

MARKET OPPORTUNITIES ANALYSIS FOR CANADIAN SOYBEANS

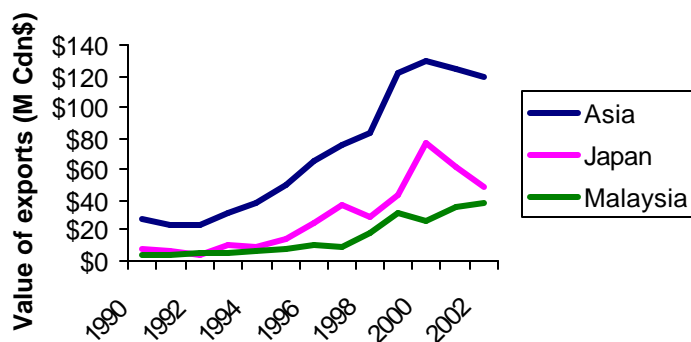
Section 2

JUNE 2003

Food Grade Soybean Exports to Asia

The sale of food grade soybean from Canada to Asia represents a tremendous success story.

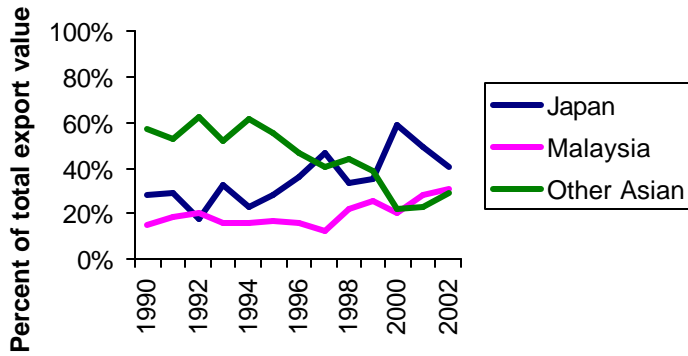
Chart 5: Value of soybean exports to Asia from 1990 to 2002



The Canadian Soybean Export Association (CSEA) was formed in 1995 and has played a significant role in contributing to this success. This success has also been achieved through direct linkages between public and private breeding programs and Asian end users.

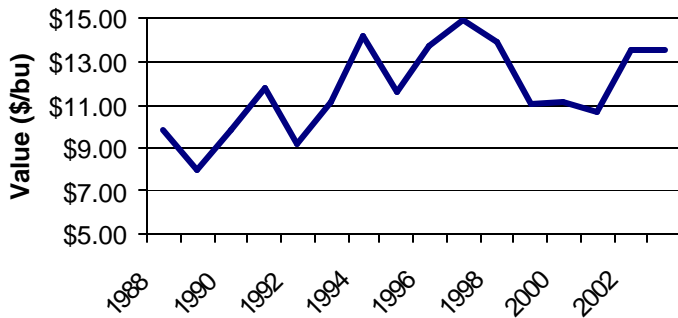
The key markets within Asia have been Malaysia and Japan.

Chart 6: Relative proportion of Asian market attributable to Malaysia and Japan



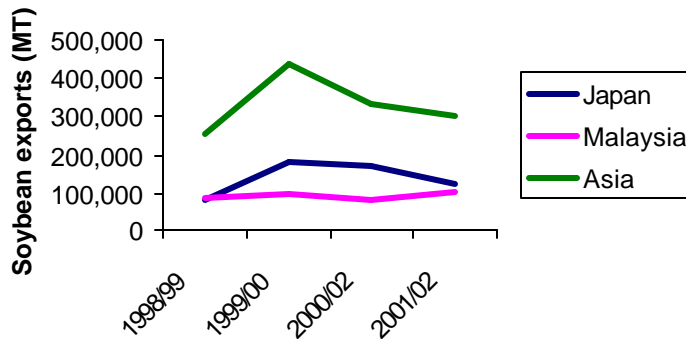
Japan has represented a consistent premium value market over this entire period.

Chart 7: Price paid per bushel of soybean exported to Japan from 1988 to 2003



It is disconcerting to note that the amount of food grade soybean exported to Asia has leveled off in recent years. Soybean exports from Canada to Asia have grown from 77,000 MT in 1989-90 (crop season) to 441,000 MT in 1999-2000 (Statistics Canada), however as can be seen below this volume has dropped in recent years.

Chart 8: Volume of soybeans exported to Asia 1999 to 2002



This is presumably due to a combination of poor growing conditions in Ontario in 2001 and 2002, and increased domestic production of soybeans in Asia. Some of this may also be due to increased growth and marketing of food grade soybeans from the U.S. Canada retains a competitive advantage over the U.S. for food grade soybean exports to Asia for the following reasons (ranked in relative importance)

- 1.) Superior food grade soybeans
 - a. Higher protein
 - b. Better functionality
 - c. More similar to domestically produced Japanese soybeans
 - d. Larger seed size
- 2.) Credible and reliable identity preservation systems
 - a. Reliable delivery of non-GMO soybeans
 - b. Reliable delivery of specific cultivars
- 3.) Lower premium required to stimulate production
 - a. Lack of production subsidies increases attractiveness of premiums
 - b. Low Canadian dollar vs. U.S. dollar reduces cost to purchaser
- 4.) First mover advantage
 - a. Strong personal relationships established between Canadian exporters and breeders and Asian importers and end-users
- 5.) Concentrated production in a relatively small area
 - a. Able to deliver large quantities of single cultivars
 - b. Able to cost-effectively collect large quantities of single cultivars
- 6.) Integrated value chain approach
 - a. Value chain works well together from soybean breeders to farmers to grain purchasers to market agents.

Competitive risks to this market are as follows (ranked in order of relative importance).

- 1.) Increase in value of Canadian dollar vs. U.S. dollar
- 2.) U.S. improving marketing ability
 - a. Political leverage used for market opportunities
 - b. Marketing system improving by building value chain linkages
- 3.) Argentine and/or Brazil developing significant food grade soybean programs

These are significant threats as these geographies could compete effectively with Canada on the basis of price. However, they will have difficulty competing with the Canadian environmental effect on protein content. In addition, the target market in Asia will continue to grow due to increases in population and per capita wealth.

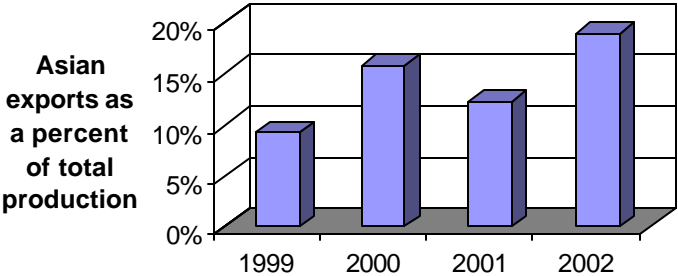
Thus, Soy 20/20 estimates that the most likely scenario for the future is that Canada will be able to maintain its current level of food grade soybean exports to Asia, and that it is more probable that this level will increase in the future rather than decrease.

Chart 9: Relative amount of Asian exports to total Canadian soybean production in recent years



Canadian soybean exports to Asia represent a significant proportion of total crop production.

Chart 10: Percentage of total Canadian production exported to Asia



Although exports of the 2001 crop to Asia were lower in volume over previous years, the fact that this market was retained at the level that it was is remarkable. The retention of this market is a strong indicator of its stability and potential for the future.

Soy 20/20 Estimation of Future Market Growth and Value

Soy 20/20 estimates 2.5% annual growth potential in food grade soybean exports to Asia, starting at a base of 350,000 MT in 2003 and continuing to 2020. At an average premium of \$1.00/bushel, and a base profit margin of \$1.39/bushel without the premium, this represents a net present value for Asian exports of Canadian food grade soybean of \$398 M (6% discount rate).

Chart 11: Projected volume of food grade soybean exports to Asia from 2003 to 2020

