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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%

Cenex Harvest States

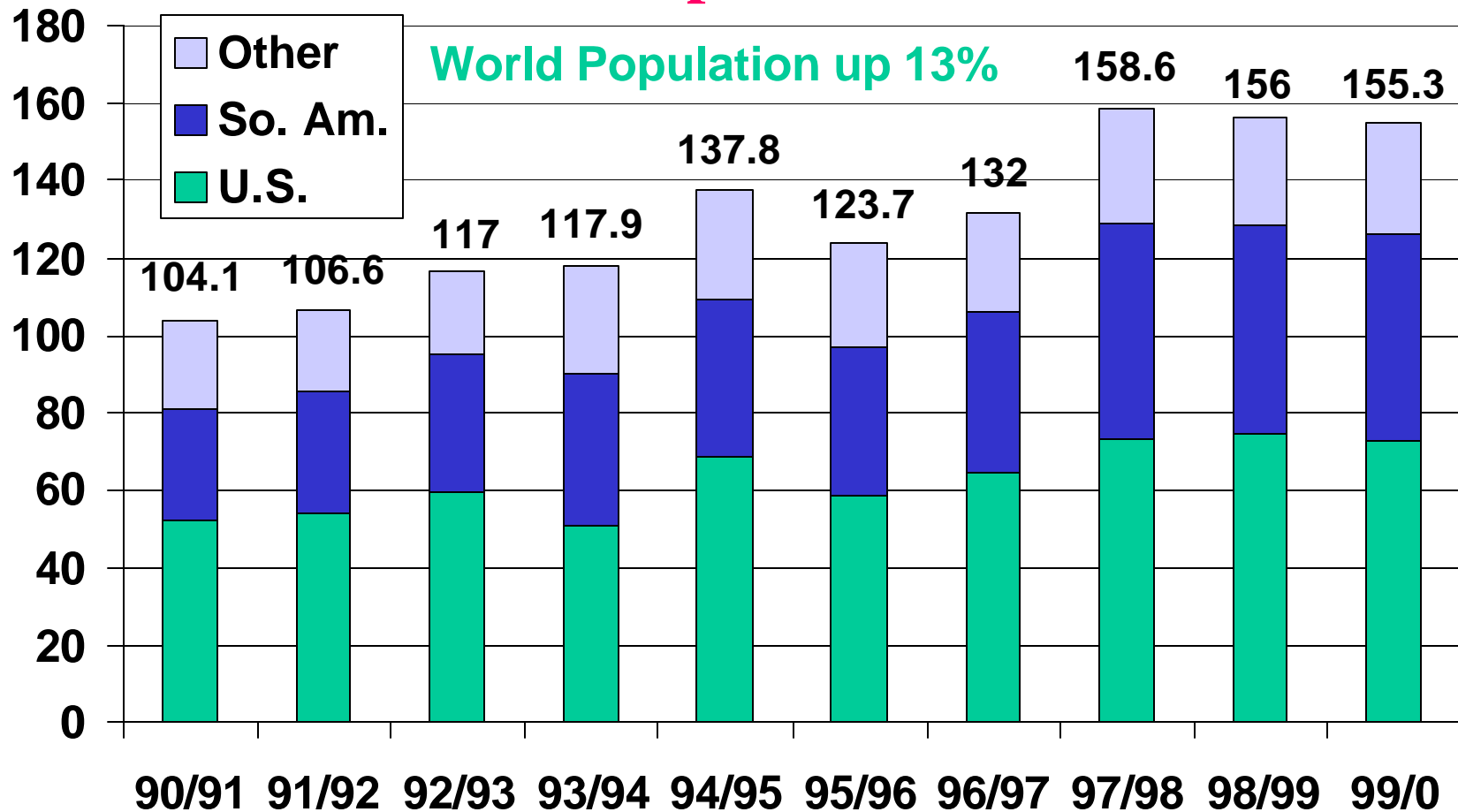
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Global Soybeans

Production and Crushing

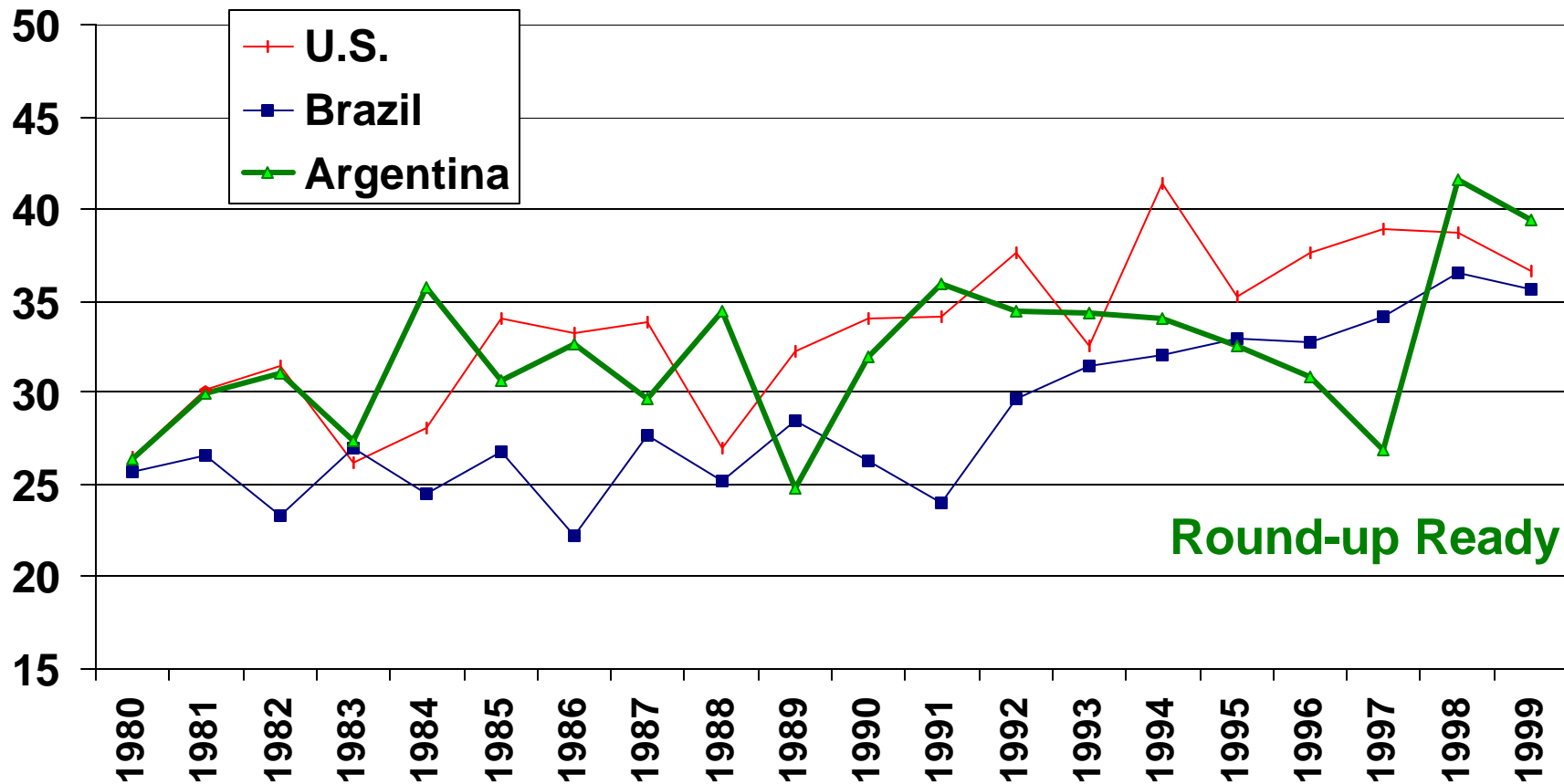
World Soybean Production

Million Metric Tonnes **** Up 49% in the 90's ****



Soybean Yields (avg. bpa)

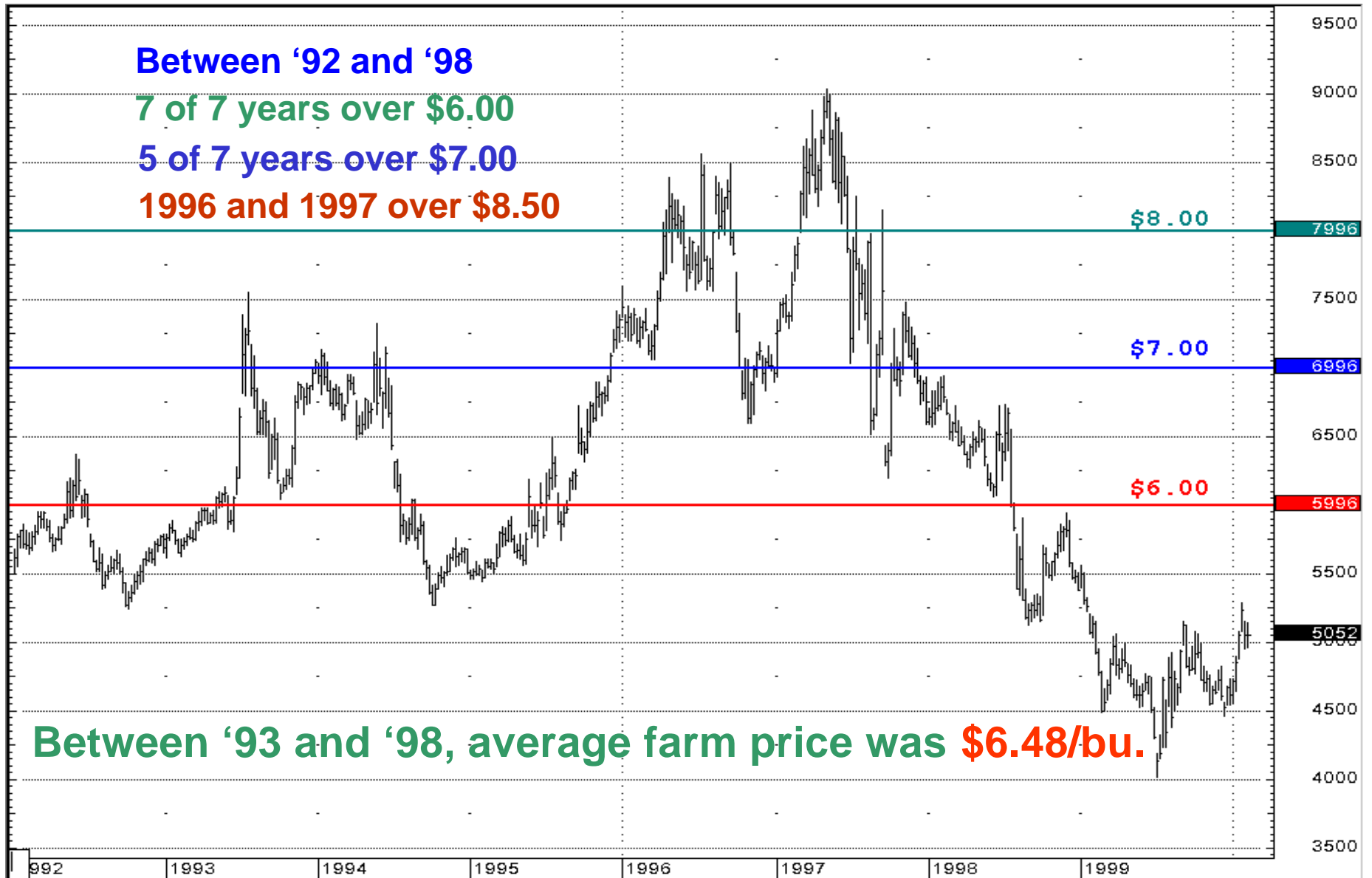
US, Brazil & Argentina



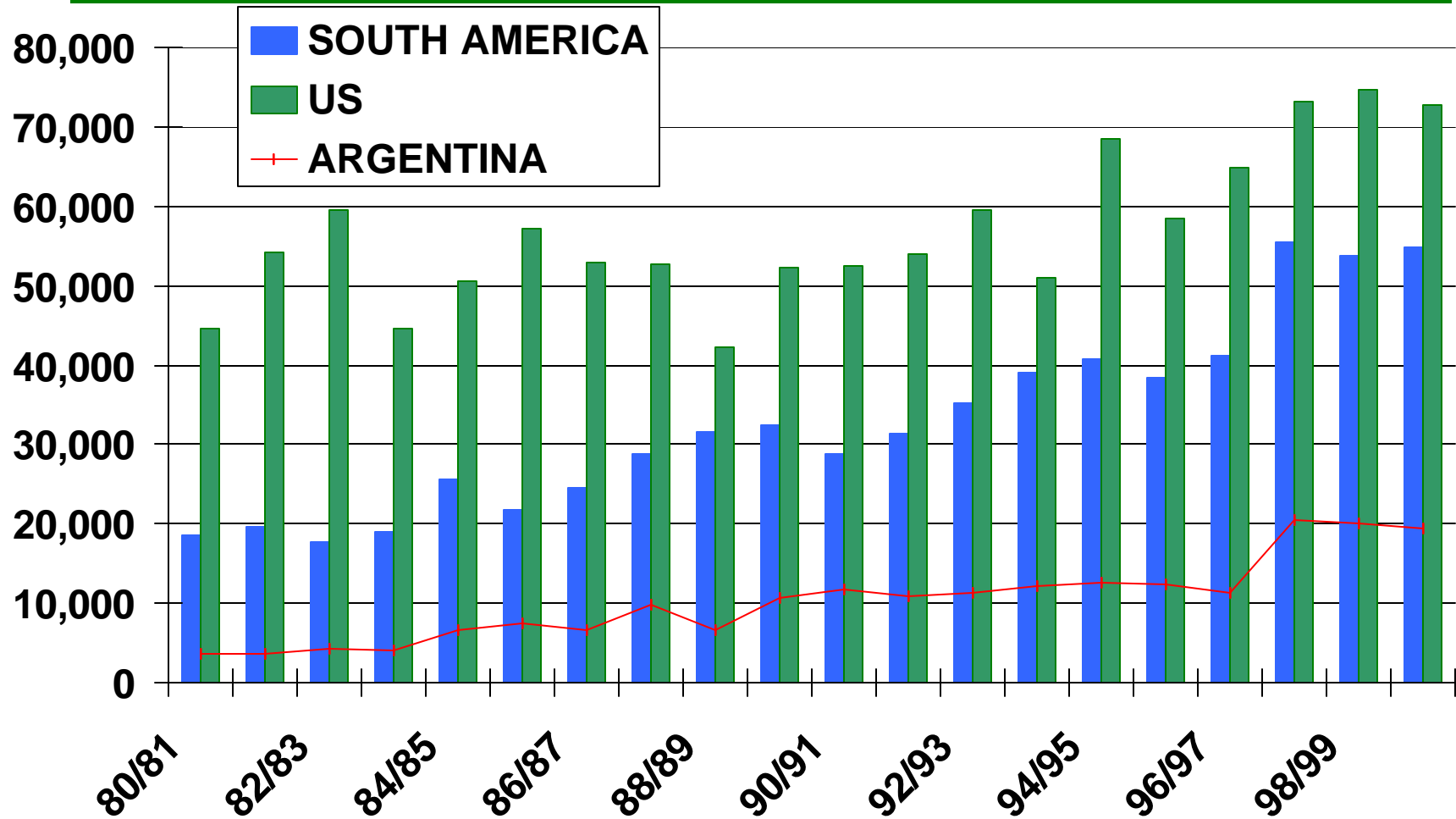
Soybeans Weekly Prices

Cenex Harvest States

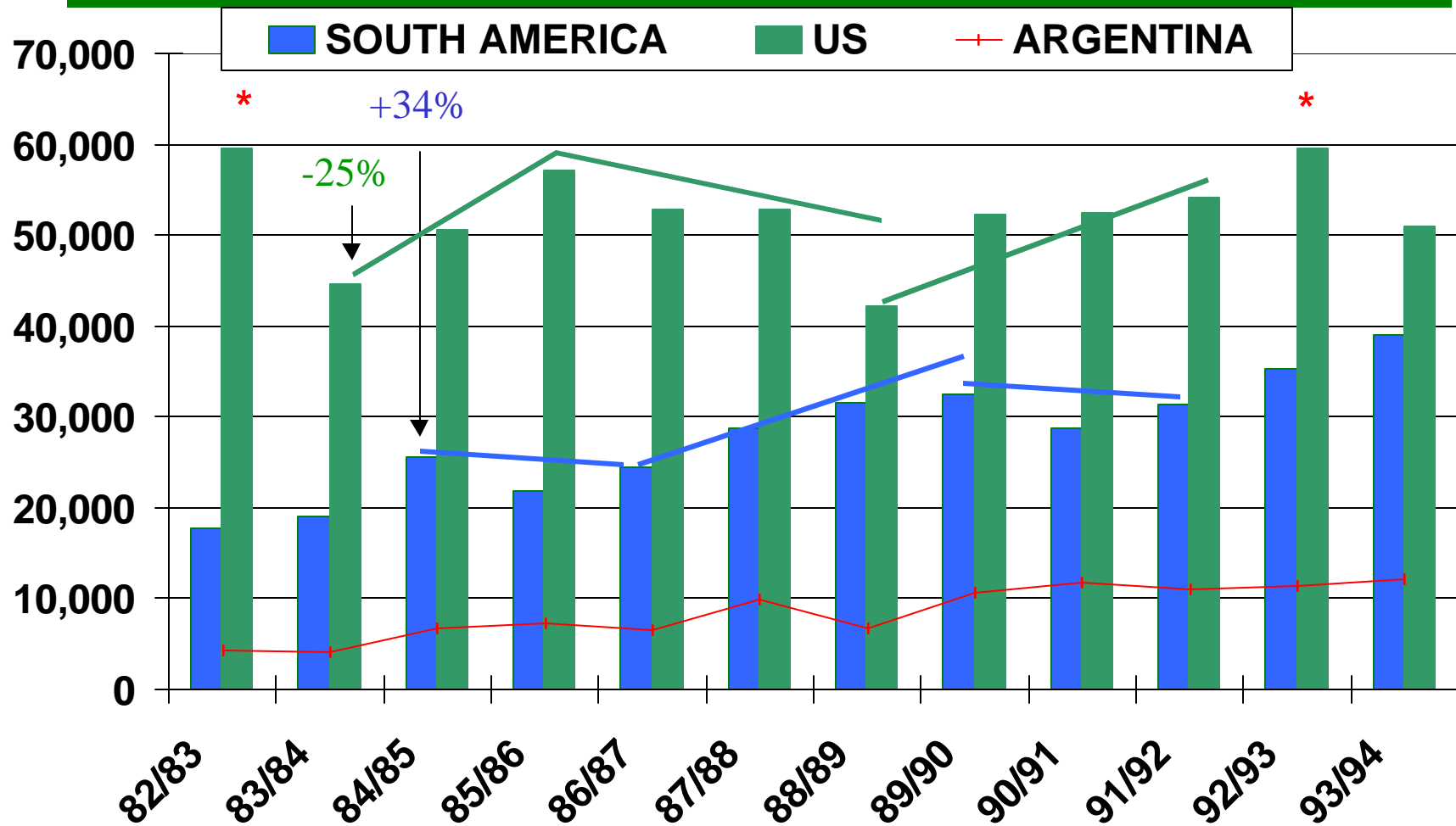
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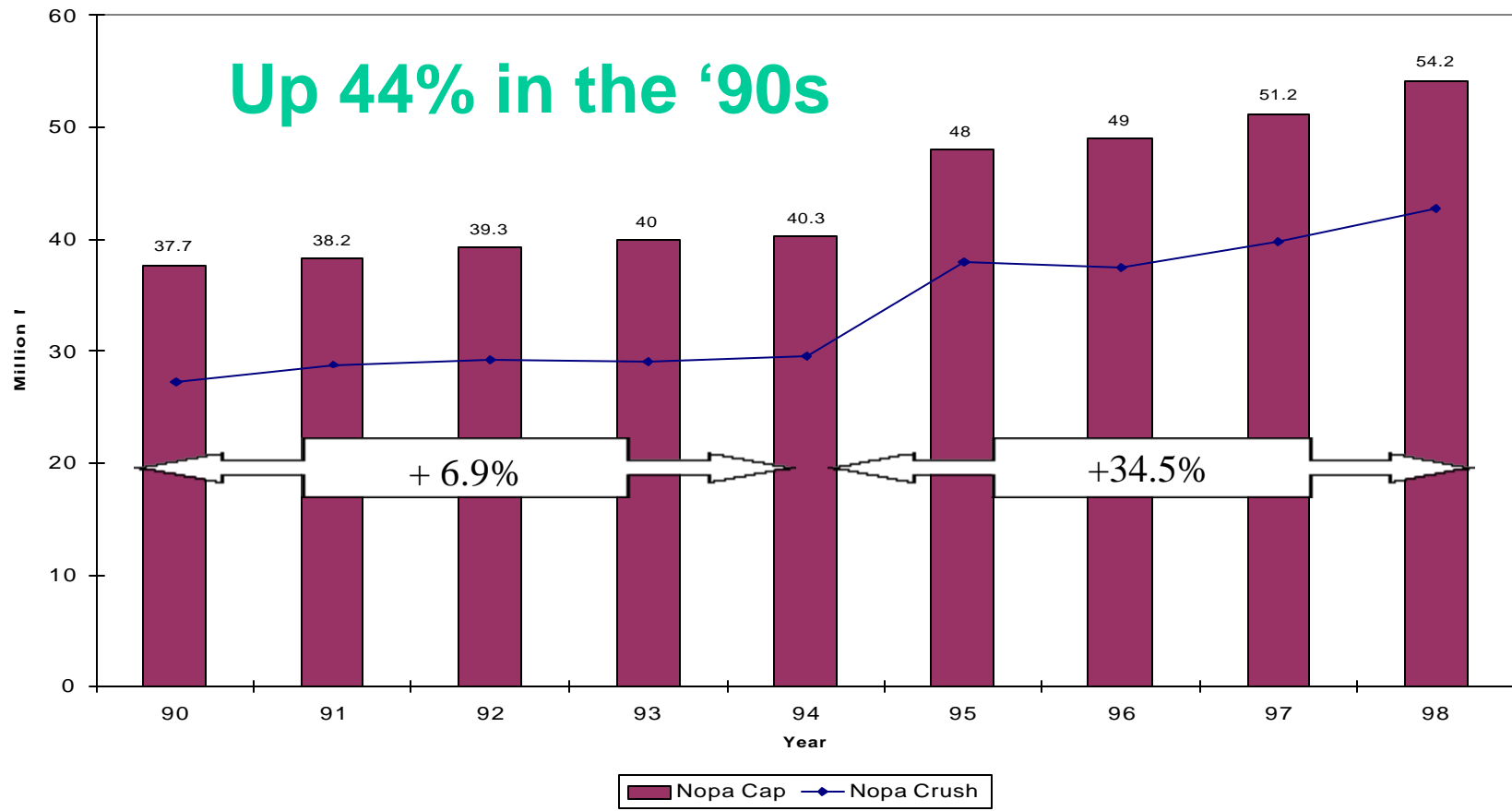
Soybean Production The Americas (000 mt)



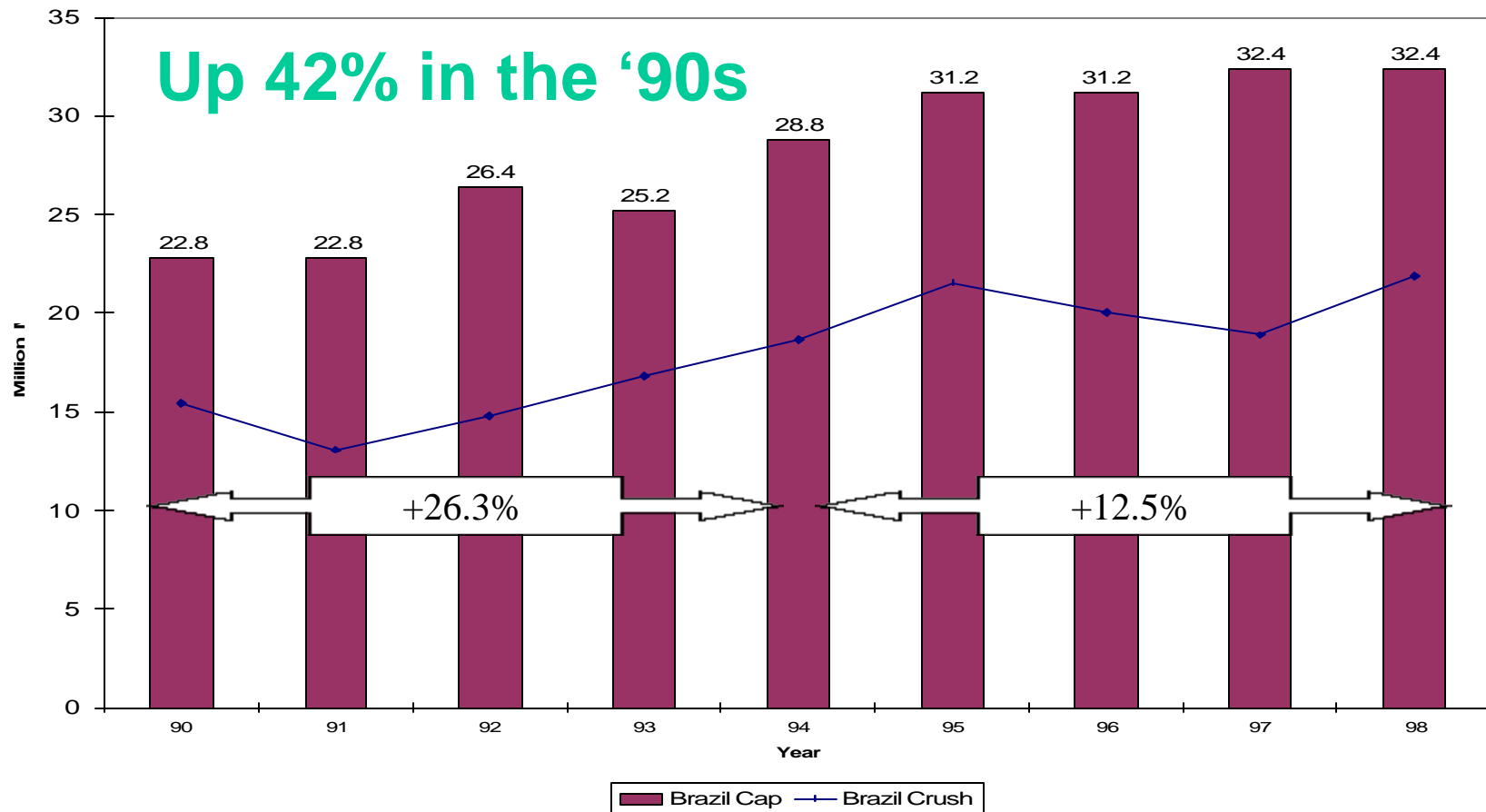
Soybean Production The Americas (000 mt)



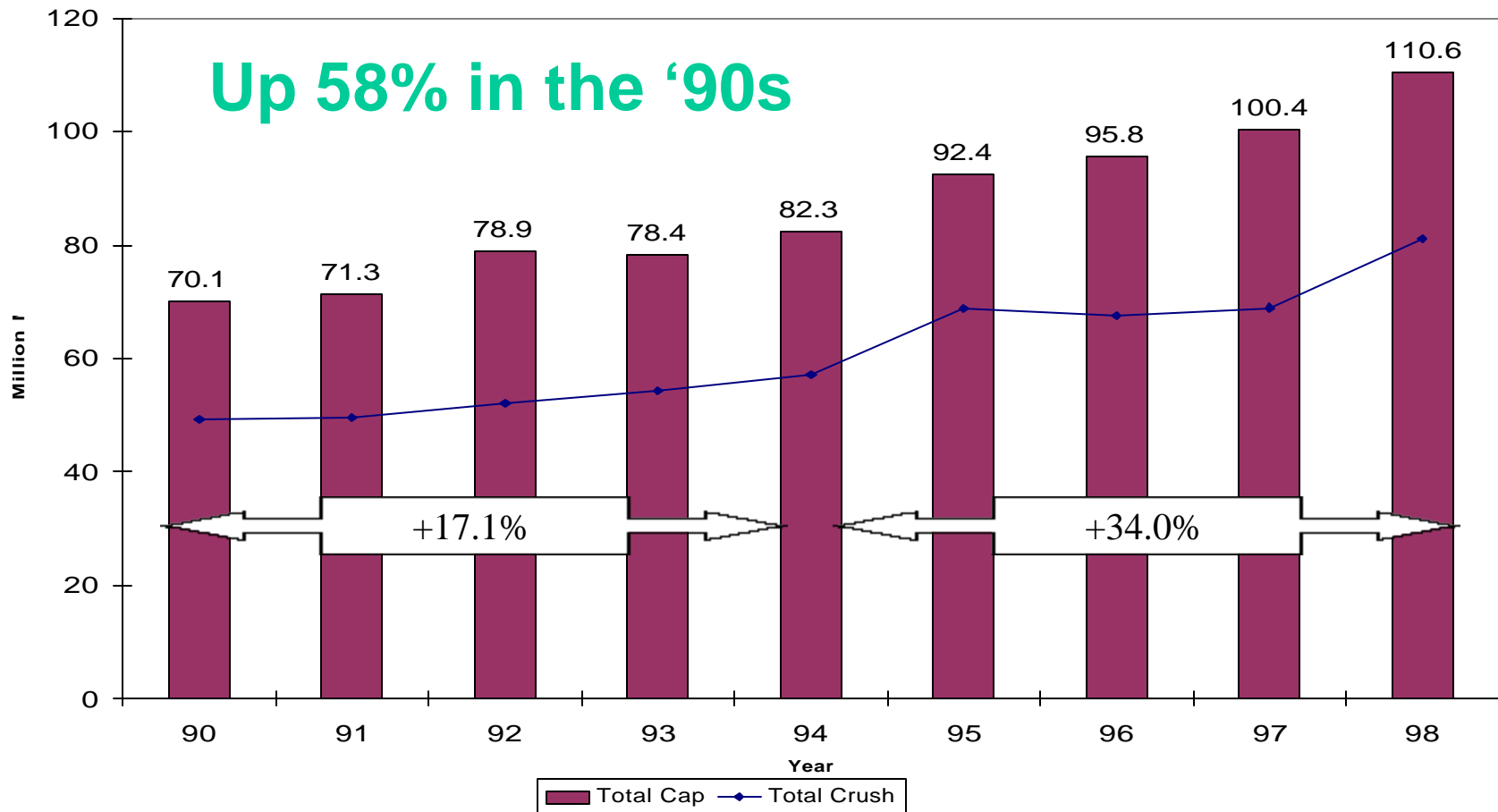
US Crush vs. Capacity



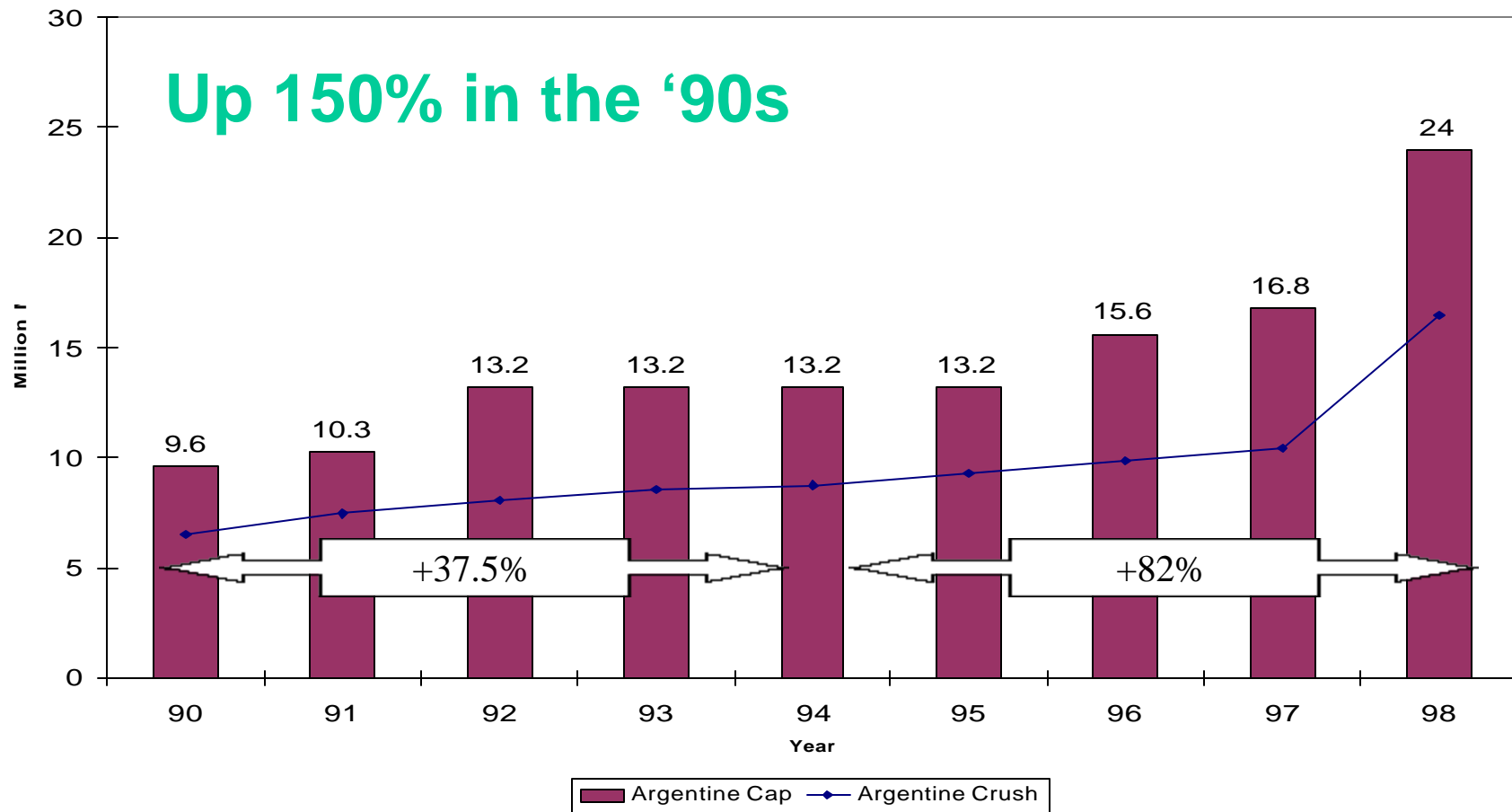
Brazil Crush vs. Capacity



Combined America's Crush vs. Capacity

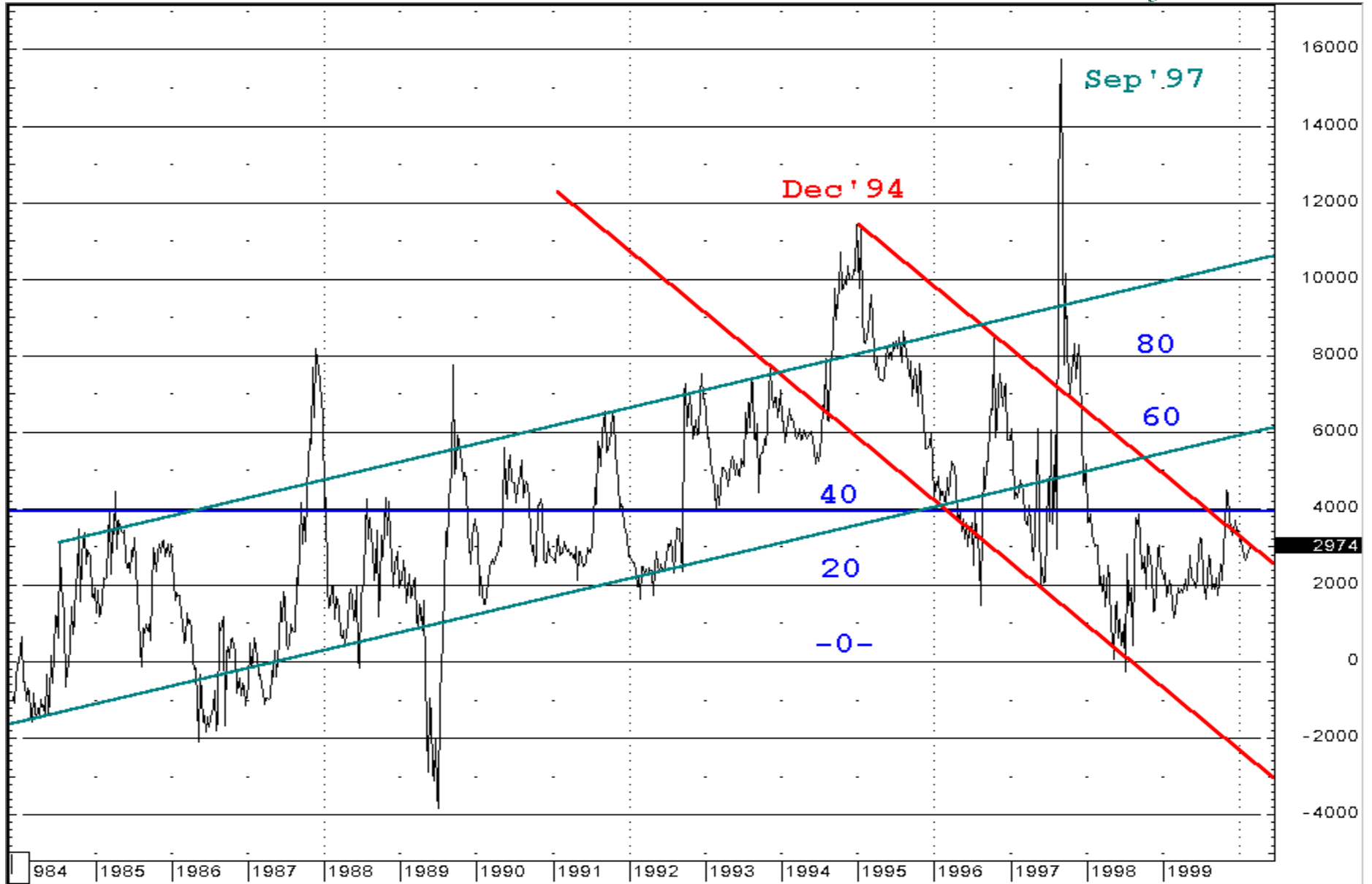


Argentine Crush vs. Capacity

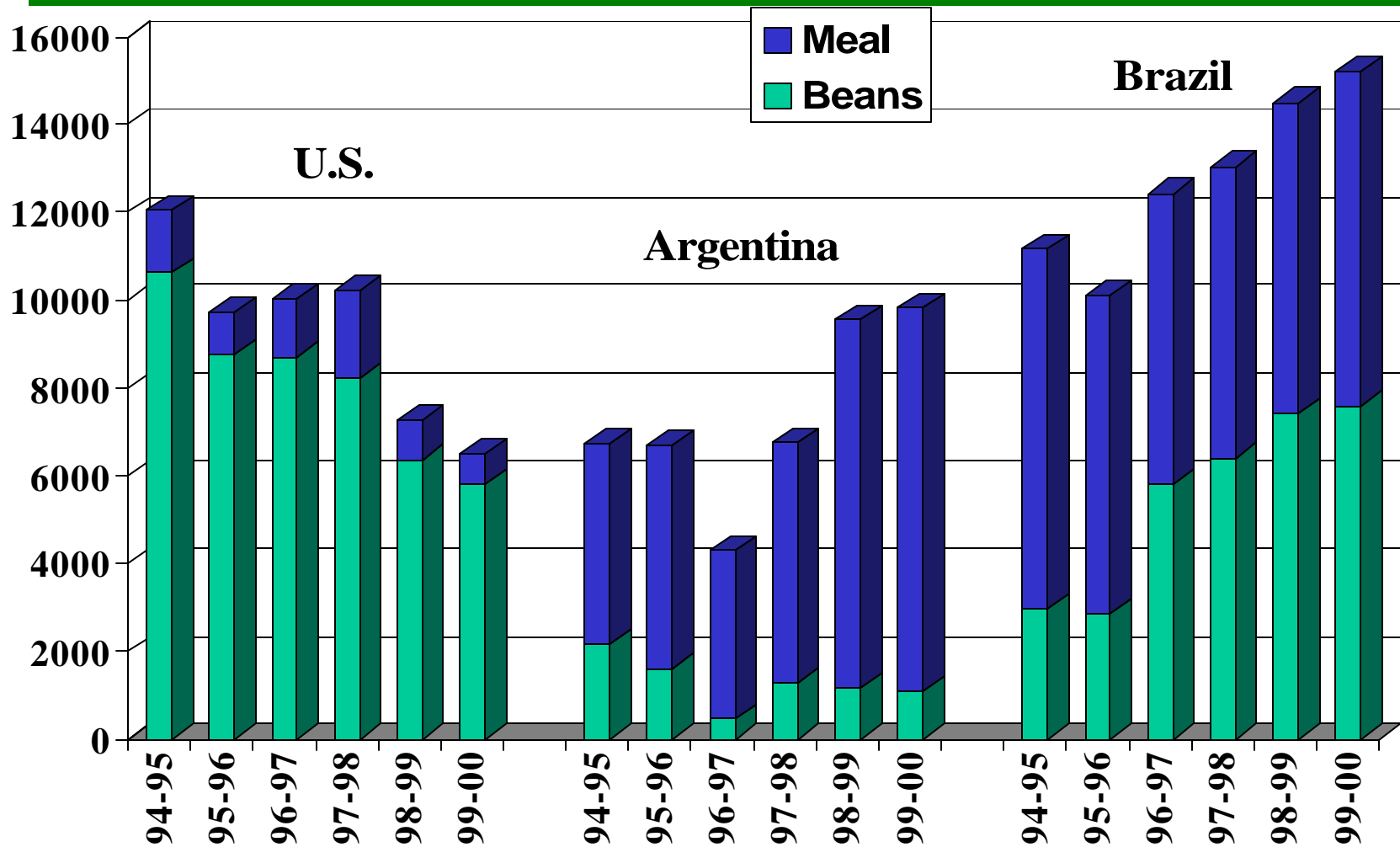


Crush Weekly - 15 years Cenex Harvest States

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EU Imports of Soybeans and Meal By Country of Origin (000 mt)

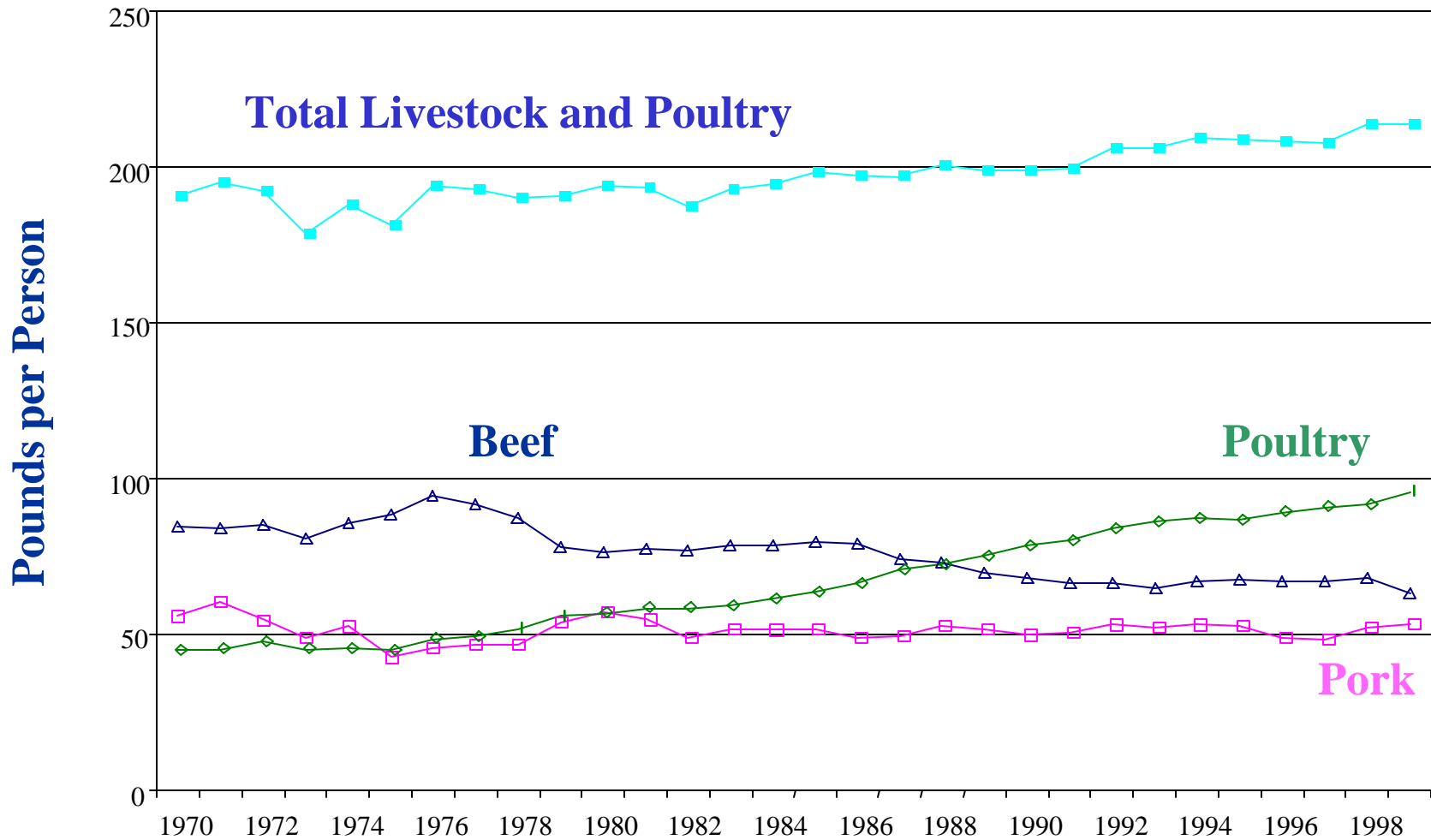


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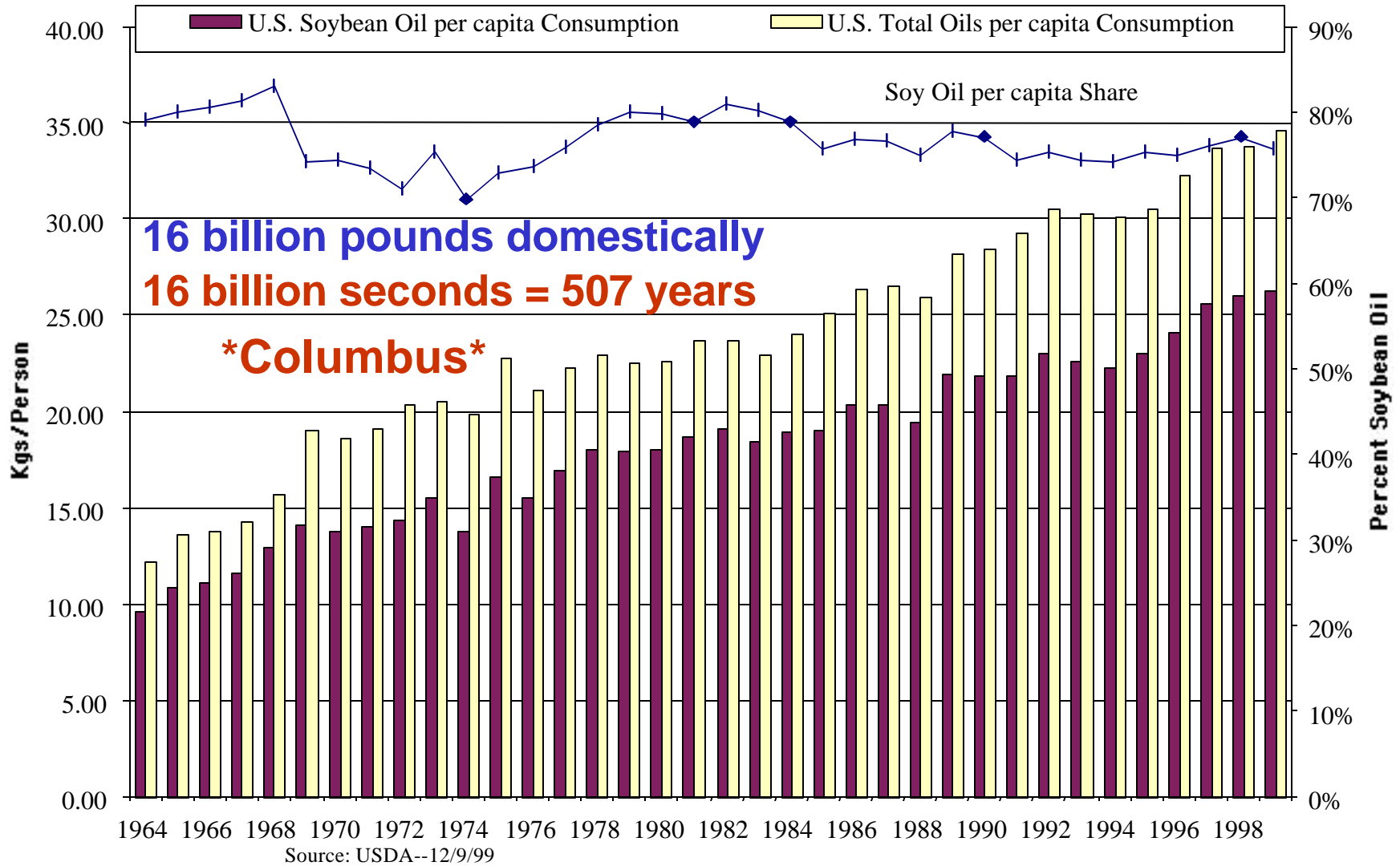
Domestic Usage vs. Exports

U.S. Meat Consumption Per Capita

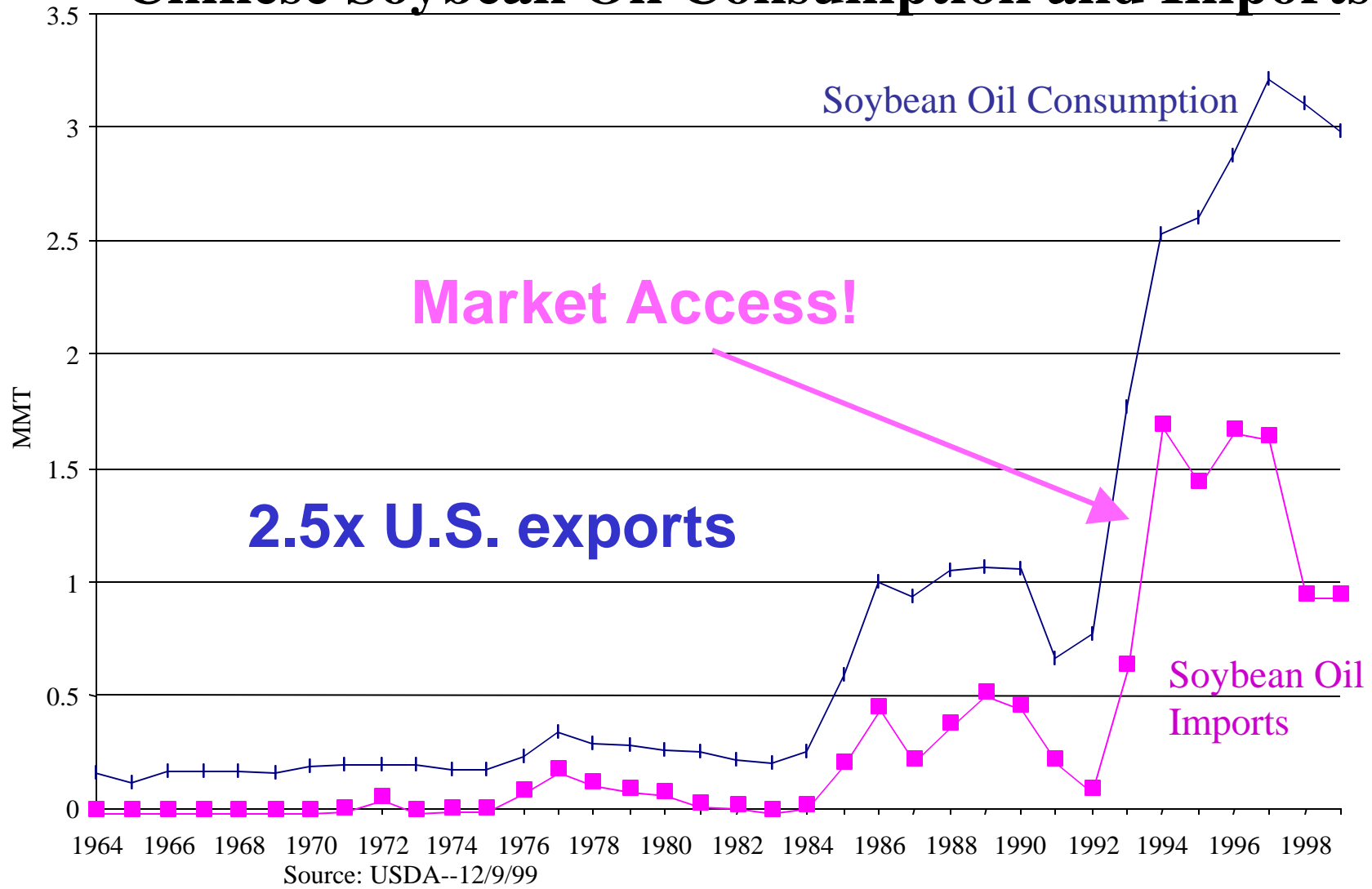


Source: USDA. NOTE: retail weight basis

U.S. Per Capita Consumption of Oils and Soybean Market Share



Chinese Soybean Oil Consumption and Imports



Chinese Soybean Meal Consumption and Imports

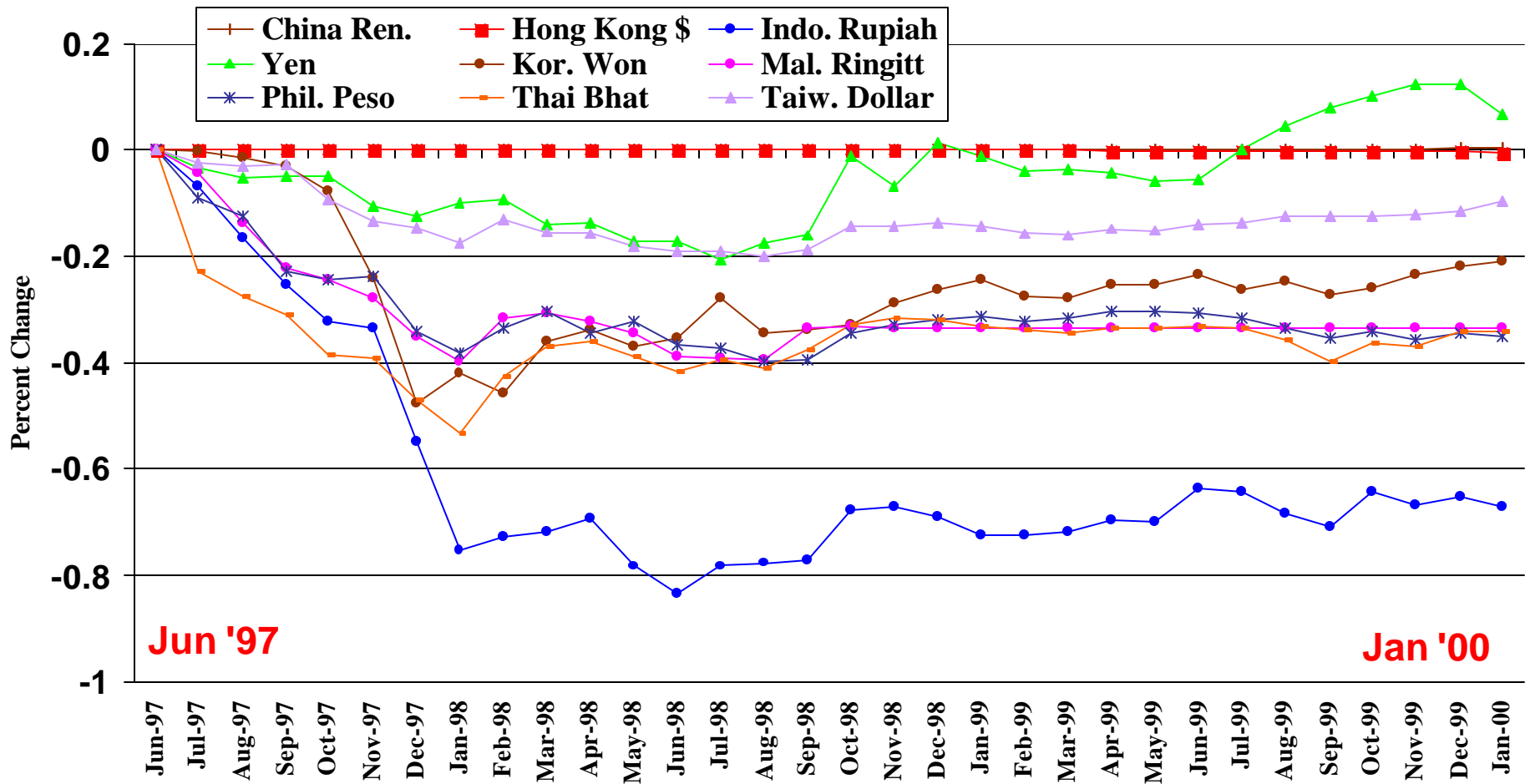


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Foreign-currency Issues

Changes Since June '97 Asian Currencies (vs. U.S. \$)



Purchasing Power of Various Currencies

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

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

ASIAN WALL STREET

TOKYO, THURSDAY, OCTOBER 22, 1998

Costly Mistakes

Bad loan levels and resolution costs
of some recent banking crises

	Cost as % of GDP	Non-Perform- ing Loans*
S. Korea	60%	50%
Indonesia	50%	75%
Thailand	45%	55%
Malaysia	45%	35%
Chile (1981-85)	41%	16%
Mexico (1994-95)	15%	11%
Brazil (1994-96)	10%	9%
U.S. (1984-91)	7%	4%
Sweden (1991-93)	4%	11%
Japan (1990s)	3%	16%

* As % of total loans, estimated peak during crisis

Lean Hogs - Weekly

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Soybean Meal - Weekly

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Crush Weekly - 4 years

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Soybeans - Weekly

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Japan as Key to Asia



Nikkei Business Weekly - April '99

More Japanese operations in China shift from entry fervor to exit strategy

CONSULTANTS ADAPT TO CHANGING DEMANDS

BY EIJI HOTOPI 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 contributions amid sharp declines in local steel prices.

Toyo remained patient despite continuous 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 million) consolidated loss in its fiscal year that ended last September.

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

The current trend is caused by sluggish business environments in both China and Japan. Japanese companies can no longer support loss-making operations in China, once portrayed as their most promising market. Banks and consultants expect withdrawals from China to substantially increase this year, especially because Japanese companies this

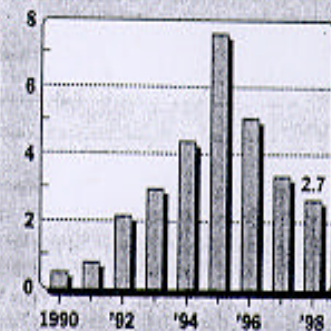
fiscal year are required to start using consolidated accounting.

"Japanese companies' China strategy has turned around so much that companies are reorganizing their operations. It's the opposite of the investment boom continued until 1997," said Kinji Kaiho, senior manager of investment banking for Industrial Bank of Japan. "The shift in direction was brought on by a structural 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 consumption as unemployment rises because of reforms of state-owned enterprises and as excessive investment has brought an oversupply of products. Also, the currency crisis in Southeast Asia has low-

Past its peak

Japanese investment in China; in billions of dollars on contract basis



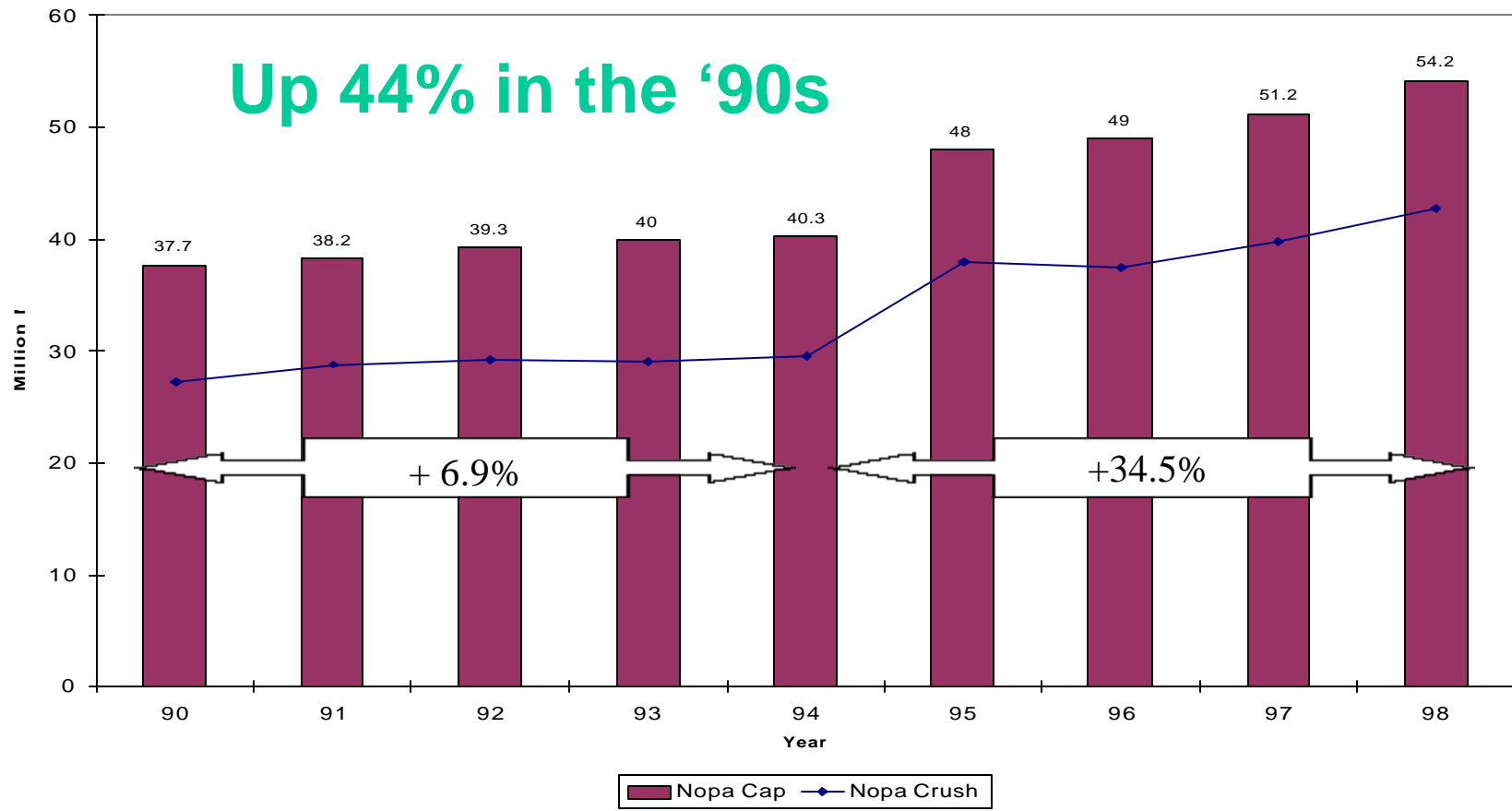
Source: Japan-China Investment Promotion Organization

ered the export competitiveness of goods made in China.

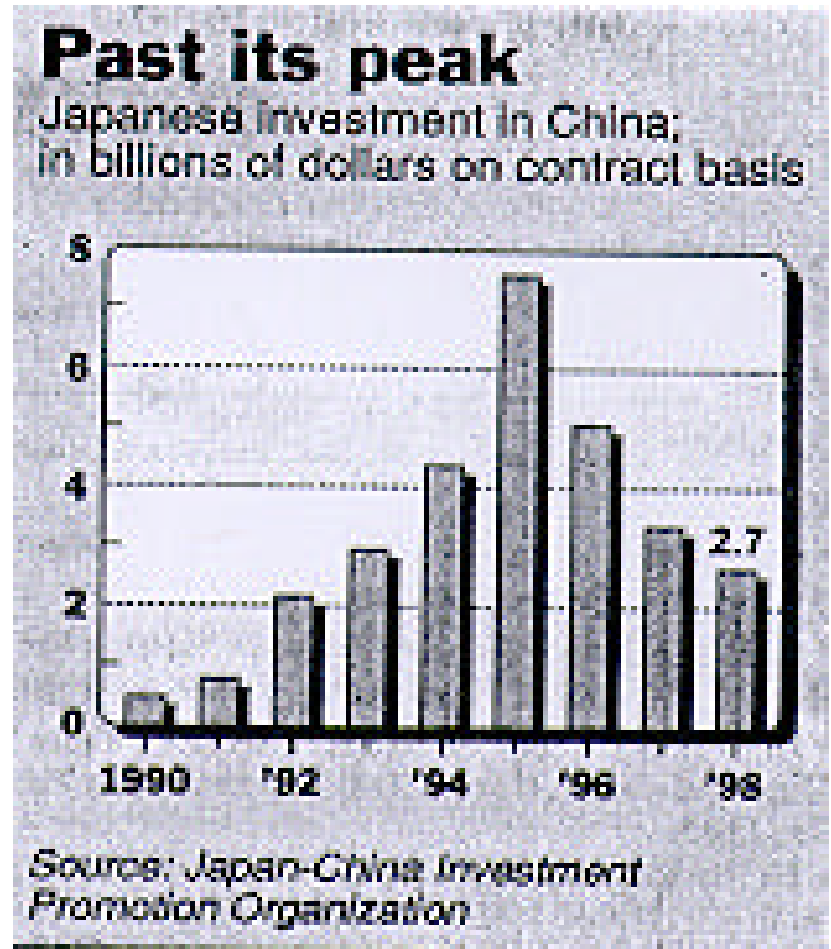
At Industrial Bank of Japan, the demand for advice on closing and downsizing Chinese operations began to accelerate in the last half of 1998. Of its advisory contracts during the year, withdrawal consulting accounted for 20%, after being marginal in 1997. Because more than 10 companies have asked for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

See CHINA on Page 19

US Crush vs. Capacity



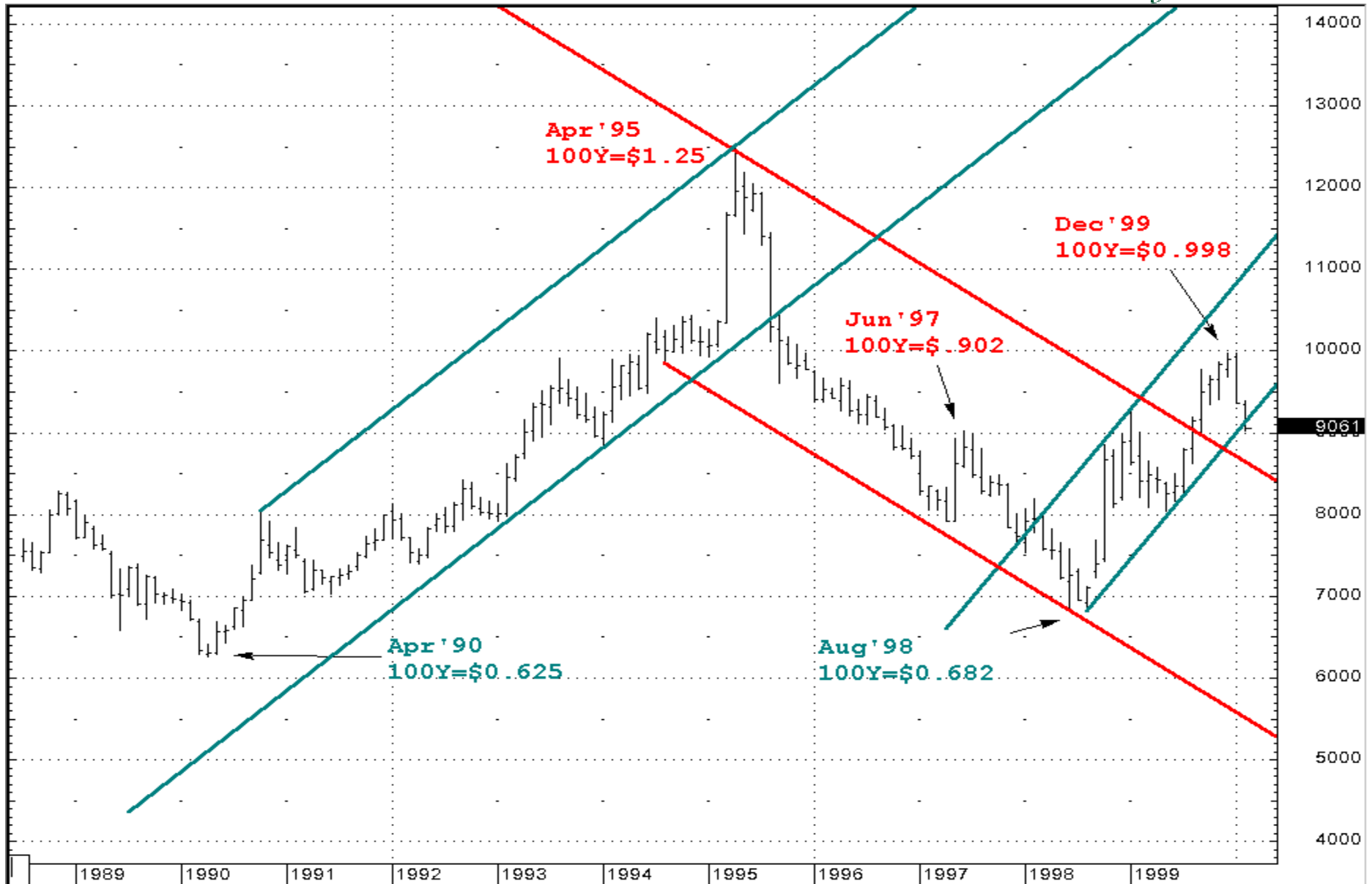
Nikkei Business Weekly - April '99



Japanese Yen - Monthly

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Russia

Kazakhstan

Kyrgyzstan

Nepal

India

Burma

Laos

Vietnam

North Korea

South Korea

Taiwan

Pacific Ocean

Sea of Japan

A WORD ON CHINA

China and Mongolia

600 Miles

600 km

Ulaanbaatar

Ulaanbaatar

China

Qiqihar

Harbin

Changchun

Shenyang

Beijing

Tianjin

Baotou

Xi'an

Xuzhou

Nanjing

Shanghai

Chengdu

Chongqing

Hangzhou

Guiyang

Nanchang

Taipei

Kunming

Xiamen

Nanning

Hong Kong (U.K.)

Macau (Port.)

HAINAN

Yining

Ürümqi

Kashi

Hotan

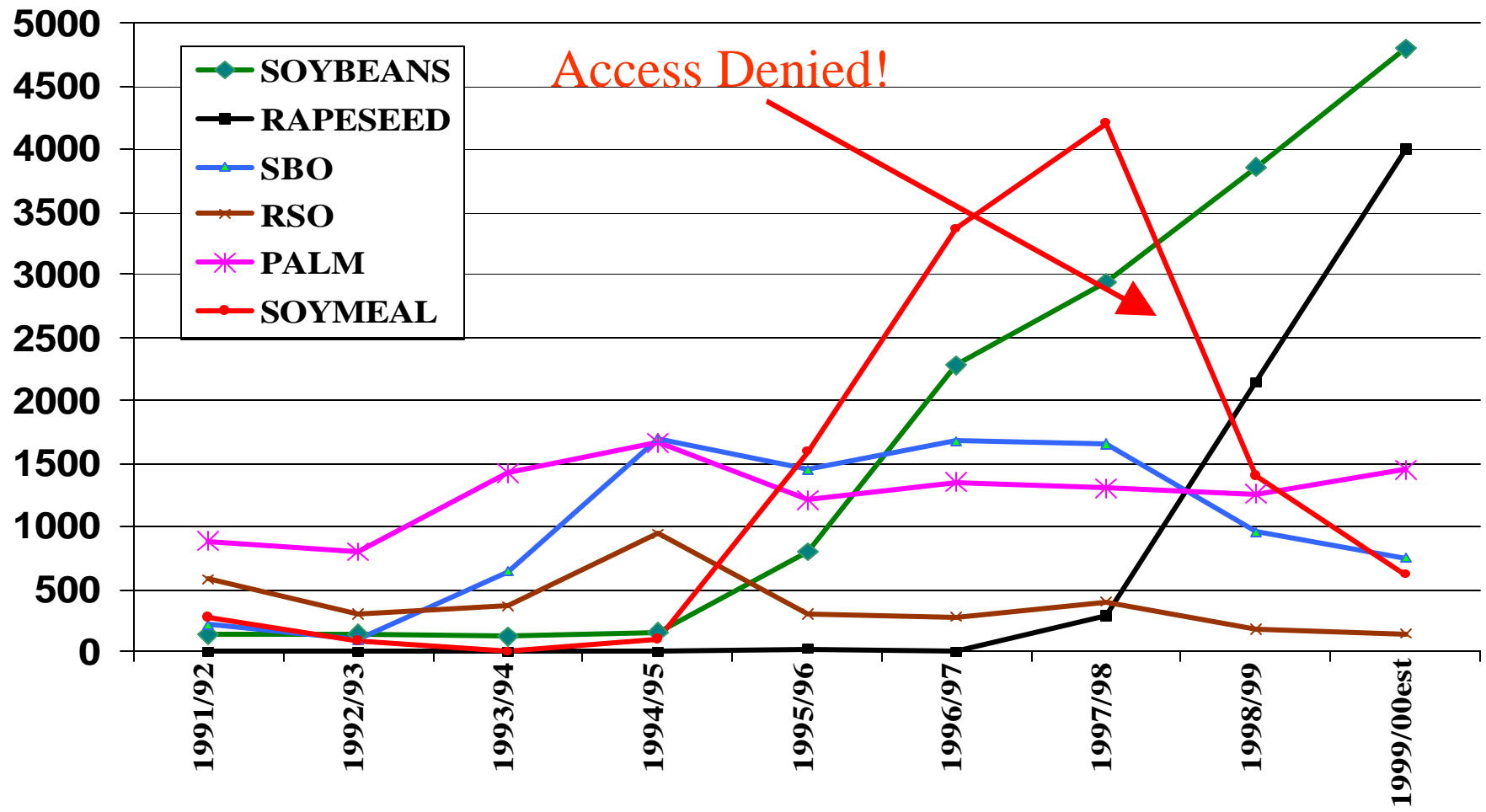
Uliastay

Choybalsan

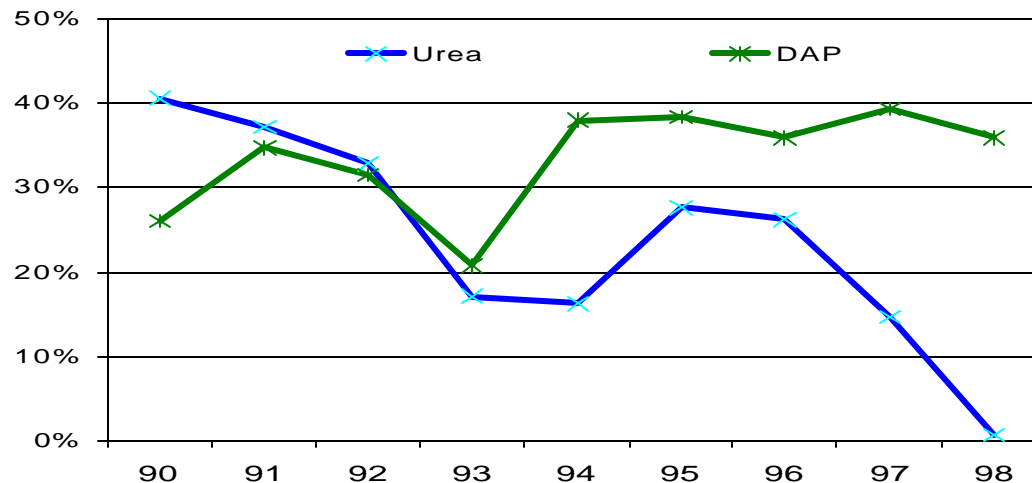
Chinese GDP growth

- 1992/93 13.0%
 - 1993/94 12.6%
 - 1994/95 10.5%
 - 1995/96 9.6%
 - 1996/97 8.8%
 - 1997/98 7.8%
 - 1998/99 7.1%
 - 1999/00 7.0%
 - Source: Oil World
- 54%
- 34%
-

Chinese Imports of Oilseeds, Oil & Meal - 000 tonnes

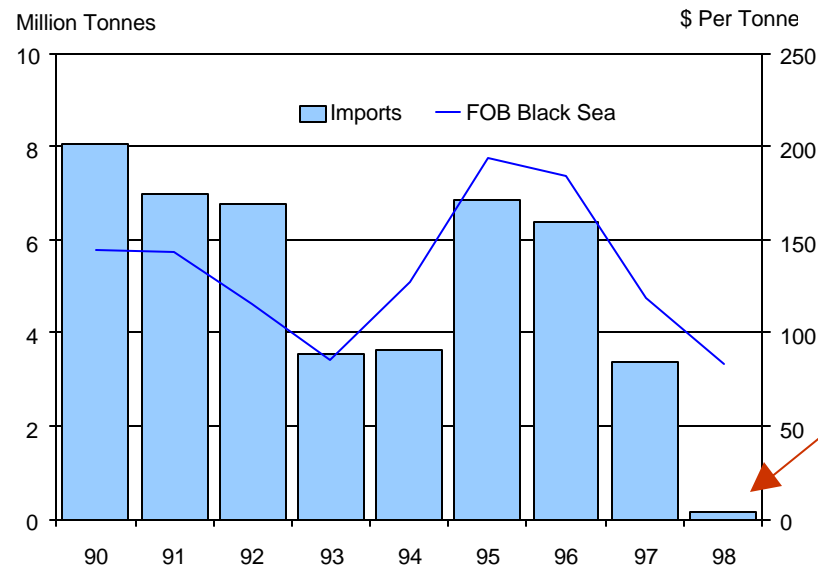


China's Share of World Urea & DAP Imports



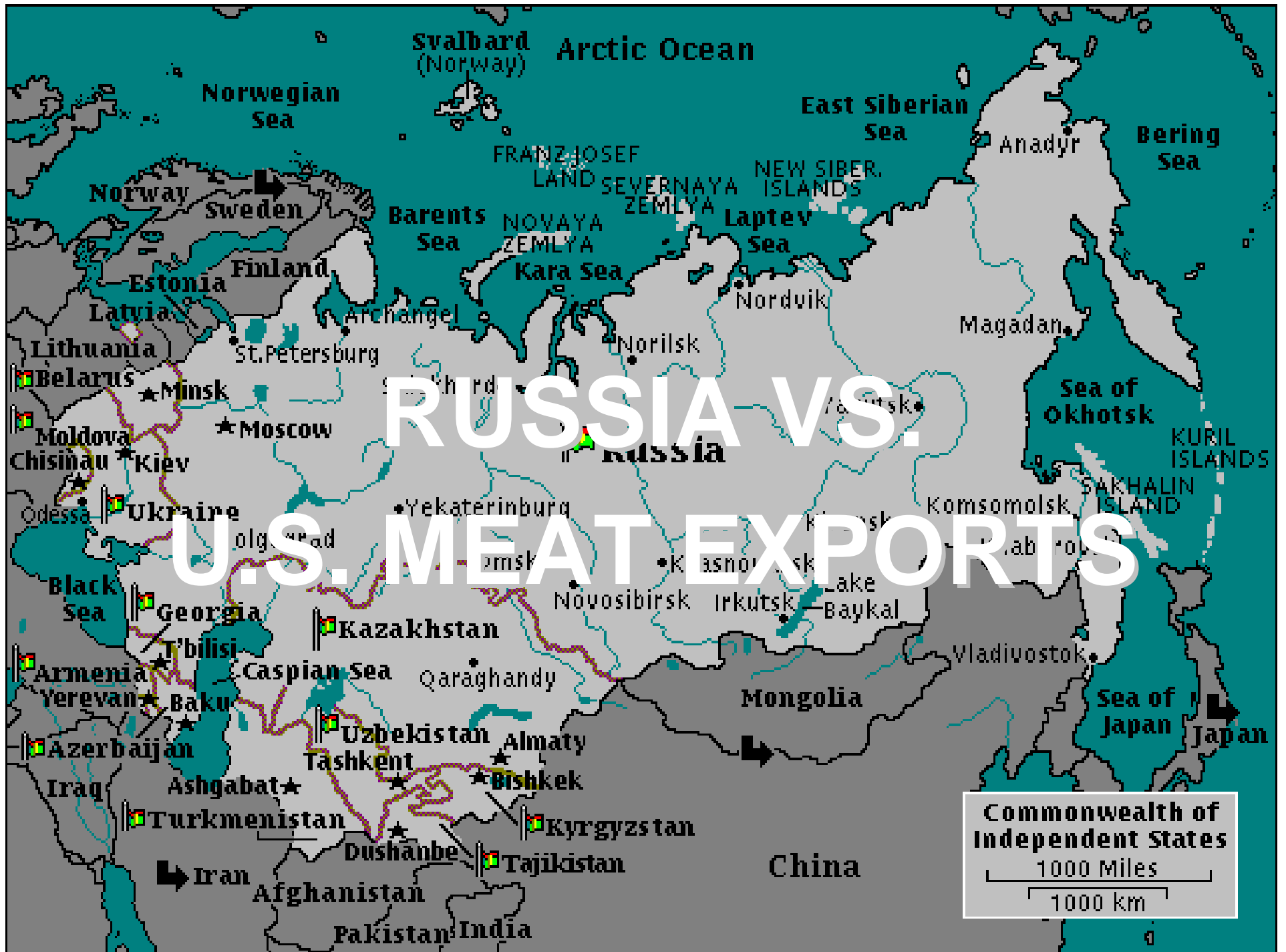
China has historically been the world's largest importer of both urea and DAP fertilizers, accounting for as much as 40% of total world trade.

China Urea Imports vs. World Urea Price



**Access
Denied!**

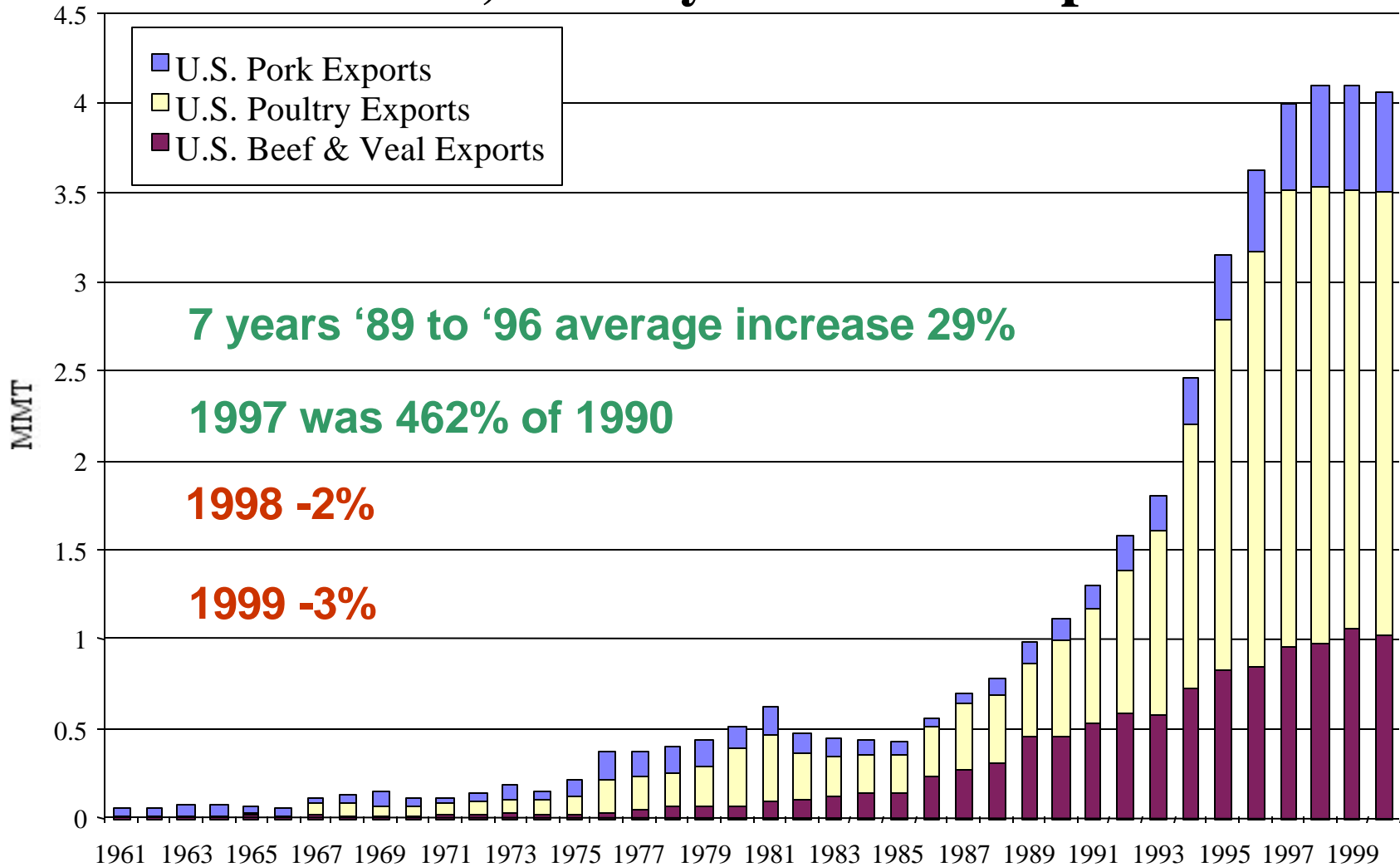
Since the Chinese government imposed a ban on urea imports in mid-1997, China's imports have dropped to virtually nothing, and world urea prices have collapsed to their lowest level in over a decade.



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



Source: USDA--3/24/99

Selected Equity Prices:

- **Tyson** **\$15 ('94)** **\$25('98)** **\$10.50 (Feb'00)**
- **ConAgra** **\$15('95)** **\$38('97)** **\$17.00 (Feb'00)**
- **Sand. Fms.** **\$11('95)** **\$19('97)** **\$7.06 (Feb'00)**
- **ADM** **\$13.5('95)** **\$22('97)** **\$10.88 (Feb'00)**

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Soybean Outlook

U.S. Soybean Supply/Demand

Million bushels

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

*(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...**

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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 worlds' 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**