Challenges Facing the Oilseeds and Grains Industries 2000 and Beyond

Global Market-Access

Agricultural Outlook Forum 2000
February 25, 2000
Al Ambrose - VP Cenex Harvest States
NOPA Chairman
Global Market-Access

• Global soybeans - production & crushing
• Domestic usage vs. exports
• Foreign-currency Issues
• Japan as key to Asia
• A look at China
• Russia vs. U.S. meat exports
• The outlook for soybeans
• Current strategies
A few important facts:

- 95.4% of world population non-U.S.
- U.S. essentially a “fully-fed” society
- U.S. only uses 50-60% of bean crop
- Over 95% world soybeans processed
- Absent crushers, you’ve no market…
- Without beans, we’ve no function…
- Global industrial tariffs average - 4%
- Global agricultural tariffs avg. - 40%
Global Soybeans

Production and Crushing
World Soybean Production

** Up 49% in the 90’s **

World Population up 13%
Soybean Yields (avg. bpa)
US, Brazil & Argentina

U.S.
Brazil
Argentina

Round-up Ready
Between ‘92 and ‘98
7 of 7 years over $6.00
5 of 7 years over $7.00
1996 and 1997 over $8.50

Between ‘93 and ‘98, average farm price was $6.48/bu.
Soybean Production
The Americas (000 mt)
Soybean Production
The Americas (000 mt)

-25%
+34%
US Crush vs. Capacity

Up 44% in the ‘90s

Year

Million MT

Nopa Cap

Nopa Crush

+ 6.9%

+34.5%
Brazil Crush vs. Capacity

Up 42% in the ‘90s

Year
90 91 92 93 94 95 96 97 98
Million MT
22.8 22.8 26.4 25.2 28.8 31.2 31.2 32.4 32.4

Brazil Cap
Brazil Crush

+26.3%
+12.5%
Combined America’s Crush vs. Capacity

Up 58% in the ‘90s

Year

Million t


Total Cap

Total Crush

+17.1%

+34.0%
Argentine Crush vs. Capacity

Up 150% in the ‘90s

Year:
- 90
- 91
- 92
- 93
- 94
- 95
- 96
- 97
- 98

Million t:
- 9.6
- 10.3
- 13.2
- 13.2
- 13.2
- 13.2
- 15.6
- 16.8
- 24

Argentine Crush:
- +37.5%
- +82%

Argentine Cap vs. Argentine Crush
Crush Weekly - 15 years

Dec'94

Sep'97

Cenex Harvest States
we grow value
EU Imports of Soybeans and Meal By Country of Origin (000 mt)
Domestic Usage vs. Exports
U.S. Meat Consumption Per Capita

Total Livestock and Poultry

Beef

Poultry

Pork

Source: USDA. NOTE: retail weight basis
U.S. Per Capita Consumption of Oils and Soybean Market Share

16 billion pounds domestically
16 billion seconds = 507 years

*Columbus*
Chinese Soybean Oil Consumption and Imports

Soybean Oil Consumption

Market Access!

2.5x U.S. exports

Soybean Oil Imports

Source: USDA--12/9/99
Chinese Soybean Meal Consumption and Imports

Soybean Meal Consumption

Market Access!

75% U.S. exports

Source: USDA-12/9/99

Soybean Meal Imports
Foreign-currency Issues
Changes Since June ‘97
Asian Currencies (vs. U.S. $)
## Purchasing Power of Various Currencies

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
<th>Population (millions)</th>
<th>%</th>
<th>Currency</th>
<th>% vs. $ past 24-30 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1</td>
<td>1,200</td>
<td>20</td>
<td>Renminbi</td>
<td>--0-- (peg)</td>
</tr>
<tr>
<td>India</td>
<td>2</td>
<td>985</td>
<td>16</td>
<td>Rupee</td>
<td>-22% (4 yrs)</td>
</tr>
<tr>
<td>U.S.</td>
<td>3</td>
<td>270</td>
<td>4.5</td>
<td>Dollar</td>
<td>--0--</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4</td>
<td>213</td>
<td>3.5</td>
<td>Rupiah</td>
<td>-66%</td>
</tr>
<tr>
<td>Brazil</td>
<td>5</td>
<td>170</td>
<td>2.8</td>
<td>Real</td>
<td>-39%</td>
</tr>
<tr>
<td>Russia *</td>
<td>6</td>
<td>147</td>
<td>2.5</td>
<td>Ruble</td>
<td>??????</td>
</tr>
<tr>
<td>Japan</td>
<td>8</td>
<td>126</td>
<td>2.0</td>
<td>Yen</td>
<td>+04%</td>
</tr>
<tr>
<td>Mexico</td>
<td>11</td>
<td>99</td>
<td>1.7</td>
<td>Peso</td>
<td>+11%</td>
</tr>
<tr>
<td>Philippines</td>
<td>13</td>
<td>78</td>
<td>1.3</td>
<td>Peso</td>
<td>-36%</td>
</tr>
<tr>
<td>Thailand</td>
<td>18</td>
<td>60</td>
<td>1.0</td>
<td>Bhat</td>
<td>-35%</td>
</tr>
<tr>
<td>S. Korea</td>
<td>26</td>
<td>26</td>
<td>0.8</td>
<td>Won</td>
<td>-21%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>45</td>
<td>22</td>
<td>0.4</td>
<td>Dollar</td>
<td>-09%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>48</td>
<td>21</td>
<td>0.4</td>
<td>Ringgit</td>
<td>-33%</td>
</tr>
</tbody>
</table>

* During Gorbachev era 28,880 rubles (@ 8/US$) was $3,600; now is $1.00
### Costly Mistakes

Bad loan levels and resolution costs of some recent banking crises

<table>
<thead>
<tr>
<th>Country</th>
<th>Cost as % of GDP</th>
<th>Non-Performing Loans*</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. Korea</td>
<td>60%</td>
<td>50%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>50%</td>
<td>75%</td>
</tr>
<tr>
<td>Thailand</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>45%</td>
<td>35%</td>
</tr>
<tr>
<td>Chile (1981-85)</td>
<td>41%</td>
<td>16%</td>
</tr>
<tr>
<td>Mexico (1994-95)</td>
<td>15%</td>
<td>11%</td>
</tr>
<tr>
<td>Brazil (1994-96)</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>U.S. (1984-91)</td>
<td>7%</td>
<td>4%</td>
</tr>
<tr>
<td>Sweden (1991-93)</td>
<td>4%</td>
<td>11%</td>
</tr>
<tr>
<td>Japan (1990s)</td>
<td>3%</td>
<td>16%</td>
</tr>
</tbody>
</table>

* As % of total loans, estimated peak during crisis
Lean Hogs - Weekly
Soybean Meal - Weekly

May’97; $308.

Feb’99; $120.
Crush Weekly - 4 years

104-week moving average
22.65 cents

Sep '97; $1.57

Jul '98; - 2.6 cents
Soybeans - Weekly

May '97; $9.03

Jul '99; $4.015
Japan as Key to Asia
More Japanese operations in China
shift from entry fervor to exit strategy

CONSULTANTS ADAPT
To Changing Demands

BY EIJI HOTOOPF FURUKAWA
Staff writer

Toyo Steel Corp. is in a long line of
Japanese companies heading for
the exits in China.

In 1993, the company joined with
the local government of Shenyang, the
capital of Liaoning Province, and launched
an electric-furnace project in the city.
But operations were suspended for more
than a year shortly after production
began in 1997, as the Chinese partner
failed to make agreed capital contribu-
tions amid sharp declines in local steel
prices.

Toyo remained patient despite con-
tinuous failures by its partner to meet
obligations. But the company finally
gave up and is negotiating to break the
joint-venture contract. With business
slumping at home, it could no longer
cope with the losses in China. Overall,
Toyo recorded a ¥2.4 billion ($19.8 mil-
lion) consolidated loss in its fiscal year
that ended last September.

Toyo’s case is just the tip of iceberg,
many observers said. Although compre-
hsive figures on withdrawal from
China are not available, Japanese
banks, consultants and legal firms
report that advisory businesses for clos-
ing operations in China have been
booming since 1998. The consulting
groups are shifting the focus of their
China-related businesses from investment
advice to disengagement strategies.

The current trend is caused by sluggi-
sh business environments in both
China and Japan. Japanese companies
can no longer support loss-making op-
erations in China, once portrayed as their
most promising market. Banks and con-
sultants expect withdrawals from China
to substantially increase this year, espe-
cially because Japanese companies this
fiscal year are required to start using
consolidated accounting.

“Japanese companies’ China strategy
has turned around so much that compa-
nies are reorganizing their operations.
It’s the opposite of the investment boom
continued until 1997,” said Kinji Kaho,
senior manager of investment banking
in direction was brought on by a struc-
tural change in the Chinese market, which
cut the profitability of manufacturers’
Chinese operations.”

The boom in investment in China
began sweeping Japanese companies in
the early 1990s, then continued
through the mid-1990s as China geared
up its openness policy and investors
aimed at the vast potential market. But
now, China faces shrinking consump-
tion as unemployment rises because of
reforms of state-owned enterprises and
as excessive investment has brought an
oversupply of products. Also, the cur-
cency crisis in Southeast Asia has low-
ered the export competitiveness of
goods made in China.

At Industrial Bank of Japan, the
demand for advice on closing and down-
sizing Chinese operations began to
accelerate in the last half of 1998. Of its
advisory contracts during the year,
withdrawal consulting accounted for
20%, after being marginal in 1997.
Because more than 10 companies have
asked for advice on closing China opera-
See CHINA on Page 19
US Crush vs. Capacity

Up 44% in the ’90s

Year


Nopa Cap

Nopa Crush

Million T

0 10 20 30 40 50 60

40.3 48 49 51.2 54.2

40 41 42 43 44

37.7 38.2 39.3 40 40.3

+ 6.9% +34.5%
Past its peak
Japanese investment in China; in billions of dollars on contract basis

Source: Japan-China Investment Promotion Organization
A WORD ON CHINA
## Chinese GDP growth

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992/93</td>
<td>13.0%</td>
</tr>
<tr>
<td>1993/94</td>
<td>12.6%</td>
</tr>
<tr>
<td>1994/95</td>
<td>10.5%</td>
</tr>
<tr>
<td>1995/96</td>
<td>9.6%</td>
</tr>
<tr>
<td>1996/97</td>
<td>8.8%</td>
</tr>
<tr>
<td>1997/98</td>
<td>7.8%</td>
</tr>
<tr>
<td>1998/99</td>
<td>7.1%</td>
</tr>
<tr>
<td>1999/00</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

Source: Oil World
Chinese Imports of Oilseeds, Oil & Meal - 000 tonnes

Access Denied!
China’s Share of World Urea & DAP Imports

China has historically been the world’s largest importer of both urea and DAP fertilizers, accounting for as much as 40% of total world trade.
Since the Chinese government imposed a ban on urea imports in mid-1997, China’s imports have dropped to virtually nothing, and world urea prices have collapsed to their lowest level in over a decade.
Notes on Russia

• GDP -5%, 1998: -5%, 1999 (proj.)
• US ag exports to Russia down 80%
• Approx. 50% US poultry export went to Russia prior to crisis
• Since Aug.’98 - US poultry to Russia down 75-80% *** no major rebound anticipated in near future…..

• Source: USDA ERS Study on Russia
U.S. Beef, Poultry and Pork Exports

- U.S. Pork Exports
- U.S. Poultry Exports
- U.S. Beef & Veal Exports

7 years ‘89 to ‘96 average increase 29%

1997 was 462% of 1990

1998 -2%

1999 -3%

Source: USDA--3/24/99
## Selected Equity Prices:

<table>
<thead>
<tr>
<th>Company</th>
<th>1995</th>
<th>1997</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tyson</td>
<td>$15</td>
<td>$25</td>
<td>$10.50</td>
</tr>
<tr>
<td>ConAgra</td>
<td>$15</td>
<td>$38</td>
<td>$17.00</td>
</tr>
<tr>
<td>Sand. Fms.</td>
<td>$11</td>
<td>$19</td>
<td>$7.06</td>
</tr>
<tr>
<td>ADM</td>
<td>$13.5</td>
<td>$22</td>
<td>$10.88</td>
</tr>
</tbody>
</table>
Soybean Outlook
## U.S. Soybean Supply/Demand

<table>
<thead>
<tr>
<th>Million bushels</th>
<th>95/96</th>
<th>96/97</th>
<th>97/98</th>
<th>98/99</th>
<th>99/00</th>
<th>00/01*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Supply</td>
<td>2,514</td>
<td>2,573</td>
<td>2,826</td>
<td>2,946</td>
<td>2,994</td>
<td>3,193</td>
</tr>
<tr>
<td>Crush</td>
<td>1,363</td>
<td>1,436</td>
<td>1,597</td>
<td>1,590</td>
<td>1,600</td>
<td>1,640</td>
</tr>
<tr>
<td>Exports</td>
<td>855</td>
<td>882</td>
<td>900</td>
<td>801</td>
<td>890</td>
<td>925#</td>
</tr>
<tr>
<td>Total Usage</td>
<td>2,325</td>
<td>2,441</td>
<td>2,626</td>
<td>2,596</td>
<td>2,649</td>
<td>2,725</td>
</tr>
<tr>
<td>Carryout</td>
<td>183</td>
<td>132</td>
<td>200</td>
<td>348</td>
<td>345</td>
<td>448</td>
</tr>
<tr>
<td>Average Farm Price</td>
<td>$6.72</td>
<td>$7.35</td>
<td>$6.47</td>
<td>$4.93</td>
<td>$4.50-5.00</td>
<td>$4.25-5.00</td>
</tr>
</tbody>
</table>

*(Assumes: 74 mln pltd, 72.5mln hvst (.98), 39BPA, 2,828 bln. prod.)*

(# Record Exports - 929 mln bu - 81/82 crop year)
Producer Marketing Suggestions

• Think and market like a commercial entity...
• Develop price and/or profit objectives...
• Develop marketing plans to transfer risk and execute...
• If you’ve already taken the LDP:
  – sell calls or buy puts against stocks or future production
• Seek out competent marketing assistance...
• Reminder: farmers are intrinsic longs...
• A food-chain is no stronger than its’ weakest link...
Wrapping it up.....

What Do We Do Now?
Immediate Imperatives:

Steadfastly oppose:

– unilateral trade sanctions on food
– protectionism (in all forms)
– trade barriers
– border wars
– tariffs
– supply controls
– set-asides
– government-inspired reserves
Intermediate/Longer-Term Objectives

Persistently promote **global market access**

- Advocate **sanctions reform** (i.e. global food treaty in exchange for market access)
- Support (**improved**) IMF funding - stabilize/revive faltering, developing economies
- Promote permanent normalized trade relations (**PNTR**) with China
- Pass fast-track legislation (**trade-negotiating authority** - **TNA**)
- Work with U.S. trade representatives to promote swift, but **proper** Chinese accession to W.T.O.
“Trade reforms best way to help farmers…”
Reuters

“The more we can open up markets abroad, and there is a lot of room to do that…strikes me as the most important thing we can do to keep a viable, very productive agriculture”

Fed Chairman Alan Greenspan
Senate Banking Committee
Feb 23, 2000
Why Unilateral Sanctions Don’t Work:

- Food flows like water (rain on a hill...)
- Other nations will subvert...
- Delay our potential to become inter-dependent (no nation will make itself even partially dependent upon us if it believes that we might withhold food)
- Threats only escalate the tensions...
- If you would seek to alter a mans’ (or nations’) behavior, feed his children
Unintended Consequences:

• Strengthen the tyrant (creates dependency)...
• Alienate the citizenry (projects the “Ugly American” image)...
• Destroy U.S. farmers opportunities...
• Make food more expensive for the world’s impoverished and hungry...
• Trample upon established business ties and lines of communication...
• Magnify and ossify our differences...
• Make the world less safe...
The Challenge:

Global Market-Access

Questions?

February 25, 2000

Al Ambrose - VP Cenex Harvest States
NOPA Chairman