

**REPORT TO THE WINTER CEREAL TRUST ON INTRNATIONAL GRAINS COUNCIL
MEETINGS AND CONFERENCE IN LONDON
FROM 6 – 10 JUNE 2008**

- NJ Hawkins

1. MEETINGS ATTENDED

- 1.1 Food Aid Committee – 6 June 2008
- 1.2 International Grains Council: 27th session – 9 June 2008
- 1.3 Ocean Freight meeting – 9 June 2008
- 1.4 IGC Conference – 10 June 2008

2. INTRODUCTION

This years International Grains Council (IGC) meetings and the Conference were attended by mr Winston Makabanyane of the National Department of Agriculture, mr Nico Hawkins from Grain South Africa and mr Boikanyo Mogatle from the National Chamber of Milling. The cost of messrs Hawkins and Mokgatle to attend the sessions and the Conference was paid by the Winter Cereal Trust. The delegation also attended the meeting of the Food Aid Committee (on request) and the Ocean Freight meeting.

3. FOOD AID CONVENTION

Although South Africa is not a member of the Food Aid Convention the SA delegation by request was allowed to attend the meeting as observers. The secretariat of the ICG (mr John Tjaardstra) brief the meeting on the world food situation and highlighted the following aspects:

- The day-to-day changes in food prices (volatility) creates a element of confusion in world food markets;
- Ocean fright costs increased quit dramatically;

- The prices of wheat and rice started to decline from record levels while maize prices remain firm (CBOT maize at record levels on 6 June 2008)
- The impact of financial funds (speculators) on the grain future markets
- Outlook for 2009 –
 - ✓ grain supply will remain tight and projected ending stocks will remain relatively low
 - ✓ wheat supplies may increase but maize supplies will decrease
 - ✓ the demand for industrial use in the USA receives a lot of attention with the view that grain use for ethanol may decline
 - ✓ the supply situation of oilseeds will remain tight with an increase in demand in Asia specially for oilcake despite high prices
 - ✓ the prices of vegetable oils will stagnate linked to the energy sector
 - ✓ the trade in rice will come down with a negative effect on prices
 - ✓ rice stocks will stay low with future effect on price

Mr Brain Goggin: Deputy Director Food Assistance Division of the USDA gave the following reasons for the high and volatile food prices: -

- strong growth on global economy especially in Asian countries
- the continuous fall in the value of the US\$
- the development of renewable energy markets that boost demand
- bad weather in countries like Australia, Canada, Russia and the Ukraine
- increase in the price of inputs specially fertilizers and fuel
- policy decisions like export taxes
- development of a middle class outside the USA culminating in bigger demand for processed foodstuffs

In summary mr Goggin mentioned that the days of cheap food is over, biofuels production will increase and that producers will definitely respond to higher prices by increasing production.

Mr Kirken of the FAO reported that the Organization agree with the reports from the IGC Secretariat and the USDA. He mentioned that the high food prices have a huge impact on certain countries import bills. In 2008 the total food bill of net importing countries is estimated at R1 trillion or 26% higher than in 2007. Rice, wheat and vegetable oils are the main problem areas. Low income countries spend 40% more on food imports than in 2007 and 4 times more than in 2000. The FAO's 10-year expectation is that prices will come down slightly but will remain relatively high.

In response to the growing demand for food aid the different donor countries responded as follows:

❖ **EU**

The EU plans to tackle the challenges by means of a short- and medium term plan, a price monitoring system, adjustments to legislation (CAP) and an assessment of the effects on very poor populations. They will concentrate on the supply chain avoiding measures that hampered the supply chain (production), GM policies, focus on research and investigate speculative influences on prices if necessarily. On the humanitarian side they planned emergency responses by increasing the budget for aid with €60 million. Cash vouchers and help to grow own food are part of the plan. A development fund of €250 million to support agricultural activities and not for food handouts will also be available.

Canada increase funds from \$180 million to \$230 million while Australia pledged \$30 million and Japan provided for \$100 million.

The USA budgeted \$5 billion for the 2008/09 book-year of which \$750 million plus an additional \$250 million will go directly to food aid. The USA will focus on the following aspects: -

- ✓ Immediate response where there is hunger;

- ✓ Correct underlying causes to help countries to help themselves
- ✓ Remove trade barriers where necessary

The representative of the World Food Programme (WFP) reported as follows:

- The WFP spend \$2,7 billion on food aid in 2007
- The number of donors was 88 with the top 10 donating 81% of the total money
- In 2008 generous support (\$4,4 billion) was received because of higher food prizes
- 79 million people received food aid and 4,6 million tons of food was distributed

On the issue of food and policy development the USDA representatives mentioned that the new Farm Bill will make provision to make money available to buy food from third countries for donations to needy countries. They are currently doing a so called “local country purchase study” and the target is to budget \$300 million for procurement from third countries in 2010.

Canada also announced a policy change that will allow 100% of procurement to come from third countries. In the past the figure was capped at 50%.

With regards to long term food security, decisions were taken on a high level task force report on the global food crises. The report is expected at the end of June 2008. The G8 meeting would also shed more light on this issue.

On the Food Aid Convention (1999) the following debate took place: -

- The USA is not in favour of the renegotiation of the convention until the outcome of the Doha negotiations. The other countries also support the USA's view.

4. **MEETING OF THE INTERNATIONAL GRAINS COUNCIL**

4.1 The secretariat (mr John Tjaardstra) gave a detailed report on the current situation and outlook for 2008/09. (The full report is attached as an addendum to this report). The main market factors highlighted by mr Tjaardstra is as follow: -

- The recent steep increases in food prices are busy cooling down
- Grain stocks will remain tight
- Record high freight rates will add to import costs
- Export measures by some countries are still in place and uncertainty about the final outcome still remains
- Future contracts will remain volatile and the cost of hedging will remain high
- Crude oil process and other energy cost to remain high
- Weather conditions crucial to wheat crop development
- Improvements in the world wheat situation is expected
- India and black sea countries expected to harvest record wheat crops
- Production conditions in Australia is better but Argentina is still a problem
- As the USA maize output drops world maize stocks will decrease
- Ethanol production will probably increase in recent years
- Soybean stocks will remain tight
- Rice prices will remain high but will probably came down

4.2 Grain policies – Development in certain countries

Certain policy decisions by different countries that may have an influence on grain trade are as follows:

- **Russia**

Export tax on wheat and barley are in place. No exports of wheat took place but if cancelled 1,5 to 2 million tons will probably be exported. No new measures are expected.

- **Canada**

The Canadian Grain Act provides for certain GM-varieties that can be grown and restrictions on the movement thereof through the system. Food labeling initiative specifically for canola is implemented.

- **USA**

The new farm bill was vetoed by President Bush but was accepted by Congress. From 2009 pilot programs allows farmers to plant fruit and vegetables on set-aside land. A 2% reduction in direct payments was introduced and target prices were increased for wheat and soybeans. Loan rates increased from \$2,75 to \$2,94.

- **Australia**

New wheat market arrangements will be applicable from 1 July 2008.

- **Egypt**

New fixed producers prices for wheat set at current world prices were introduced.

- **EC**

Currently reviewing their reform process. The set aside program is suspended with total abolition from 2009.

- **Brazil**

Brazil did not stop or prohibited exports as was reported in the media.

- **Thailand**

Thailand move to increase their export quota for rice from 9 million tons to 12 million tons.

4.3 Observer statements

The FAO, OECD and Unctad all made statements on the current grain situation but do not add any new views.

4.4 Administrative issues

Other administrative issues including the IGC budget, staff matters, outstanding member contributions, non payment of fees and work program proposals were discussed.

Mr Winston Makabanyana was elected as the chairman of the IGC for 2008/09.

5. **OCEAN FRIGHT MEETING**

The Ocean Fright meeting focused on the freight market situation and the following issues were highlighted: -

- Millions of tons of new cargo capacity are currently under construction because of the high demand and high freight rates
- Overall demand for all ship sizes are very good
- The availability of expert crew is a problem. 16 000 New workers per year are required.
- Ships are becoming bigger and bigger
- 2 500 new ships are currently under construction or under order and the views is that rates will decline 50-60% in the near future

- Lack of credit to build ships is a problem and can have an influence on the actual number of new ships going to sea.

6. INTERNATIONAL GRASINS COUNCIL CONFERENCE

The IGC Conference was well attended by delegates all over the world but my personal experience was that few speakers stick to the conference theme **“Volatile markets – Who will pay the price”**.

Speakers mostly concentrate on their countries production and demand circumstances and did not contribute to the debate on the global food situation.

What did come to light was that countries that are net importers of food but exporters of energy (oil) are not effected by the food crises to the same extent than the poor countries who relies on food imports for there day to day food needs.

*** Attached please find the electronic copies of all the conference presentations.

7. CONCLUSION

It is evident that food will always remain a controversial issue in international relations and that our daily bread will always be the main focus of mankind.

8. ACKNOWLEDGEMENTS

Thanks to the Winter Cereal Trust for the opportunity to experience international exposure at this level. Special thanks to messrs Winston

Makabanyane and Boikanyo Mogatle for their companionship and patriotism to South Africa as a country during our visit to the International Grains Council.

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