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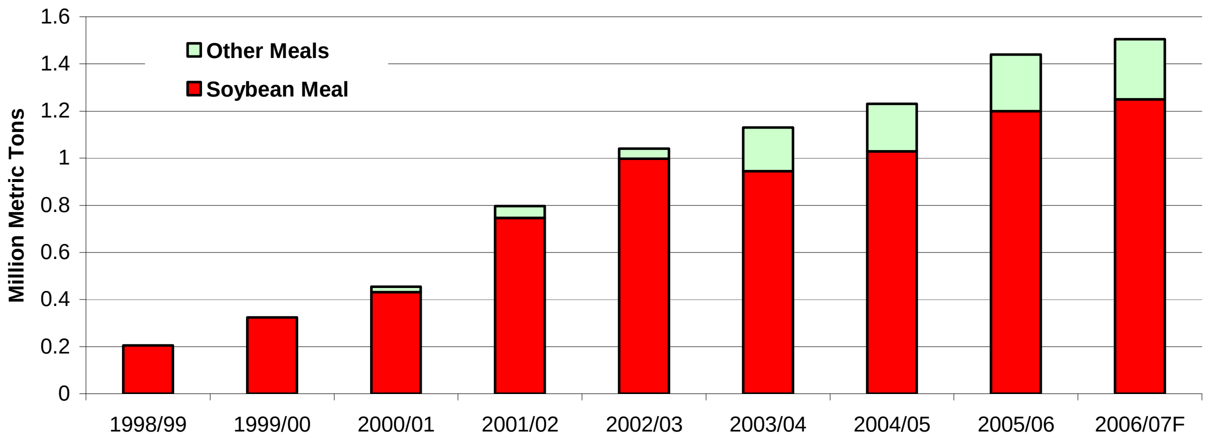
Oilseeds: World Markets and Trade

Vietnam's Protein Meal Imports Rise Led by Soybean Meal



July 2006 Highlights:

- Vietnam's soybean meal imports are estimated at 1.2 million tons in 2005/06, accounting for nearly 85 percent of total protein meal consumption.
- The U.S. soybean production forecast in 2006/07 was reduced 1.9 million tons as planted area declined 1 million hectares.
- Brazil's 2005/06 soybean production forecast was reduced 700,000 tons to 55 million tons.
- Argentina's 2005/06 soybean crush forecast was increased 1.2 million tons, to 30.4 million tons.
- India's 2005/06 palm oil import forecast was lowered 500,000 tons.
- Canada's 2005/06 rapeseed export forecast was increased to 4.9 million tons. Rapeseed exports for 2006/07 were also increased to 4.85 million.
- Australia's 2006/07 rapeseed export forecast was reduced to 850,000 tons.

Special Articles

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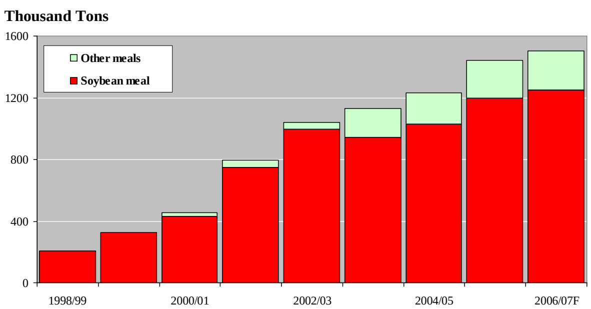
Vietnam: Oilseeds Market Outlook

Vietnam, a country of 84 million people, is emerging as a significant soybean meal market, importing over a million tons in 2004/05 compared to 88,000 tons in 1995/96. The country's import demand for soybean meal is expected to strengthen supported by rising animal population and feed use, despite concerns that animal diseases could reduce feed consumption. In 2005/06, Vietnam's soybean meal imports are estimated at 1.2 million tons, accounting for nearly 85 percent of total protein meal consumption. U.S. soybean meal exports to Vietnam, however, remain insignificant totaling 20,900 tons in FY 2005.

Soybean Meal Imports are Set to Rise

Vietnam's soybean production in 2005/06 is estimated at 245,000 tons, the same level as the previous year. Domestically grown soybeans are mainly used for food. The country largely depends on imports of soybean meal to satisfy its need for feed in the livestock sector. The absence of industrial-size crush plants and zero duty on soybean meal encourage imports, while there is a 5 to 15 percent import duty on soybeans depending on the origin. The higher tariff on soybeans also has discouraged development of large scale crush facilities in the country.

Vietnam's Protein Meal Imports Rise led by Soybean Meal



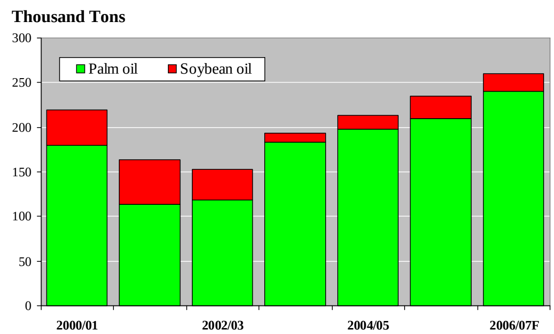
Rising demand for soybean meal is attributed to expansions in swine and poultry sectors as soybean meal is used as the primary protein source in feed. According to FAO statistics, Vietnam's swine population in 2005 was estimated at 27 million head, up 3 percent from the previous year. The chicken population at a record 195 million head indicates a full recovery from the 2003/04 AI outbreaks.

With strong protein meal demand in 2005/06, Vietnam became the top destination for India's soybean meal exports which supplied over 50 percent of Vietnam's imports from the world, while about 45 percent was supplied by Argentina. Despite AI outbreaks earlier this year, soybean meal imports for the first 5 months in this year remain strong. Available exporters' statistics show Vietnam's soybean meal imports at 664,000 tons for January-May 2006, compared to 455,000 tons the same period last year. In addition, the media is reporting increased investment from foreign and domestic companies in to Vietnam's feed sector. Should the investments materialize soybean meal imports would likely strengthen further.

Palm Oil Leads Vegetable Oil Imports

Led by palm oil, Vietnam's vegetable oil imports in 2005/06 are forecast up 12 percent from last year to 240,000 tons. For 2006/07, imports are projected to increase even further to 265,000 tons. Aside from consumer preference, palm oil is expected to dominate oil imports due mainly to competitive prices combined preferential tariffs afforded key suppliers via ASEAN (Association of Southeast Asian Nations) where Vietnam has been a member since July 1995.

Vietnam's Vegetable Oil Imports Rise



For crude vegetable oil imports, Vietnam assesses a 5 percent duty regardless of origin. For refined vegetable oil, the country assesses the MFN rate of 50 percent duty if the product is from non-ASEAN (Association of Southeast Asian Nations) sources. Refined vegetable oil imports from ASEAN sources (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam) are assessed a 5 percent tariff under the Common Effective Preferential Tariffs (CEPT) schedule.

The available trade statistics show that Vietnam's palm oil imports are mainly from Indonesia (crude oil) and Malaysia (refined oil). In 2004/05, Vietnam's palm oil imports totaled 197,803 tons, of which nearly 60 percent was refined oil. Vietnam's soybean oil imports, mainly crude oil, are from Argentina and ASEAN sources. There have been no U.S. soybean oil imports since 1995. In May 2006, as part of its accession to the WTO, Vietnam agreed to lower tariffs on refined soybean oil from the MFN rate of 50 percent to 30 percent once it joins the WTO with additional reductions to 20 percent over five years.

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Brazil Soybean Situation

Subsidy Update:

Reports from Brazil indicate that as of July 12th, only 60 percent of this year's soybean crop has been sold, compared to an average of 69 percent over the last five years. Soybean sales are lagging this year as the value of soybeans have declined due to a strong Real relative to the dollar. The decline in profitability of soybeans sparked a number of protests by Brazilian farmers, causing the Government of Brazil to make R$14 billion (US$6.2 billion) available in emergency aid to soybean farmers. This assistance is broken down as follows:

- R$5.7 billion for marketing support
- R$7.2 billion to rollover farm debt payments due in 2006
- R$1 billion in price support

While Brazil has offered marketing support and rolled over debt in recent years, this is the first time in 11 years that the Government of Brazil has made price supports available to soybean farmers. In May 2006, Brazil announced plans to begin selling option contracts under the Risk Premium of Private Option (PROP) program.

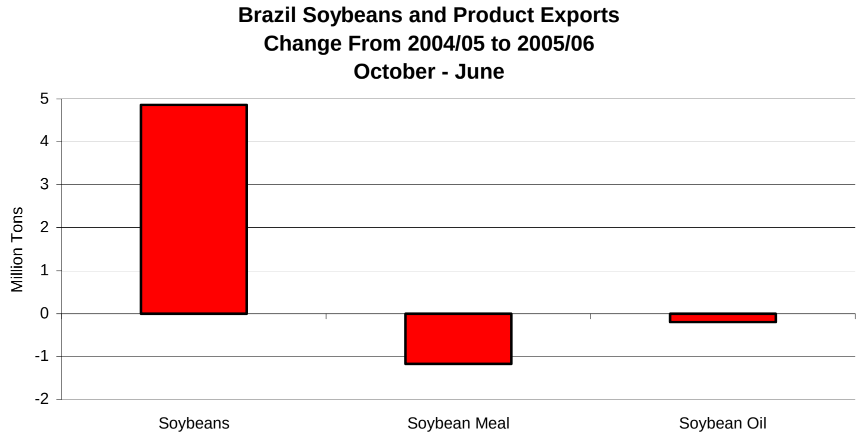
Under the PROP program, farmers who still had physical possession of their soybeans are eligible to purchase an option that guarantees a set exercise price for their soybeans. The exercise price is based on the current farm price plus a set premium determined by the distance from the port. The options cost the farmers, between R$ 0.45 and R$ 0.52/60 kg bag (US$0.09 and US$0.104/bu), depending on the expected premium. If soybean prices remain below the exercise price, farmers can deliver their soybeans to a predetermined elevator and receive the exercise price. The elevator will then receive the premium from the government, covering the difference between the exercise and the actual price. However, if prices rise above the exercise price, farmers would not exercise the option and take the higher market price. In the first round of PROP auctions, on May 25, 2006, the government offered 74,075 contracts (2 million tons of soybeans) of which only 21,742 contracts (29.35 percent) were sold.

The low turn out for the auction was the result of a large number of soybeans already committed to buyers and therefore ineligible for the PROP program. In response to this, Brazil suspended the PROP program in favor of the Premium for Product Outflow (PEP) program. The premiums under both programs are the same, but unlike the PROP program, the PEP program does not require farmers to be in possession of their soybeans. This allows farmers who have already delivered, but not priced their soybeans, to participate in the auctions.

On June 30th the first of the PEP auctions were held. At the auction, 92 percent of the available "Pesoja contracts" (meaning the government reimburses the premium to the industry) were sold, facilitating the sale of 648,000 tons of soybeans. Then on July 4th, a second round of "Pepro contracts" (meaning the government reimburses the premium to the farmers) were auctioned off with 73 percent of the contracts sold, facilitating the sale of 510,000 tons of soybeans to commercial buyers.

<u>Export Situation Update:</u>

October through June Brazilian soybean exports reached 16.5 million tons, up 4.9 million tons from a year earlier. Soybean exports reached record levels through May; however, exports declined in June as farmer protests blocked the delivery of soybeans. While soybean exports have been strong, exports of soybean meal and oil are down 1.2 million tons and 193,000 million tons, respectively.



The decline in product exports is the result of a 1.2 million tons decline in crush (October – May) from last year. Strong international demand has shifted soybeans away from the domestic crushing industry to the export market. Argentina is expected to be the beneficiary of the void left by Brazil's shift from product exports to soybean exports. Brazil's preference for exporting soybeans is not expected to change in the near future as strong demand from China is expected to continue.

Brazilian soybean exports throughout the remainder of 2005/06 (October – September) are forecast to reach 8.7 million tons up 1 million tons from last year; while crush is forecast to decline another 400,000 tons from year ago levels. This is expected to result in a 235,000 tons decline in Brazil soybean ending stocks from 2004/05 levels.

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