

# International Association of Seed Crushers



## IASC CONGRESS 2006 SAN FRANCISCO

### PRESIDENT'S REVIEW

**JOHN GOODWIN**

**WEDNESDAY 14 JUNE 2006**

Ladies and Gentlemen, now we have completed the opening formalities, it is my great pleasure to welcome you to the first Business Session of the 75<sup>th</sup> IASC World Congress here in San Francisco.

As is the tradition in the IASC President's Review, I will begin by saying a few words about the global economic environment, which I am pleased to say is generally good news! I should also add that this overview owes much to recent World Bank Reports.

Although the global economy has slowed since the record rate seen in 2004, it has remained strong, particularly in developing countries. The global rate of growth was 3.6% in 2005, which is remarkable set against the sharp rises in oil prices. Developing countries grew by 6.4% (4.3% excluding China and India), more than twice the rate of the higher income countries at 2.8%. Importantly, high oil prices have had a limited impact on output as, unlike the oil price rises of the 1970s and 80s, there has not been a strong inflationary response, especially in high-income countries where interest rates are determined. Although inflation has increased in most regions this directly reflects the oil price increases and the wage-price spirals seen in the past have not occurred. World trade growth slowed in 2005 compared to 11.8% in 2004, however 2006 is looking better. China's export volume expanded by a massive 27.8% in 2005 and other developing countries continued to expand exports as trade liberalisation and domestic policy reform has enabled these countries to exploit comparative advantage.

High oil prices, interest rate rises and hurricane recovery costs slowed growth in the US to 3.5% in 2005 compared with 4.2% in 2004, although the first quarter 2006 saw

an impressive recovery at 4.8% and growth should remain strong for the rest of the year. Europe saw slow growth in 2005 of 1.5% (1.4% for the Euro countries), however, these countries also enjoyed significant growth in the first quarter 2006 of 2.4% and the average for 2006 is estimated at 2.1%. Growth has been strong in Japan where strong domestic and export demand resulted in growth of 2.8% in 2005 and is expected to remain strong in 2006.

Despite high oil prices, the economies of all developing regions continued to grow above trend rates in 2005. Growth was especially strong in China and India, where output rose by 9.9% and 8% respectively. The economies of East Asia and the Pacific region enjoyed growth of 8.8% in 2005 (5.3% excluding China). However, the avian flu issue has affected output in this region and although this has had a limited effect on growth so far, it has negatively impacted incomes. Growth in China is expected to slow to 8.1% in 2006 but growth in other countries in this region are likely to remain steady at 5.5% in 2006-8.

Russia enjoyed strong growth of 6.4% in 2005, benefiting from the rise in oil prices and this had a knock-on positive effect for the Eastern Europe and Central Asia region where growth was on average 5.7%. Although this rate may slow slightly in 2006, growth should remain strong in the region through to 2008.

Growth in Central and South America was around 4.4% in 2005, where increases in most commodity prices (except soybeans!) offset oil price increases. Growth in the region is expected to rally somewhat in 2006 and remain steady through to 2008.

Strong export and domestic demand helped the South Asia region to good growth of 7.7% in 2005 (5.3% excluding India and Pakistan), but this is expected to weaken to 6.8% in 2006 and 6.2% by 2008.

Sub-Saharan Africa again enjoyed strong growth of 5.2% in 2005. This was largely due to the oil exporting countries, but even the smaller oil-importing countries were strong at 4.3% growth rates. This is the fifth consecutive year that good growth has been seen in the region and importantly reflects strong growth by most countries, not just fast growth by a few.

I will refrain from any comments on the market situation for our industry in view of the distinguished and expert speakers coming up: Alejandro Reca from Rabobank International who will be presenting Dynamics and Drivers in the Global Oilseeds Complex, followed by Anne Frick from Prudential and Thomas Mielke who will be giving us an Overall Panorama of the Global Oilseeds, Oils and Meals Markets.

Indeed all of the key issues facing our global industry will be the subjects of expert analysis this week. But allow me a brief introductory overview of some of those issues from the IASC's perspective.

The market for our products continues to expand through population growth, improved economic growth and higher per capita consumption. However, in meeting this demand potential we must be mindful of social and environmental responsibilities, such as poverty reduction, sustainable development and meeting the needs of global consumers. During the course of 2005, the global shift toward the use

of vegetable oil as a sustainable energy feedstock continued apace, with significant biodiesel capacity increases in Europe especially in response to the EU's commitment to this form of sustainable energy, as well as elsewhere. Whilst in the overall, the global industry has benefited significantly from this development, we need to be mindful of the impact of this surge in demand on vegetable oil supply and price levels and the impact upon human consumption and the extent to which the sustainability balance is being affected by this development. I am being routinely criticised for my apparently anti biodiesel views and in this regard, let me set the record straight. I am not against biodiesel per se. I suspect every single person in this room, one way or another, is a beneficiary of the biodiesel boom and to take an opposing line can hardly be seen to be toe-ing the party line. The benefits to our industry are highly seductive and to suggest caution I readily accept, is not going to win any popularity contests.. But I do believe that as an industry, we should take a more responsible line toward the broader impact of the massive shift taking place before our eyes. In Europe we are resting on the subsidy regime promoted by the EU and elsewhere, Malaysia for example, there is a scramble for biodiesel licences. All well and good but I believe it is perhaps for the IASC to take stock of the situation and to question what the global consequences of this "bio-rush" are likely to be. All I ask is for the industry to take stock of itself and to take a very hard look at where this boom is taking us.

A key supply limitation, which has been high on the IASC's agenda, is the inefficiency of operating within a trading system burdened with unnecessary protection and Government intervention. In 2003 the IASC took a landmark decision in support of trade liberalisation in issuing its first trade policy statement: 'A New Vision for the International Trade of Oilseeds and Oilseed Products'. In this, all IASC member associations agreed to solicit the support of their national trade authorities and WTO negotiators for a global sectoral agreement, which harmonises, reduces, and ultimately eliminates all trade distorting policies and practices for oilseeds, oilseed products and edible oils. We were encouraged that the WTO Framework Agreement of July 2004 mentioned sectoral agreements, albeit as an issue of interest but not agreed. It is disappointing, but not altogether surprising, that progress in the WTO Doha Round has been painfully slow. Hopefully the intense negotiations currently taking place in Geneva will make it possible to achieve a deal on agriculture by end July.

Our beliefs rest on the simple premise that protectionism serves a very limited set of interests whilst globalism – liberal economic values – promote technical and social advance. Economic liberalism encourages development of smarter methods; services are provided more quickly and less frustratingly if people are given economic room for manoeuvre. And of course, we should not forget that on the social side if people are trading together they are less likely to behave bellicosely toward one another. At the end of the day, the more economic liberalism is subliminated, the greater will be the aggregate pain; the more it is promoted, the more the aggregate gain.

As the IASC we believe that if trade negotiators were to support a sectoral agreement in our sector then we should provide some qualitative and quantitative analysis on what it is we were proposing. We therefore commissioned LMC International, an internationally regarded consulting company, to produce an independent study in two parts: to identify existing trade distortions and to assess the impact on the global industry if these distortions were removed. The aim of the study was to isolate the

impacts of trade liberalisation, leaving aside other growth factors. We are fortunate to have with us James Fry from LMC International who will present the results of this study during tomorrow's business session. I will not pre-empt James's presentation, but it is clear that the impact of trade liberalisation would be significant in terms of global industry, trade and consumption growth. Importantly, consumers would have access to lower cost oil and meal, which would particularly benefit the lower income countries. It is interesting to note that a recent World Bank study on the impact of trade liberalisation on net farm incomes in developing countries suggests net farm incomes would increase in developing countries with a move to free trade, thereby helping to alleviate poverty. While developing country farmers contribute less than 3% of global GDP, they account for 43% of global employment and account for around 65% share of global poverty.

Another potential supply parameter is the need for production to meet sustainability criteria. In January 2005 the IASC agreed a policy position, which recognises that the natural resources of the world are precious and limited so any increased demand in our global sector must be met by increasing output in a sustainable way. If land is limited, the only way to meet new demand in a sustainable way is to increase production on land already in use and avoiding further encroachment on land only marginally suitable for cultivation. The IASC supports the development of sustainability initiatives on a broad and coherent international basis with realistic, proportionate and achievable goals. We believe that international initiatives, such as the Roundtable on Sustainable Palm Oil (RSPO), are the best approach to achieve a supply system for oilseeds, oilseed meals and vegetable oils that balance the environmental and socio-economic needs of producing countries and business realities. In this respect we applaud the RSPO's agreement and adoption of the Principles and Criteria for Sustainable Palm Oil in November 2005. These provide the world with a credible and practical set of tools for measuring against sustainability criteria, meeting stakeholder demands and demonstrating sustainability in the palm oil industry. This sort of concerted and integrated approach must be encouraged and we hope for similar successful development of the Roundtable on Responsible Soya

The IASC has a policy statement in support of a positive and balanced approach to biotechnological advances. More than 50% of global soya bean production is now gm and I firmly believe that we should welcome the positive contribution gm crops can make to meeting global demand in a sustainable way, whilst understanding legitimate consumer concerns and preserving consumer choice. With the increasingly limited amount of new land available, biotechnology could complement and improve the efficiency of traditional selection and breeding techniques to improve agricultural productivity. It could lead to higher yields on marginal lands in countries that can't grow enough food to feed their people.

I am now approaching the end of my term of office as IASC President, so it is appropriate to reflect on how the IASC has developed over this period. I am pleased to say the IASC continues to be an important forum for the world industry to meet and debate issues of common interest. We have also developed the role of the IASC as an international voice on key issues of importance to our sector. Testament to the success if this is the fact we now have four policy positions published by the IASC. However, what has become clear, is that more important than achieving policy agreements is the fact that we provide the appropriate environment for debate and

discussion of these policy issues as well as other matters of mutual interest within the sector. The last thing I believe we want to promote is for our drive to issue policy statements to lead to divides within the IASC. Of course if we can reach unanimity on any issue we should not shirk from the consequences but we should not seek to weaken our organisation as an industry think tank by striving to release pronouncements that do not carry all of our unanimous support.

I would like to see the IASC continue this vital role as an international policy think-tank for the global oilseed and oil processing industry. In this respect I am delighted to report that yesterday we held the first meeting of the newly created CEO Forum. The aim of this Forum is to encourage the active participation of industry heads and guide the policy discussion of the IASC.

Our work towards improving the structure and organisation of the IASC continues and I appreciate the support received from members in this respect. An Association is only ever as strong as the commitment of its members. IASC congresses present excellent opportunities for members to meet colleagues from the industry and I am delighted to see so many of you here in San Francisco.