

REPORT ON THE INTERNATIONAL GRAINS COUNCIL (IGC) MEETINGS IN LONDON (UNITED KINGDOM): 6 TO 10 JUNE 2008

EXECUTIVE SUMMARY

The International Grains Council (IGC) held a conference on 10 June 2008, attended by approximately 350 delegates. The Conference was preceded by the Food Aid Committee meeting and the IGC meeting held on 6 and 9 June 2008 respectively. South Africa was invited to attend the Food Aid Convention (FAC) meeting as an observer. The following are few observations made at the meetings mentioned above:

- The global food aid demand is expected to increase as a result of the current food emergency crisis. Donor countries have committed to their obligations in terms of the Food Aid Convention. Some countries (Canada, Australia, Japan, and United States) had already responded to the current food crisis, mostly in the form of financial (humanitarian) assistance over and above their (FAC) commitments.
- Increased global production of food and subsequently food aid would address the existing food crisis;
- Food prices were likely to ease, but would continue to remain at record high levels;
- The world grain supply and demand will remain tight, despite that global grains supply (wheat) would improve slightly. The increased production will be absorbed by rising use, especially in the ethanol production;
- The increase in world grains consumption is led by the increase in industrial use, particularly maize for ethanol. The latter is expected to account for half of all industrial use;
- Wheat production in five major exporters (Argentina, Australia, Canada, EU and US) is expected to rise due to increased plantings and yields as a results of high prices. The new ethanol plants in the EU and Canada are expected to lift the world industrial use of wheat by 10%, some of which will be used for biofuels. Global feed use of wheat is

expected to expand by 1%. World wheat trade is forecast to rise mainly due to increased purchases by Asia and Africa;

- The global maize consumption is expected to rise as a result of increased world industrial use, most of it in ethanol production. The US ethanol sector to account for 31% of total use of maize;
- The world market prices for rice surged to unprecedented levels during 2008. Some exporters temporarily halted sales by imposing export restrictions. Reduced world market availabilities and sharply higher prices were expected to result in a contraction in global trade of rice in 2008. It was expected that shipments by leading exporters (Thailand, India, Vietnam, Pakistan and the US) were projected to decline by 10% in 2008. Thailand would increase production of rice by 3 million tons, from 9 to 12 million tons;
- World oilseeds trade is on record high in 2008/09 due to rising feed demand and increased use of vegetable oils;
- Surging ocean freight rates add to importers' costs. The dry bulk indices hit new records in May 2008, boosted by Asian demand for minerals and rising costs.

B MOKGATLE

22 July 2008

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1. INTRODUCTION

The International Grains Council (IGC) is an inter-governmental organisation which administers the Grains Trade Convention, 1995. The IGC Secretariat, based in London since 1949, also services the Food Aid Committee established under the Food Aid Convention, 1999 (FAC).

The IGC Conference was held on 10 June 2008 in London, United Kingdom. The Conference was preceded by the 98th Session of the Food Aid Convention and the IGC's Twenty-Seventh Session held on 6 and 9 June 2008 respectively. The informal meeting of the Food Aid Convention held on Thursday, 5 June 2008 was solely for committee members.

The South African delegation at the International Grains Council meetings was led by Mr Itumeleng W. Makabanyane of the National Department of Agriculture. The other delegates were Mr Nico Hawkins (Grain South Africa-industry representative) and Mr Boikanyo Mokgatle (South African Agricultural Processors Association and Director: South African Grains Laboratory). South Africa was also invited to attend the Food Aid Convention Session held on 6 June 2008 as an observer.

2. THE FOOD AID CONVENTION MEETING

The 98th Session of the Food Aid Committee was held on 6 June 2008. South Africa was invited to attend the Session as an observer. The Chair reported that South Africa was not ready to issue a statement regarding membership with respect to the Food Aid Convention as expected.

The historically high and volatile food prices were attributed to numerous factors mainly including the following:

- Growth in the global economy that increases demand for food especially in developing countries;
- Tight global grains supply
- Bad weather in some major producing countries;
- Increasing use of grains in ethanol production;
- High energy prices (crude oil)
- Policy developments - especially export restrictions
- The foreign currency, especially the US Dollar.

The Food Aid Committee's 10 year expectation is that "even though food prices are likely to decrease slightly, they will continue to remain high". Several donors (Canada, Australia, Japan, United States, etc) indicated their immediate support in response to rising food prices, most of which in the form of financial (humanitarian) assistance over and above the World Food Programme commitments under the Food Aid Convention. Emphasis was however on the need for a careful selection of commodities as well as consideration of giving financial support to access basic foodstuff.

The World Food Programme (WFP) highlighted that the need for global food aid is expected to increase given the current food emergency crisis. The WFP reported that a total of \$4,4 billion is expected during 2008/09 but only \$2,2 billion has been received to date. The main donor countries present at the meeting confirmed their commitment to fulfill their obligation in terms of the Food Aid Convention.

The United States (US) highlighted the need to improve production estimates in the developing countries as well as establish the size of the population, especially the category of population living below minimum poverty line. The US indicated that the USAID Feminine Early Warning System should address these needs as well as predict the success of livelihood and interaction with the market.

The focus centered on increasing global production as well as Food Aid. Some countries have already commenced reviewing their respective Food Aid Policies in an effort to contribute towards the existing food crisis. Thailand for example announced its intentions to increase production of rice by 3 million tons, from 9 to 12 million tons.

The Food Aid Committee made a consensus decision not to begin the process of renegotiating the Food Aid Convention, but watch the developments within the World Trade Organisation. It was however proposed that some preparatory work in this regard is considered. The Food Aid Convention was extended with a year, until 2009.

Comment: South Africa is worldwide known for its ambassadorial roles that it plays for the continent as a whole. It is therefore imperative for South Africa to consider membership of the Food Aid Convention.

3. *INTERNATIONAL GRAINS COUNCIL MEETING*

The 27th Session of the International Grains Council (IGC) was held on 9 June 2008. Mr Makabanyane was elected as the Council's Chairperson for 2008/09. This is a great accomplishment for South Africa and positions the country strategically in terms of world influence. The Secretariat made deliberations mainly focusing on the main market factors in the context of increasingly high food prices.

The message was that world grain supply and demand will remain tight, despite that global supply (wheat) improved slightly. The increased production will almost entirely be absorbed by rising use, especially in the ethanol production.

The world grains consumption is led by industrial use, particularly maize for ethanol. Indications were that ethanol would account for almost half of all the industrial use. The world grain trade is expected to drop, with increases in wheat and barley more than offset by falls in maize and sorghum.

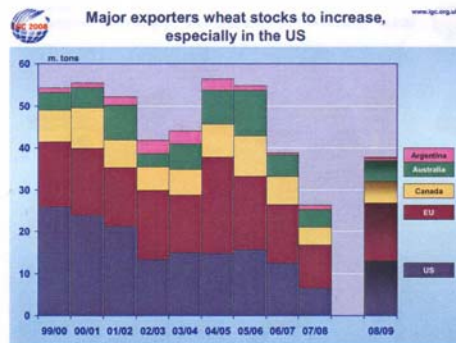
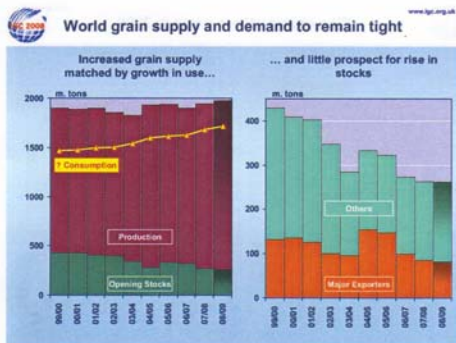
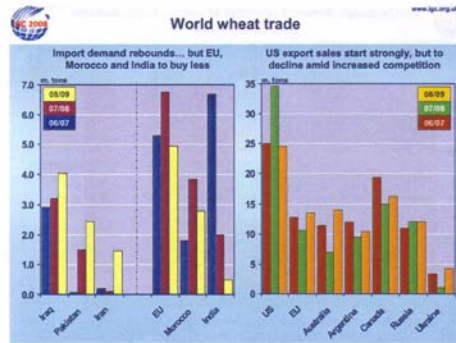
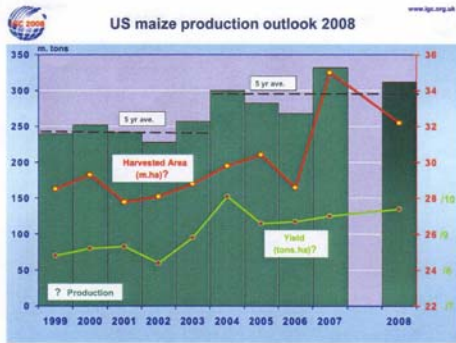
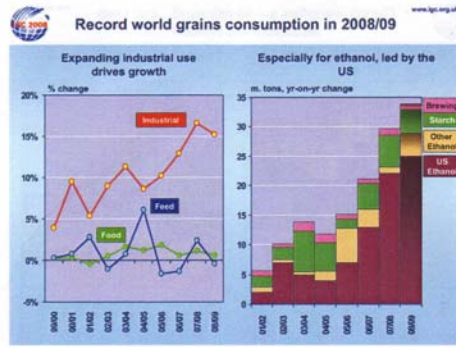
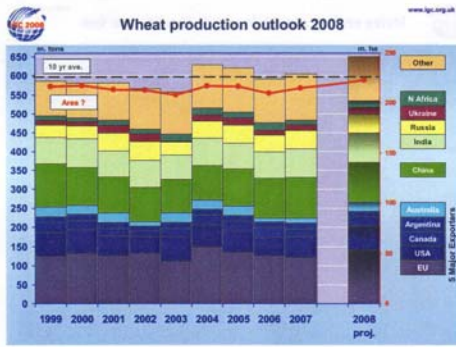
The world wheat production is expected to increase, with plantings boosted by high prices. Wheat stocks in five major exporters (Argentina, Australia, Canada, EU and US) were expected to rise, but still slightly below the 5-year average. The global supply and demand for wheat during 2008/09 however remained finely balanced, despite increased production.

The world wheat trade is expected to rise mainly due to increased purchases by Asia and Africa. The US shipments are expected to decrease due to greater export availabilities in other countries (Australia, EU and Canada). The global feed use of wheat is expected to expand by 1%, with the EU expected to use more wheat in place of higher-priced maize. The new ethanol plants in the EU and Canada are forecast to lift world industrial use of wheat by 10%, some of which will be used for biofuels.

The world durum wheat in 2008 is forecast at a 4-year high of 38.5 million tons but due to very low carry-in stocks, the increase in total availabilities will be limited.

Unfavorable weather conditions delayed maize planting in the US and may lower yields. US maize production is expected to decrease by 6%. The area planted with maize in the US is estimated at 8% less in favour of soybeans, wheat and other competing crops. The maize planting area however remains well above 10-year average.

The following graphs show the world grain supply, demand and consumption; wheat production, trade and stocks as well as the US maize production:



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The global maize consumption is forecast to rise as a result of increased world industrial use; most of it includes ethanol production. The US ethanol sector is estimated to account close to 30% of total use of maize. On the other hand, the feed maize demand is estimated to decline amid high prices and greater availabilities of alternative feeds.

The world maize trade in 2008/09 is expected to drop due to projected fall in feed demand. The imports by Europe, Asia and Africa are also expected to decline, but shipments to Latin America are projected to be higher.

The world market prices for rice surged to unprecedented levels during 2008, but show signs of easing. This reflected low global stocks and concerns about exportable supplies, with major exporters temporarily halting sales. Reduced world market availabilities and sharply higher prices are expected to result in a contraction in global trade of rice during 2008/09. The shipments by the five leading exporters (Thailand, India, Vietnam, Pakistan and the US) are projected to decline by 10%. Several developments reducing world availability included impositions of export restrictions by some countries. Thailand however announced to increase its production of rice by 3 million tons, from 9 to 12 million tons.

The IGC indicated that the world oilseeds trade is on record high in 2008/09 due to rising feed demand and increased use of vegetable oils.

Milling wheat prices showed a decline from recent peaks. According to the IGC, the US HRW and EU milling wheat were below December 2007 levels largely due to improved crop prospects. EU prices dropped by around 30% since March 2008: prospects of bigger supplies, including Black Sea and removal of Ukraine export quotas.

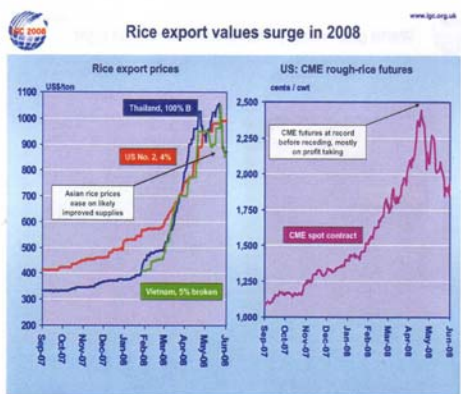
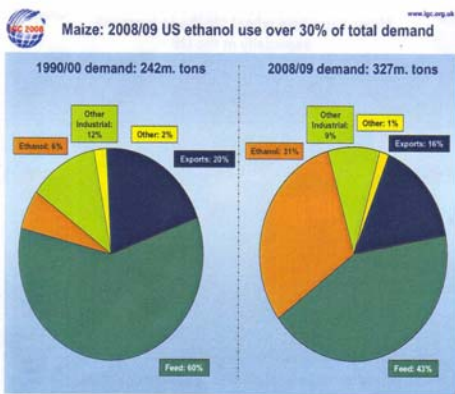
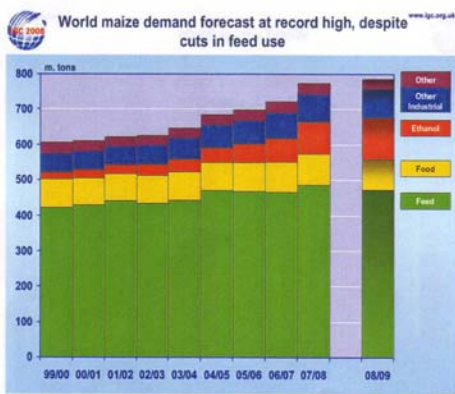
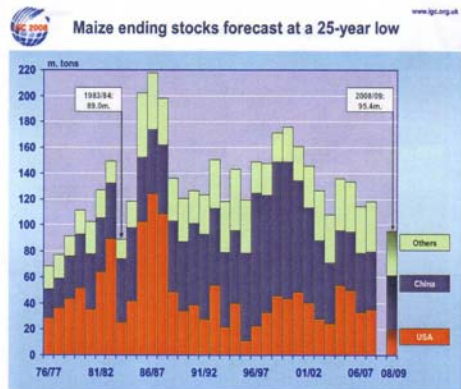
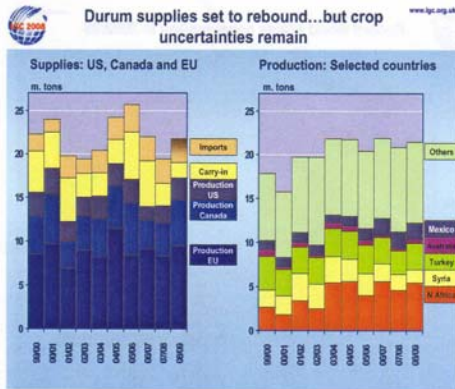
The US maize export prices rose by 30% since December 2007. The IGC predicted that weather concerns, switch to soybeans and poor emergence were likely to result in further cuts in area planted and lower yields. The US maize market, given a combination of reduced output and rising (biofuel) demand, will remain extremely tight and will reflect in prices.

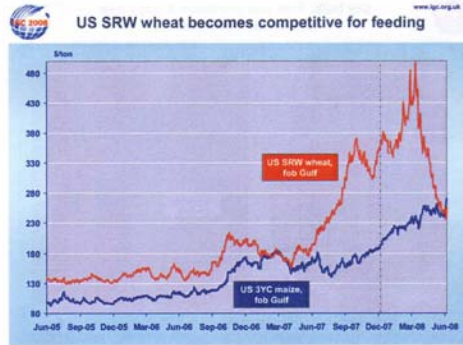
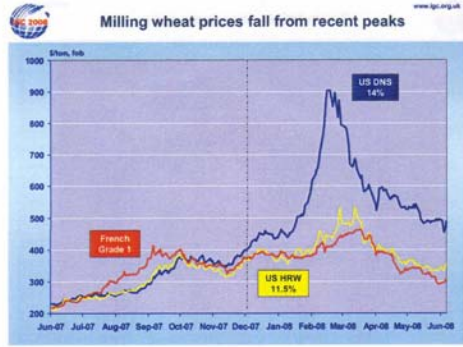
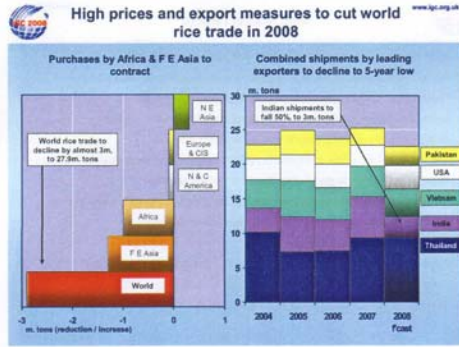
The surging ocean freight rates contributed to rising food prices. According to the IGC, the dry bulk indices hit new records in May 2008, boosted by Asian demand for minerals and rising costs. As the Northern Hemisphere harvests approach, many expect rates to remain high.

The observations made above are graphically illustrated on pages 10 to 12 (source: IGC).

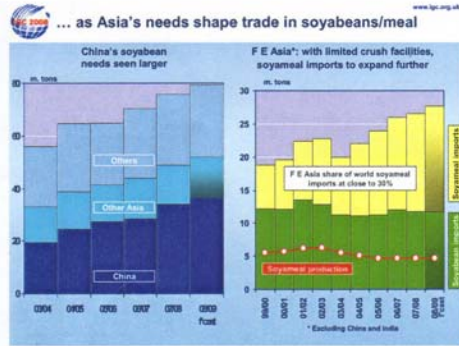
The IGC's Secretariat made summary conclusions on the main grain market factors as follows:

- global supplies likely to stay tight, but prices were expected to ease back after recent steep rises - except for maize;
- high freight rates will continue to escalate importers' costs;
- some major exporting countries imposed export measures that retard trade: although some have been removed, others remain in place;
- futures remain volatile, deters commercial hedging;
- factors escalating food prices include crude oil, weather, other commodity spikes, exchange rates and financial factors;
- world wheat situation set to improve;
- maize stocks will dip further as US output drops and ethanol uses rises;
- soybeans availability also to stay tight, despite bigger US crop; and lastly
- rice prices might retreat, but will remain very high.





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4. **INTERNATIONAL GRAINS COUNCIL CONFERENCE: 9 JUNE 2009**

The IGC conference was attended by approximately 350 delegates from all over the world. The conference' theme was "volatile markets – who will pay the price". Electronic copies of all the conference presentations are obtainable from our office at info@grainmilling.org.za.

Introductory remarks: Mr Etsuo Kitahara, Executive Director, International Grains Council

Mr Kitahara introduced the theme of the conference, with particular mention of the soaring food prices often accompanied by high volatility. He added that prospects for the 2008/09 global grain harvest remain uncertain and that for some grains, notably wheat, supplies are set to improve, with prices retreating from recent peaks. But for others, especially maize, availability could stay quite tight. Mr Kitahara indicated that importing developing countries are

faced with challenges to meet the needs of their respective populations. High ocean freight rates exacerbated the situation and this has more impact on least developed countries, some of which already have to deal extensive food emergencies.

Opening the conference: Mr Mark E. Keenum, Under Secretary of Agriculture, USA

The presentation highlighted trends in the world wheat, maize, rice and soybeans situations. There is evidence of a significant increase in the US use of domestic maize for ethanol, which accounts to 30% of its total production. The US farmer's responses to price signals included increasing the acreage planted on soybeans and wheat as opposed to maize. The US strategy in addressing world food prices is three pronged:

- target humanitarian aid to countries made vulnerable by rising food prices;
- provide assistance to countries capable of rapidly increasing staple food production;
- support trade liberalization and movement of agricultural products.

Abulfalah Hassan Al-Sudani, Minister of Trade, Iraq

The presentation gave an overview on the grain situation in Iraq. Agriculture plays a crucial role in Iraq. The total land available for agricultural production amounts to 120 million hectares. Iraq's wheat import needs amount to 3,2 million tons and are expected to increase to 4.1 million tons. Iraq's initiatives to address the existing food crisis and ensure food security include:

- use of hi-tech to increase production per hectare;
- set up projects to improve seed production locally;
- work closely with developed countries; and
- provide people with food parcels;

Henk-Jan Brinkman, Chief, Food Security Policy and Markets, World Food Programme

The presentation highlighted the trend in international prices of meat, dairy, cereals, oils and sugar. Mr Brinkman indicated that prices will peak in 2008 or 2009, but will still remain high. He proposed a coherent global response towards the existing food prices categorized as follows:

- immediate (0 – 6 months): emergency food and safety nets; urgent agricultural inputs; financial support;
- medium term (6 – 12 months): agricultural inputs (seed, fertilizer); cash and vouchers; community works programmes;
- long term (12 months +): policy reform, increased agricultural production.

Akio Shibata, Director: Marubeni Research Institute, Japan

The presentation showed the commodity market movements in 10-15 year cycles. Commodity prices were low and stable in the 1960s; rose sharply in the 1970s; dropped to long term low levels in the 1980s to 1990s; then increased sharply from 2002. Food is becoming a limited resource, with the world grain supply and demand situation resembling the early 1970s.

The sharp rise in grain prices are due to global stock shortfalls mainly attributed to sharp rise in demand for grains used in the bio-fuel industry. Bio-ethanol produced from sugar and maize doubled from 3, 132kl in 2001 to 6,256kl in 2007. Brazil and the US account for 73% of production. The speaker concluded that the GM technology might be the only alternative in the short term, even though the safety aspect is unknown. Total reliance on GM technology is however impossible.

Chantal Fauth, Secretary General: COCERAL, EU

This presentation showed the world developments in GMO production. There is a gradual increase in the GMO acreage worldwide. The presenter proposed the following solutions to the rising food prices:

- quick implementation of Codex guidelines;
- worldwide acceptance of low level presence of GM events safety assessed and approved in other countries; and that
- recognition of analysis is carried out at origin.

Mark G. Bagan, President & CEO, Minneapolis Grain Exchange, USA

The presentation focused on the role and function of the Minneapolis Grain Exchange with very little or no relevance.

John D. Johnson, President & CEO, CHS Inc., USA

CHS is a global company involved in world trade. It is a cooperative, primarily owned by farmers and ranchers. The presentation highlighted what CHS believed were factors contributing to the existing food crisis, commonly mentioned by all speakers. The speaker was of the opinion that prices for grain and/or energy would not retreat to the lower levels of few years back. He also mentioned that alternative sources of energy are inevitable, not only for the US but the rest of the World. Grains should however not be used for energy purposes. The speaker suggested a more concerted effort by all involved in the sector to actively be involved in discussions on how to feed the most vulnerable today and to ensure global security and stability.

***Bernard Dahmen, Head of Grain and Feed Department,
Crop Energies AG, Germany***

The presentation supported the establishment of biofuel industry. It dismissed allegations that the use of grains in biofuel industry is one of the factors responsible for escalating food prices. The presenter stated the reasons for establishing the biofuel industry to include independence from the oil industry, reduction of carbon dioxide emission and value addition in terms of job creation, income, etc. The presenter believed that research and development is the solution to volatility. This should include improving yields, develop better enzymes for ethanol production, develop energy saving engines, etc.

Ahmed Jallala, Economic Advisor, National Supply Corporation & National Grain Corporation, Libya

The presentation covered the general economic indicators and policy options applicable in Libya. It came out that Libya has no serious problem in providing enough food for its citizens as long as there is food (wheat) available in the world market.

David Stack, Director: Agricultural Commodities, Backlays Capital, USA

The presentation highlighted the continued rapidly rising commodity investments. According to the presenter, recent growth in commodity investments has focused on energy and agriculture, with agriculture having been the strongest sector in commodity-linked Exchange Traded Products.

Acharaporn Noenplab, Senior Rice Researcher, Ministry of Agriculture and Cooperatives, Thailand

The presentation focused on the global rice trade: key challenges and future developments in South East Asia. This was probably the most relevant and pragmatic presentation towards addressing the food crisis. Thailand repeated the

announcement that it would increase production of rice by 3 million tons, from 9 to 12 million tons. About 90% of rice is produced in Asia.

The major (top ten) rice producing countries are China, India, Indonesia, Bangladesh, Vietnam, Thailand, Myanmar, Japan, Philippines and Brazil. China and India produce and consume half of the total crop. The world total consumption of rice has increased by approximately 20 million tones during the period 2004/05 to 2008/09.

The price of rice increased dramatically compared to prices of maize and wheat. According to presenter, the key challenges for the global rice trade include oil prices; search for alternative “clean energy” (solar, wind, water, bio-energy, etc); world population; high input prices; balance between food crops and biofuel crops; growth in African countries’ need for food and joint trade for reasonable price and adequate supply.

The SE Asia’s common objectives in terms of future production of rice are adequate supply to feed the world, self sufficiency, increase yield and balance land use for food crops and biofuel crops. The other objectives are to produce organic grains for niche market and rice with special quality for health concerns; high in iron, anti-oxidants, vitamins and minerals.

Jeremy Penn, Chief Executive: Baltic Exchange, UK

The presentation focused on Baltic Exchange, a provider of independent freight market data. It has 550 member companies that include shipbrokers, ship-owners, charterers and freight derivative traders. The company’s shares are owned by members.

4. SUMMARY

The message that came across was that the global supplies are likely to remain tight. Indications were that any possible increase in production would almost entirely be absorbed by rising use, especially in the ethanol production. Prices, therefore, will remain high. The problem is exacerbated by various factors including high freight rates; price of oil, price of inputs, imposition of export measures by some of the major exporting countries, input prices, weather, etc. The general sentiments revolved around focusing actions to increase global production and subsequently food aid in order to address the existing food crisis.

5. ACKNOWLEDGEMENTS

A word of gratitude is conveyed to Ms Joanna Lanecki for all the necessary arrangements made in this regard. Sincere word gratitude is also directed to the Winter Cereal Trust for the financial assistance rendered.

It is also inevitable to pay tribute to both Mr Nico Hawkins as well as Mr Itumeleng W. Makabanyane for their wealthy and hospitable company. The relationship build amongst us can not be over-emphasized.

It is imperative to take this opportunity to congratulate Mr Itumeleng W. Makabanyane as he assumes his new roles as the newly elected Chairperson of the Council for 2008/09 fiscal period. We wish him well in his endeavors and trust that he has all the support in every path he will tread in the ensuing fiscal period.

It is also of utmost importance to take this opportunity to thank my employer, the National Chamber of Milling, for affording me the opportunity to attend the International Grains Council meetings. The knowledge gathered is an investment, the product of which will be profoundly used.

In conclusion, South Africa also wants to recognize the mentorship role that Mr Fritz Brand (representative from Switzerland) has played in the past seven years to introduce the South African delegation to the IGC community. He passed away in 2007.

B MOKGATLE

22 July 2008