

SOY 20/20 PROJECT ANNUAL REPORT

Section 1

JUNE 2003

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1. Creating an Innovation Climate (Market Analysis)

We started our activities within Soy 20/20 by completing a thorough market analysis of the existing Canadian soybean market and the potential for future opportunities. Future opportunities were assessed on both economic (cost point analysis, and potential incremental value per sector) and technical levels. This document will only attempt to summarize the key findings. The complete market analysis document is enclosed as Section II of this report.

The existing Canadian soybean market is relatively mature, with existing market opportunities, crushing capability, and food grade exports creating a demand roughly equivalent to average supply. Under normal circumstances this would mean that an increase in demand would result in an increase in price, however, the presence of an overabundance of supply from the U.S. creates an artificial buffer on this dynamic. An increase in demand for Canadian soybeans will increase prices, but this increase will be limited to the difference in cost between sourcing soybeans locally versus the cost of shipping them in from the U.S. This means that for Canadian soybean producers to gain value from increased demand, the increased demand must come from Canadian sources.

We estimate that a new market opportunity representing a minimum of 50,000 acres of demand will have the potential to have a positive effect on Canadian soybean prices. We refer readers of this annual report to our Market Analysis document (attached) for a full description of our assessment of opportunities for Canadian soybeans, and a description of what we envision as necessary activities to transform these opportunities into realities.