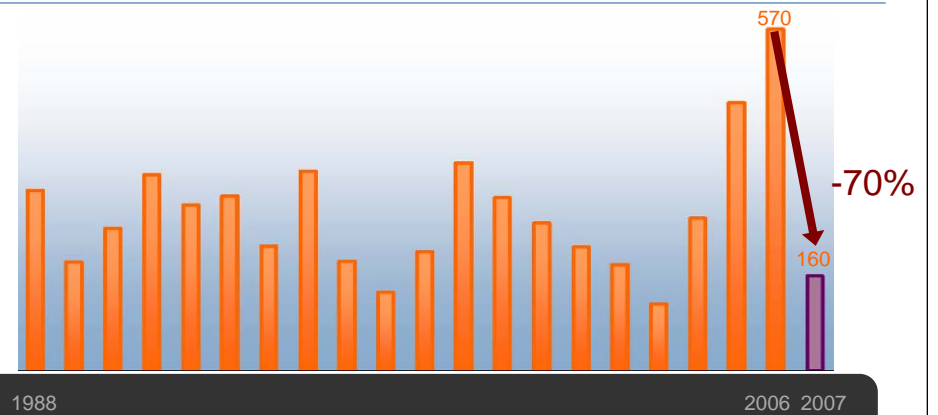
S&P GCSI Sugar Index

## Falling Food Stockpiles



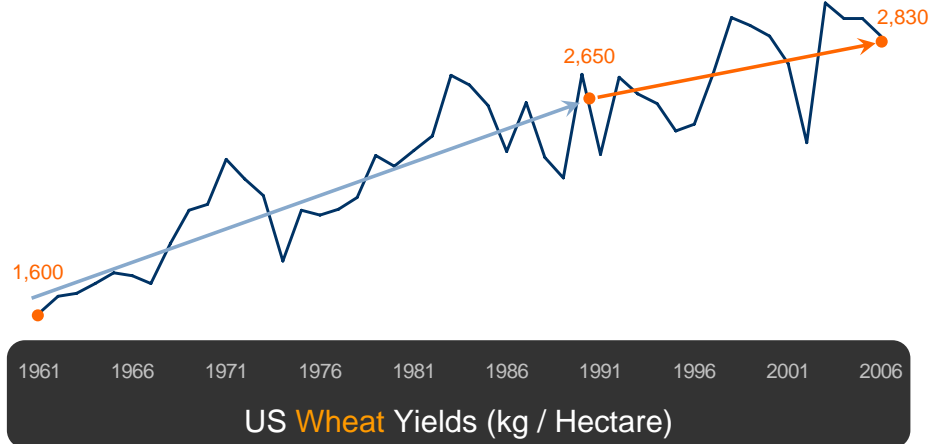
Ending Wheat (million Tonnes)

## Falling Food Stockpiles

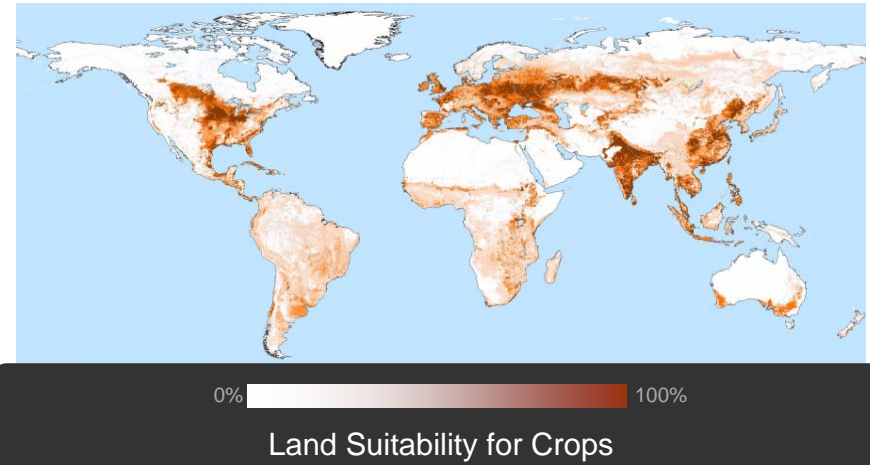


Ending Soybean (million Bushels)

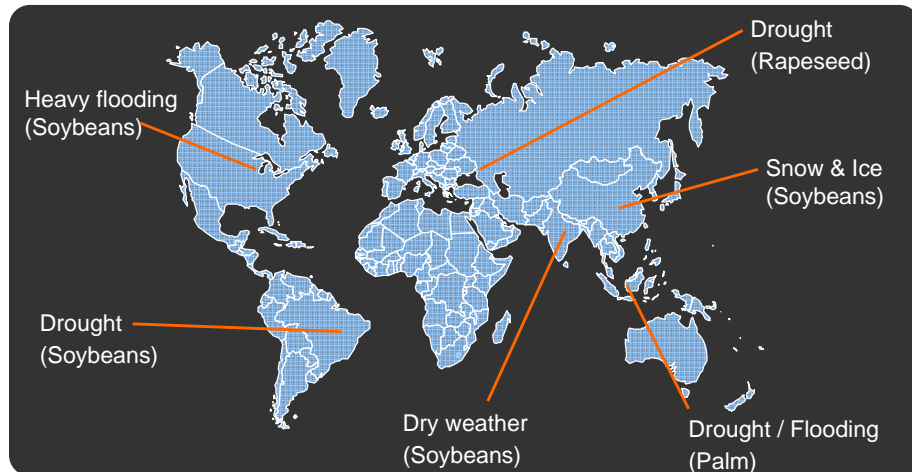
## Moderating Crop Yield Growth



## Lack of New Arable Land



## Bad Weather



## Demand & Supply

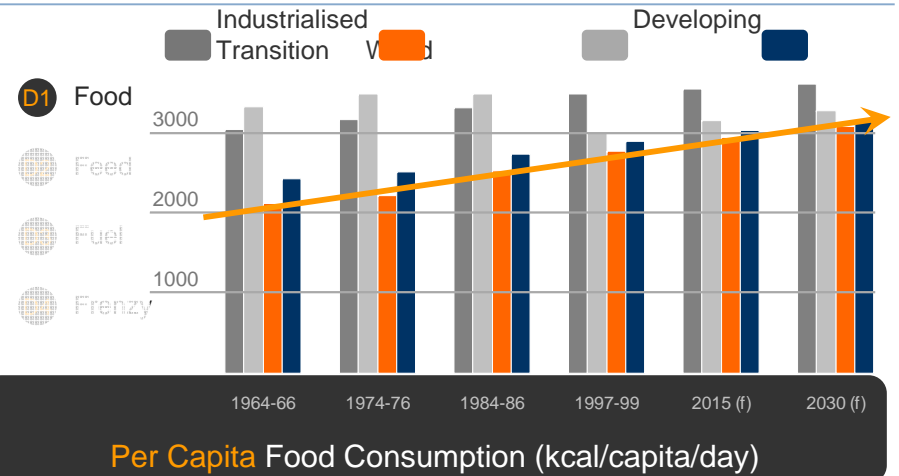
Short-term imbalances vs. Long-term cyclicality

## Short-Term Imbalances

- D1 Food
- D2 Feed
- D3 Fuel
- D4 Frenzy

how much real **demand** is there?

## Growing Food Consumption



## Increased Feed Requirements

- Food
- D2 Feed
- Fuel
- Frenzy

1995

5,000 mt/day

200,000 mt/day

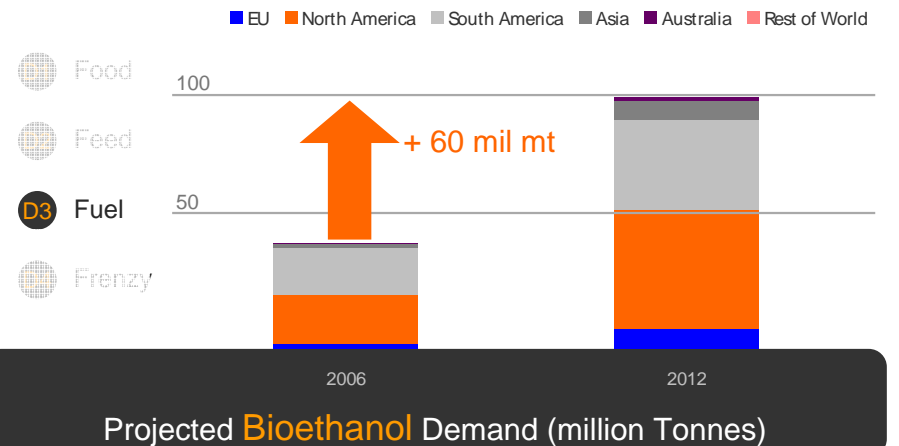
200

7

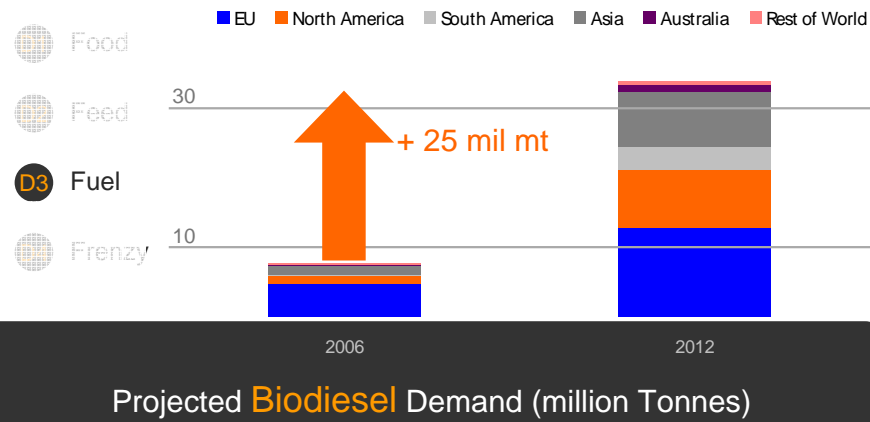
Crushing Facility

Soybean Crushing Facilities in China

## Biofuels?



# Biofuels?



# The Media Machine

- Food
- Feed
- Fuel
- Frenzy (D4)



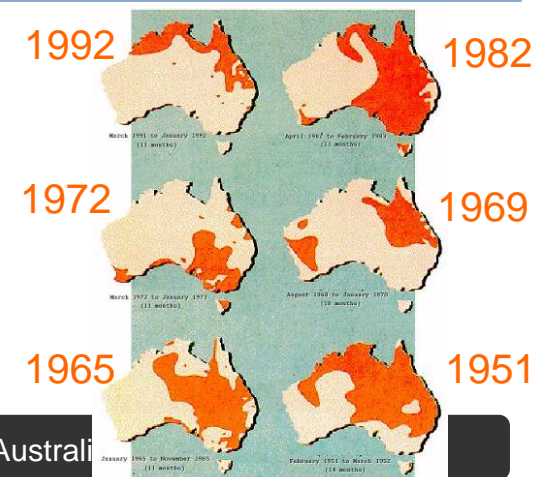
# Short-Term Imbalances

- Weather (S1)
- Land (S2)
- Yields (S3)
- Distortions (S4)

is **supply** really inadequate?

# Erratic Weather is still Cyclical

- Weather (S1)
- Land
- Yields
- Distortions

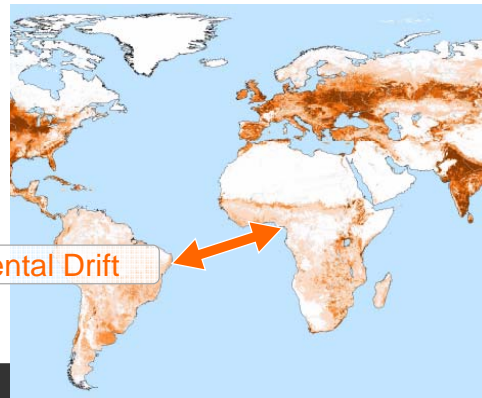


El Nino drought areas in Australia



## Land is Poorly Managed

- Weather
- S2** Land
- Yields
- Distortions

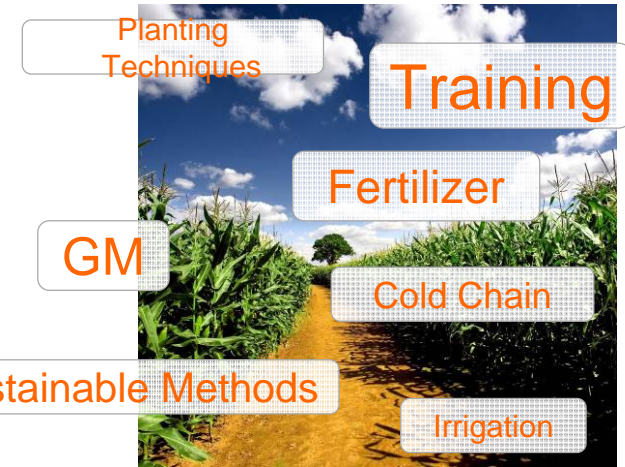


Continental Drift

Why is **South America** so much more productive than **Africa**?

## Better Farm Management is Needed

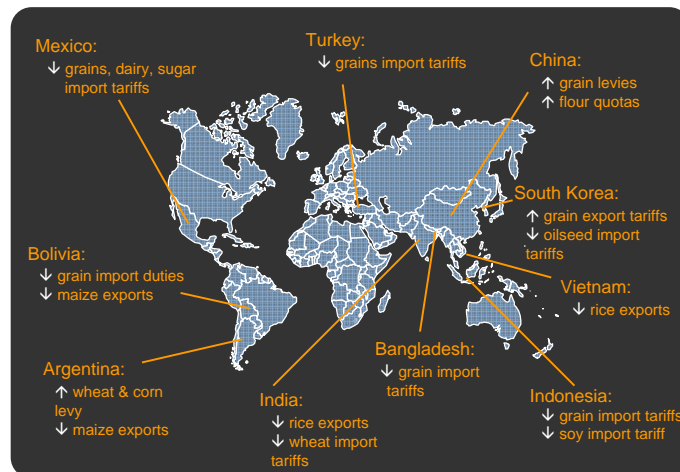
- Weather
- Land
- S3** Yields
- Distortions



Sustainable Methods

## Sudden Changes in Policies Distort Markets

- Weather
- Land
- Yields
- S4** Distortions



## Conclusion

We've been here before

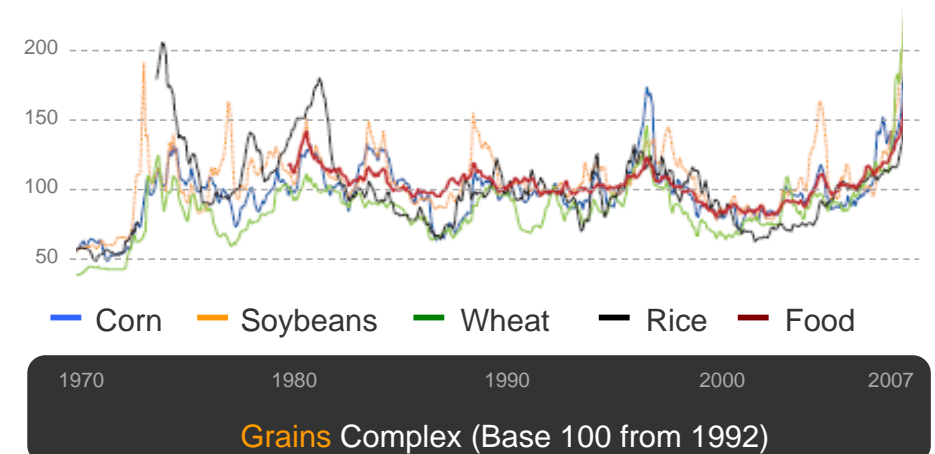
## Agriculture Commodity Price Explosion

- 1 Rapid global population & economic growth
- 2 Loose US monetary policy & two Dollar devaluations
- 3 First oil price shock
- 4 Southern Corn Leaf Blight
- 5 Widespread crop failures
- 6 Major importers intervene
- 7 Underinvestment in agriculture
- 8 Rising global affluence

1973 - 1974

Sound familiar?

## Long-Term Price Cycles

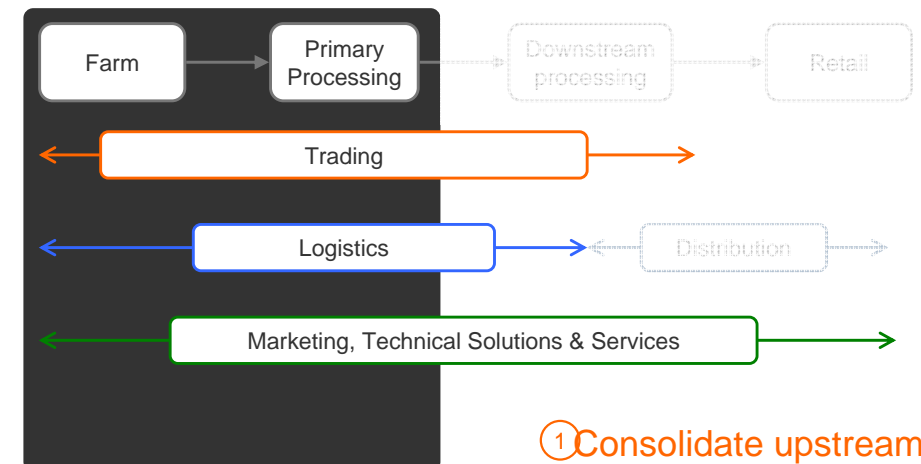


## In Conclusion

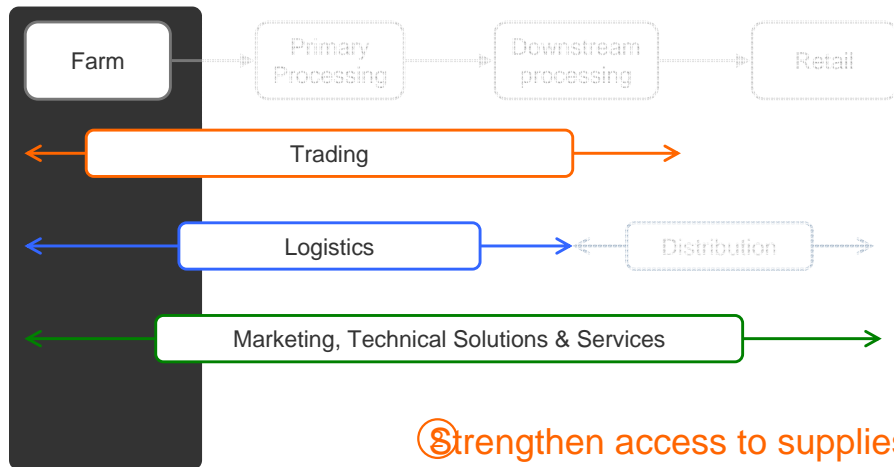
- 1 **Business cycles** drive demand and supply
- 2 Demand responds to high prices by finding **cheap substitutes**
- 3 High prices encourage **increased supply** through improved farm management, land expansion and investment in technology
- 4 **Markets overreact** in the short term, then revert to mean levels
- 5 **Cyclical weather** patterns (El Nino, La Nina) influence supply

YES: Demand & Supply will adjust to reasonable levels

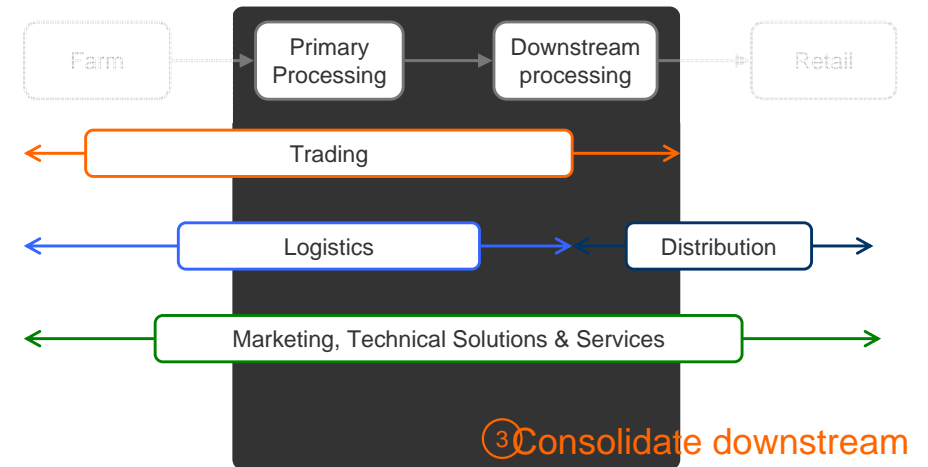
## So, What Should Businesses Be Doing?



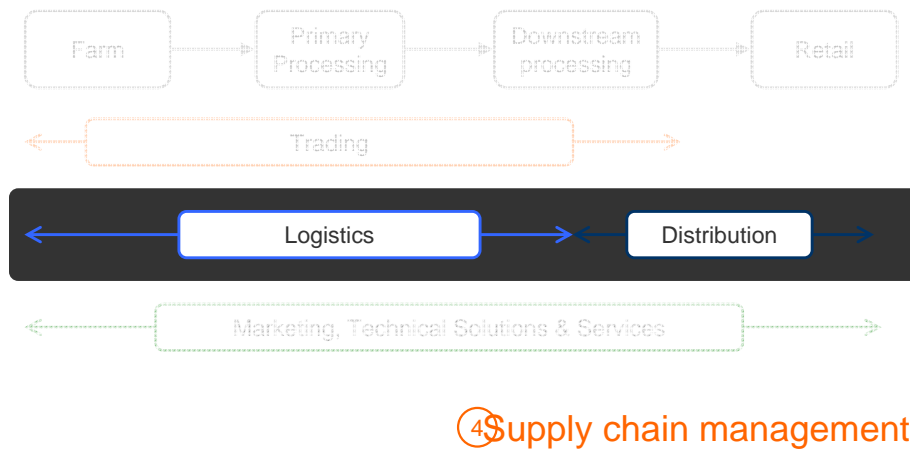
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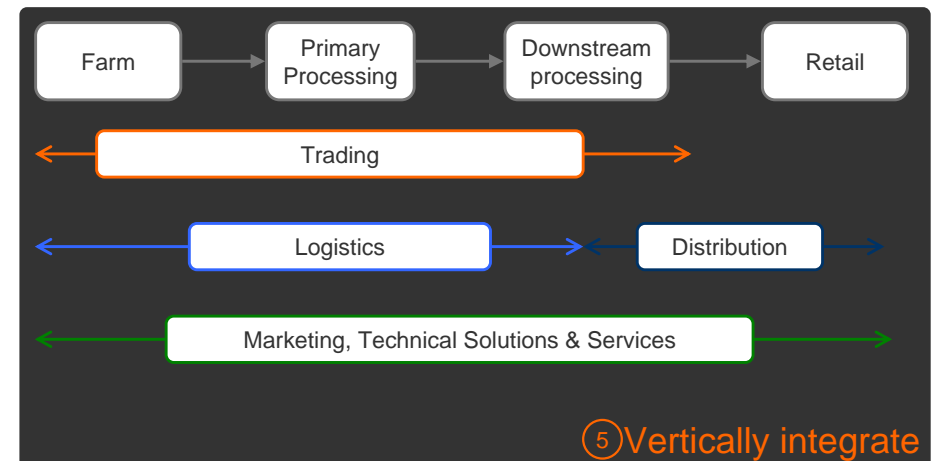
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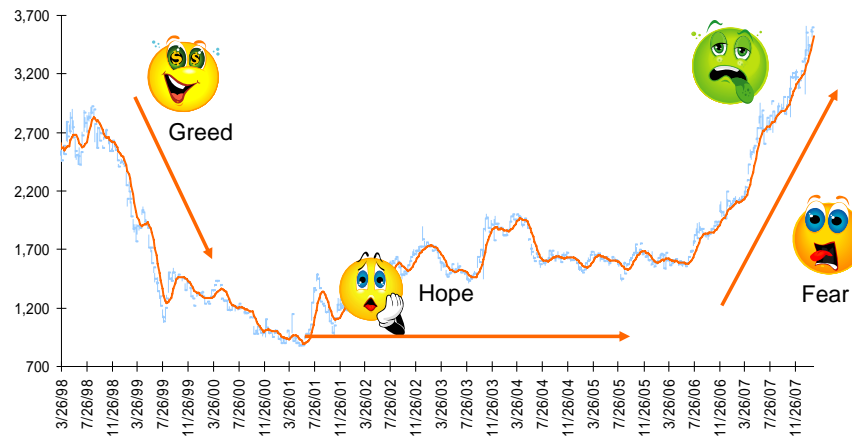
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## So, What Should Businesses Be Doing?



# HEDGING PROPERLY IS VITAL



THANK YOU!

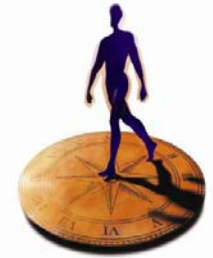
Food & Agribusiness Research and Advisory

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