

MONTHLY NEWS REPORT ON GRAINS  
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NEW REPORTS:

- Crop prospects and Food Situation, No.3 July 2008 (FAO)
- A Note on Rising Food Prices (World Bank)
- Economic Assessment of Biofuel Support Policies (OECD)

WEB RESOURCES:

- The International Trade Center  
<http://www.intracen.org/>
- World Food Situation Portal:  
<http://www.fao.org/worldfoodsituation/>  
Portail sur la situation alimentaire mondiale:  
<http://www.fao.org/worldfoodsituation/accueil.html?L=1>  
Portal sobre la situación alimentaria mundial:  
<http://www.fao.org/worldfoodsituation/inicio.html?L=2>

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IN THE NEWS:

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31/07/08 – World-Grain.com

USDA DECIDES NOT TO RELEASE CRP LAND

The United States Department of Agriculture (USDA) announced on July 29 a decision not to allow the penalty-free release of Conservation Reserve Program (CRP) land for agricultural use.

"After carefully considering the recent crop reports, weather conditions, the price trends we're seeing in the grain markets and the likelihood of increasing land for crop production, we have decided not to allow the penalty-free release of CRP land at this time," said Secretary of Agriculture Ed Schafer at a press conference. "Even with the damage and delays in planting caused by the floods, this year's corn crop is on track to be the second largest on record with an anticipated harvest of almost 79 million acres. The strength of the commitment America's farmers have made to meeting the nation's need for corn for food, feed and fuel has reassured the markets that there will be an adequate supply available this year."

Schaffer also noted that numerous contracts for CRP land will expire over the next few years: an estimated 1.1 million acres will expire Sept. 30, 2008; 3.8 million acres by Sept. 30, 2009; and 4.4 million acres on Sept. 30, 2010.

In response, the National Grain and Feed Association (NGFA) released a statement with its position on the decision.

"The CRP simply is the most readily available tillable acreage to produce more grains and oilseeds," said Kendell W. Keith, NGFA president. "There is exploding demand globally for food, feedstuffs and biofuels that the United States can no longer ignore. We believe the administration should adopt policies that signal that the United States still wants to compete internationally in grain, livestock and meat to help feed a hungry world."

The NGFA said continuing to rely on perpetual good weather in the United States is not a prudent policy response, particularly given strong domestic and world demand for grain-based products, including meat.

The association also noted the USDA's failure to act leaves in place a paradoxical policy that actually encourages CRP contract holders to bring the most environmentally sensitive land back into production because the economic penalties for doing so are less. It stated that in 2006, the USDA allowed CRP contract holders the option to renew or extend existing contracts. But the economic penalty that applied if those acres were removed from the CRP amounts to 100% of the rental rate received over multiple years covering both the original CRP contract and the renewed contract period, plus interest and liquidated damages. Thus, the NGFA noted, landowners who extended for an additional two years in 2006 their initial 10-year CRP contracts are required to repay all 10 years of those original CRP contract rental payments, plus any rental payments received thus far on the extended contracts, plus interest and liquidated damages, before being allowed by USDA to remove those acres from the CRP for planting.

The association did encourage the USDA to keep the door open to reassessing the situation, saying that CRP penalty-free early outs were a "prudent" policy response that is necessary to give producers the flexibility to help relieve the precariously tight supply situation confronting grain and oilseed markets.

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31/07/08 – International Grains Council  
GRAIN MARKET REPORT SUMMARY

Steep declines in US maize (corn) and soyabean futures in July erased most or all of the dramatic gains seen in the previous month. These resulted from a major liquidation of sizeable speculative positions as weather in the US Midwest became more favourable. Falls in other commodities, notably crude oil, also weighed at times. International **wheat** prices registered significant losses as harvesting of bigger than anticipated northern hemisphere crops gathered pace and the outlook improved in Australia.

In the US, export quotations dropped by over \$40 as world buyers turned to competitively-priced alternative suppliers. However, much of the focus was on the sharp declines seen in the Black Sea region, currently harvesting bumper crops. The biggest falls were in feed wheat, reflecting significant quality downgrading, especially in Ukraine. The extraordinary volatility of US futures was again demonstrated as nearby CME **maize** contracts in Chicago fell by as much as 25% in the past month, in response to better weather and new official data indicating that domestic use was being restrained by high prices. In Argentina, the announcement that export taxes would revert to their levels prior to the introduction of new sliding-scale taxes had little impact on markets, with traders there anxious to obtain the required licences to meet current strong export demand.

Full summary of report is available at: <http://www.igc.org.uk/en/publications/grainmarketreport.aspx>

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28/07/08 – World-Grain.com  
CALLS FOR WIDER INTERVENTION IN AGRICULTURAL MARKETS (RUSSIA)

First deputy prime minister Viktor Zubkov wants the government to introduce price intervention for a wide range of agricultural products. So far the state intervenes to stabilise prices only on the grain market. New measures may cost the government 1 billion dollars this year, and result in a cut in exports.

According to preliminary forecasts Russia will produce a record high of 90 mln tones of grain this year. A good harvest is expected in all grain exporting countries, driving down wholesale prices. If it falls to 215 dollars per tonne on the domestic market, the government will intervene.

To stabilise prices and support farmers it will allocate \$300 mln dollars to buy grain on the market. And additional funding will come from Rossekhos bank according to CEO, Yury Trushin.

We expect significant capital growth and will use the money to finance credits for farmers and regulate grain prices. We want to buy up to 7 billion tonnes of grain.

Farmers have urged the state to intervene earlier, as at 215 dollars per tonne, grain production is unprofitable. But a higher intervention price can squeeze export volumes according to Andrey Sizov, Managing Director at Sovecon.

A higher intervention price will lead to price growth on the domestic market and it may become unprofitable to export. Also if the government buys grain volumes as promised it may change Russia's export potential from 15 mln tones to 8 mln.

Meanwhile Russia's agriculture ministry has come up with the idea of creating a large state-owned grain trader which will have half of the Russian export market. Market watchers worry about the government taking the roles of both grain price mediator and exporter, and say it could worsen the situation on the grain market, russiatoday.ru reports.

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23/07/08 – NYTimes.com

#### UPRISING AGAINST THE ETHANOL MANDATE

The ethanol industry, until recently a golden child that got favorable treatment from Washington, is facing a critical decision on its future.

Gov. Rick Perry of Texas is asking the Environmental Protection Agency to temporarily waive regulations requiring the oil industry to blend ever-increasing amounts of ethanol into gasoline. A decision is expected in the next few weeks. Mr. Perry says the billions of bushels of corn being used to produce all that mandated ethanol would be better suited as livestock feed than as fuel.

Feed prices have soared in the last two years as fuel has begun competing with food for cropland. "When you find yourself in a hole, you have to quit digging," Mr. Perry said in an interview. "And we are in a hole." His request for an emergency waiver cutting the ethanol mandate to 4.5 billion gallons, from the 9 billion gallons required this year and the 10.5 billion required in 2009, is backed by a coalition of food, livestock and environmental groups.

Farmers and ethanol and other biofuel producers are lobbying to keep the existing mandates. "This is a critically important decision that will determine the future of biofuels in this country," said Brent Erickson, a lobbyist at the Biotechnology Industry Organization, which supports the ethanol mandates. "There will be a dramatic reaction from whoever loses."

The E.P.A. received 15,000 public comments on the Texas proposal, roughly split between those in favor and those against. LHT Inc., an infrastructure company, said it never would have spent tens of millions of dollars developing delivery pipes for ethanol without the mandated increases. "How do we get our money back?" an executive asked. O.K. Industries, a poultry company in Arkansas upset about rising feed costs,

said this was the first year since the company was founded during the Great Depression that it could not afford to give its employees a wage increase.

An agency spokesman said the E.P.A. can approve the request, deny it or take a middle path. The deadline is Thursday, but the agency says it needs more time to review public comments and formulate a decision. The agency's authority derives from a 2005 energy law that sets some of the most important ethanol quotas. The law says states can petition the agency for a reduction in the ethanol mandates on the grounds of severe harm to the economy or environment. Decisions must be made after consultation with the secretaries of energy and agriculture.

Ethanol is under siege from other quarters. Senator Kay Bailey Hutchison, Republican of Texas, has introduced legislation calling for a freeze of the mandate at the current level, saying it "is clearly causing unintended consequences on food prices." The measure is co-sponsored by 11 other Republican senators, including John McCain, the presumptive presidential nominee.

The Federal Reserve chairman, Ben S. Bernanke, testified last week that "it would be helpful" to remove a 51-cent-a-gallon tariff on imported Brazilian ethanol. If Brazilian ethanol enters the United States market, domestic producers argue, the industry will suffer.

In a new report, the Organization for Economic Cooperation and Development is critical of biofuels, saying further development will raise food prices while doing little for energy security. But the attempts to undercut ethanol are proving divisive. Mr. Perry said he hoped the other 49 governors would join him, but was able to cite only one that had: Gov. M. Jodi Rell of Connecticut. (A spokesman for Mrs. Rell declined to offer a full-fledged endorsement of Mr. Perry's initiative, saying she supported a modification of the mandate but had not made any specific proposals.)

In ethanol's home ground of the Midwest, where much of the corn is grown and the additive is made, Mr. Perry's petition was opposed by 12 governors. Senator Charles Grassley, Republican of Iowa, accused the Grocery Manufacturers Association, the group leading the public relations fight against ethanol, of "treasonous" acts. Mr. Perry is also being accused of bad motives. The Houston Chronicle reported that his interest in a rollback developed after Lonnie Pilgrim, senior chairman of the East Texas chicken company Pilgrim's Pride, donated \$100,000 to the Republican Governors Association, of which Mr. Perry is the chairman.

The governor brushed aside such concerns. "I have always been of the position that when your opposition has to point to a political contribution rather than trying to make their debate on the issues, they might be losing," he said.

Corn growers and ethanol producers believe they are being made scapegoats for failed economic and energy policies. Corn futures have already dropped sharply from the record highs set a month ago. Midwest weather has been favorable in recent weeks, raising expectations for the size and quality of the crop.

Mark Williams, who grows corn on 2,500 acres in the Texas panhandle, dreads a further price drop. "Our costs have increased so much, we need a pretty good price to make a little living," he said. Furthermore, he added that it would be unfair to change the rules at this point. "We bought fertilizer and corn seed, decided our crop mix on the basis of ethanol being where it was. To change that mandate in the middle of our growing season, that's really not right."

A cut in the mandate might be the beginning of a slippery slope that could mark the end for ethanol, said Lee Reeve, one of the pioneers of the industry. His Garden City, Kan., plant has been in operation since 1982. "If this goes through, I guarantee you that by next Thursday there would be arguments about how we should get rid of the mandate entirely," he said. "And where are you going to find the oil to replace eight or nine billion gallons of ethanol?"

## CORN PRICES THREATEN ETHANOL

Analysts doubt costs will fall anytime soon; Brazil may export sugar-based fuel to U.S.

Spiraling corn prices have squeezed profits and stressed the U.S. ethanol industry in recent months - a phenomenon that threatens to destroy hope that American farmers could help end the country's dependence on oil imported from hostile nations.

In June, VeraSun Energy, one of the country's largest ethanol producers, recently delayed opening three new ethanol plants because of "volatility in the market," and a Citigroup analyst predicted last month that nearly three-quarters of U.S. ethanol plants could face a possible shutdown in coming months as profit turns negative.

"One of the main reasons for high ethanol prices is that the cost of the feed stock has been soaring," said Jerry Taylor, senior policy analyst at the D.C.-based Cato Institute. "When corn prices go up, its going to make it more expensive for an ethanol processor to make ethanol from corn."

Corn prices this week fell below \$7 a bushel for the first time in a month after peaking above \$7.80 on July 2.

As recently as March, President Bush reiterated his support for ethanol as a means to reduce reliance on foreign energy supplies. "If you're dependent on oil from overseas, you have a national security issue," Mr. Bush said at the International Renewable Energy Conference in Sao Paulo, Brazil. "The vast majority of ethanol is coming from corn, and that's good. That's good if you're a corn grower. And it's good if you're worried about national security. I'd rather have our corn farmers growing energy than relying upon some nation overseas that may not like us."

The government spends roughly \$7 billion in ethanol subsidies annually. Yet as food prices skyrocket, the prospect of corn ethanol becoming a significant alternative to foreign oil is diminishing. Analysts say the price of corn is unlikely to fall any time soon. A Chicago Board of Trade report released in May said that despite increased planting tight supply is likely to continue into next year.

Alex Moglia, president of Chicago-based Moglia Advisors, which helps biofuel companies restructure, said 12 biodiesel and ethanol plants have declared bankruptcy in recent months and that the problems facing the ethanol industry are more profound and long-term than just corn and fuel costs.

Difficulty finding financing, high costs of building new plants and general problems with the business model are taking their toll on the U.S. ethanol industry, he said. "I think the ethanol industry as a whole will have to re-examine its entire financial model and determine how it can make money," he said. "Many of these [ethanol] plants never met the objectives that they were designed and built to achieve."

Many experts say corn has limited potential for securing America's energy independence in the first place. They say energy independence rests more on experimental cellulose-based ethanol made from switch grass, wood or other nonedible parts of plants. "We're already seeing problems with corn prices and so forth at these levels, and its only going to get tougher from here," Mr. Taylor said. "It's hard to imagine any huge breakthroughs with corn yields or the ethanol production process because this is not something that was created yesterday."

Available land for growing more corn in the United States is limited, and while yield increases from existing farms are expected, corn has the potential to supply only a fraction of U.S. energy needs. "Ultimately corn ethanol can produce up to about 10 percent of the gasoline transportation fuel markets, with [future] yield and efficiency increases," said Roger Conway, director of the Office of Energy Policy New Uses with the Department of Agriculture. "But to go beyond that we will probably need cellulose-based ethanol."

The U.S. government supports several cellulose-ethanol pilot programs, but the technology is still developmental and not ready for commercial production.

Analysts say it is impossible to know when the technology will become viable enough to be profitable. "It's very hard to predict when the big breakthroughs will occur," said Ben Lieberman, senior policy analyst at the D.C.-based Heritage Foundation. "What the government will learn is it can't just wave a magic wand and mandate it to happen. I think that is the lesson we are going to learn with cellulose ethanol."

As corn and ethanol prices skyrocketed, cheaper sugar-based ethanol from Brazil has become competitive in the U.S. market, despite a 54-cent-a-gallon import tariff. "After the price of ethanol gets over about \$2.50 per gallon, it still pays for Brazil to export ethanol to the United States," said Joel Velasco, chief U.S. representative of the Brazilian Sugarcane Industry Association. "With prices in the U.S. approaching \$3 per gallon, despite the fact that we have to pay about 50 to 60 cents of tariff coming in, it is still worthwhile to export."

Current prices for ethanol in the United States average roughly \$3 per gallon. Mr. Velasco said that if prices remain high, Brazil will boost its production with the expectation of exporting to the United States. "Presumably, if ethanol prices stay high, then obviously we will ramp up our production in Brazil," he said. Both the Brazilian and U.S. ethanol industries are heavily subsidized by their governments, but ethanol can be made cheaper in Brazil mainly because the sugar cane used to make ethanol in Brazil yields more energy than corn.

Corn ethanol generates around 1.6 times the amount of energy used to produce it, while ethanol made from sugar cane yields more than eight times the energy used for production. "The basic fact is that it is easier to make ethanol out of sugar than out of corn and the Brazilian ethanol industry has that advantage," Mr. Lieberman said. "However, there are a lot of advantages that Brazil has that I'm glad we don't have, like sugar cane field workers who make pennies per day - and that reduces costs."

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14/07/08 – World-Grain.com

#### COULD THE TIDE BE TURNING FOR TRANSGENIC WHEAT?

With world wheat stocks at historic lows, some longtime opponents of transgenic (often called genetically modified organisms) are coming to the realization that, without increased adaptation of transgenics, the world's farmers cannot produce enough safe, wholesome food to feed its people, according to a media release from KansasWheat.

According to a non-profit, farmer-founded interest group called Growers for Biotechnology, recent comments by European governments are an indication that public opinion is turning the corner. A news article posted on the Web site, [www.growersforbiotechnology.org](http://www.growersforbiotechnology.org), reports that in late June, Great Britain's Environment Minister, Phil Woolas, addressed the world's food price crisis with this comment: "There is a growing question of whether GM crops can help the developing world out of the current food price crisis. It is a question that we as a nation need to ask ourselves. The debate is already under way. Many people concerned about poverty in the developing world and the environment are wrestling with this issue."

Europe's resistance to transgenic crops has been one of the main obstacles to more rapid adoption of the technology around the world. Developing African nations, even those with mass starvation, have rejected transgenics out of fear that they might lose the opportunity to sell any surplus crops to Europe. Now, with a global food shortage exacerbating hunger around the world, the United Kingdom is beginning to see that Europe's resistance cannot be sustained.

Meanwhile, the chairman of Great Britain's Nestle, the world's biggest food company, has told British lawmakers that transgenic crops are critical to combat poverty and hunger.

"You cannot today feed the world without genetically modified organisms,&" Nestle's Peter Brabeck told the London Financial Times. "We have the means to make agriculture sustainable in the long term. What we don't see for the time being is the political will."

Brabeck said Europe's opposition to biotechnology had encouraged African policymakers to reject transgenic crops. South Africa is the only country on the African continent to commercialize them, growing transgenic maize, cotton and soybeans.

What are the benefits to wheat farmers should biotechnology be an option for the world's wheat geneticists? Herbicide resistance, tolerance to fungal diseases or drought tolerance all are possibilities. In fact, an Australian researcher told Bloomberg News last week that Australia could have transgenic, drought-tolerant wheat available globally in five to 10 years.

GMO wheat under field trials in Australia's Victoria state contains genes from plants such as corn and moss as well as yeast, Spangenberg said on July 2. Test results show the transgenic grain generated a 20 percent gain in yield compared with non-GMO crops under drought stress, according to German Spangenberg, head of Australia's Victorian AgriBiosciences Center.

Spangenberg said, "This is a very significant increase. GM wheat for drought tolerance will be important to sustain agricultural production into the future."

DuPont Co., the world's second-biggest producer of seeds, plans to engineer wheat and rice to boost yields as rising demand lifts grain prices to records. Growers and buyers have asked Wilmington, Delaware-based DuPont to develop higher-yielding wheat varieties to help keep pace with output of crops such as corn.

Syngenta AG is also developing disease-resistant, transgenic wheat.

Despite this growing momentum, Japan and other Asian countries have vowed to buy non-transgenic wheat and either pay a premium, or rely on their own farmers for wheat production.

According to the farmers of Growers for Biotechnology, the need for more food production will grow exponentially in the next several years, and farmers must have access to new technologies to keep pace with demand.

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12/07/08 – U.S.News.com

#### COUNTRIES ARE RENTING FARMLAND ABROAD

As food crisis worsens, some nations are desperate for arable land

The Persian Gulf may be flush with money from oil, but it is desperate for food. Many of the richest countries in the region, including Saudi Arabia, are handicapped by a dry, unforgiving climate and a shortage of farmland; thus they must import more than 60 percent of their annual food supply. Existing water stores are expected to be exhausted in 30 years, and yet, food demand is growing. Population growth in the region is more than double the world average, the prices of some staples are up more than 30 percent this year, and civil unrest is mounting.

It is, in short, a daunting situation, and conventional responses appear inadequate. Continuing to rely on food from other countries, many government leaders believe, is not only risky but shortsighted in an era of tight trade restrictions and projections of even higher prices. And so officials have begun laying the groundwork for a new approach: buying or renting farmland in other countries—sometimes thousands of miles away.

In recent weeks, officials and businessmen from Saudi Arabia have met with representatives of Thailand and South Africa to talk about buying farmland. The United Arab Emirates has looked at arable land in Sudan, Egypt, and Yemen and is pursuing a \$3 billion deal in Pakistan with several private companies to

build large corporate farms for growing rice, wheat, sugar cane, and fruits. Abu Dhabi has reportedly signed a deal with Sudan to develop 70,000 acres there.

Looking to Asia. The Persian Gulf states have been the most aggressive in these pursuits, but they are not alone. In April, the president of South Korea, Lee Myung-Bak, expressed interest in renting farmland in eastern Russia or Southeast Asia. Chinese firms, many with close government ties, have recently pursued deals in the Philippines and Africa and are rumored to be eyeing land in Australia.

Even individual farmers from the United States and Australia have started looking in larger numbers to overseas farmland, particularly in South America. "We have certainly seen an increase [here]," says Andy Duff, a Rabobank International analyst based in Brazil. "There are the investors who see land as the root of all commodities and believe land may be an interesting investment, and we have also seen bona fide farmers who are looking to expand their operations from other parts of the world."

Globally, farmland is disappearing at an alarming rate. According to estimates, approximately 50 million acres vanish each year to urbanization, population growth, and economic and industrial development. In Iraq, where the Tigris and Euphrates rivers have nourished riverbanks since the start of civilization, farmland is expected to shrink 30 percent because of upriver damming in Turkey. Vietnam lost 1.2 million acres of farmland from 2001 to 2007; 123 golf courses, among other developments, have gone up since.

A few developing countries have tried to slow or halt the turnover. China, after seeing its farmland dwindle by tens of millions of acres in the first part of the decade, has imposed tight restrictions on land conversions and, in January, began prosecuting thousands of alleged offenders. But, says Chietigj Bajpae, an analyst for Global Insight, a forecasting company, "trying to stop the conversion of land is the exception rather than the rule."

From a historical perspective, land grabs are nothing new. Imperialism and colonialism were defined to a large extent by efforts to acquire power through land. These campaigns, however, were characterized not by diplomacy or money but by violence and force. What's happening now is different, although it raises old questions about sovereignty and workers' rights.

Though the terms of the deals vary—some involve land purchases, others, large investments in existing farms—most will result in the employment of local workers and require negotiations about where the food goes after harvest. In Sudan, for instance, where food riots broke out last month, officials don't want to create the impression of helping others and not their own.

Some observers see the potential for large and enduring benefits on both sides. The reported sellers of under-developed farmland, Pakistan and Sudan, for example, are poor and lack the resources to make their own land productive. Foreign investment is meant to help the investor, but in these cases it might also help the host countries by improving roads and irrigation and, of course, providing cash. The question is ultimately one of balance: wooing the big spenders without ceding too much land or control at home.

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02/07/08 – SiloBreaker.com

#### **BRAZIL RAISES FARM BUDGET AMID SOARING FOOD PRICES BY INAE RIVERAS**

Brazil announced on Wednesday a 12 percent rise in farm spending for the coming season to boost agriculture output amid a global food crisis and help secure its place as one of the world's main bread baskets.

The commercial farm budget for the 2008/09 (July-June) season was raised to 65 billion reais (\$40 billion), from 58 billion reais last season. The government will also provide 13 billion reais to family agriculture. The rise in crop financing is expected to increase grain output by 5 percent from last season to a record 150 million tonnes and help contain food price increases. Brazil's 2007/08 grain crop is seen at 143.2 million tonnes.

"At this moment when everybody is talking about crisis and inflation due to food, we have to respond not by reducing people's capacity to consume and produce but boosting productivity, creating conditions for people to plant," Brazil's president, Luiz Inacio Lula da Silva, said in comments during a televised event to launch the farm budget. "When the world needs to eat, Brazil has to say: come and buy," Lula said. Rising food prices are seen as a key driver of surging inflation around the world. Prices of many staples have doubled in the last two years and will likely remain high for the next decade, according to the U.N. Food and Agriculture Organization.

Many poor countries were hit this year by riots and protests over the soaring cost of food and many policymakers around the globe are struggling to contain inflation.

In Brazil the central bank has raised the interest rate twice since April and is expected to continue raising it in the near term in response to rising inflation. Growing demand from Brazilians with rising income has been a major contributor to local food inflation. Rising food prices abroad are also pushing up prices in Brazil, a major agricultural and livestock producer and exporter.

The budget is used to provide low-cost loans and guarantee a minimum price for commercial farm and livestock sectors. It also includes a credit line of 1 billion reais to finance the recovery of degraded areas for food production. About 45.4 billion reais out of the total budget will go toward a line of credit with a subsidized annual interest rate of 6.75 percent. This volume is 20 percent higher than last season.

Speaking to farmers in Parana state, Lula said the global rise in food prices was due to the "good news" that people are eating more in China, India and Latin America. For Brazil this was a chance to do good business, he said. "Without arrogance or presumptions, we Brazilians need to see this situation, which is a crisis to many, as an extraordinary opportunity to turn ourselves into the world's grain belt," he said. (\$1 = 1.602 reais)

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02/07/08 – FT.com

#### PRIZED CROP GIVES STRATEGISTS FOOD FOR THOUGHT

Kazakhstan is already recognized as an emerging global oil power. It could also play an important role in easing world grain shortages. "Kazakhstan is one of the few countries in the world with extra land to cultivate and the potential to boost agricultural production," says Vladimir Boiko, the co-owner of Sarybay, a Kazakh grain company.

Kazakhstan harvested a record 22m tonnes of grain in 2007, ranking sixth among world producers and accounting for just over 3 per cent of global supply. Exports of Kazakh grain, prized for its high protein and gluten content, earned more than \$1.6bn of foreign income. Farmers say that annual grain yields could rise to 30m tonnes, as technology and fertilisers improve and as more land is brought under the plough. Karim Massimov, the Kazakh prime minister, says: "Last year marked a turning point in our views about our food export potential and security."

An economic slowdown hitting Kazakhstan in the wake of the global financial crisis has provoked more interest in agricultural development. Before the crisis the country thought it could create jobs in the cities for rural people, says Mr Massimov. "Now things have changed and we are going to focus more on regional development." Agriculture employs a third of the population of 15m, but accounts for less than 6 per cent of gross domestic product.

The government has allocated an extra \$500m of agricultural subsidies this year. Most of the funds are channelled through KazAgro, the state agricultural bank, to finance imports of fertiliser and pesticides and to lease machinery to farmers at favorable rates. Protectionist policies, including introduction of a national grain reserve and regional stores, are designed to guard against shortages and tame food inflation.

A grain export ban imposed in May came as a shock to farmers, forcing some to declare they were being forced to cancel foreign export contracts. "No one was prepared for the surge in world grain prices," says

Mr Boiko. “The government took the only measure available to protect citizens. I am a market person. But unfortunately there was no other way.”

However, it is important that the government develops “clear, predictable rules” governing the grain trade to avoid a slowdown in investment, he says. Grain farming began in Kazakh-stan in the 1960s, when Nikita Krushchev, Soviet general secretary, launched the Virgin Lands campaign to cultivate the barren steppe of central Asia. But the industry declined as collective farms fragmented into smallholdings during privatisations after the collapse of the Soviet Union. Much arable land was left fallow as impoverished farm labourers fled to the cities.

Mr Boiko belongs to a new generation of young, entrepreneurial farmers, not, as he puts it, “burdened with the Soviet mentality”. He and his business partners began their agricultural careers as millers in the early 1990s, first leasing farmland in 2000. Sarybay now farms more than 68,000 hectares in north Kazakhstan and another 45,000 hectares in neighbouring Russia. Similar large farms are growing up throughout Kazakhstan’s northern grain belt. As world prices for the commodity rise, they are attracting interest from Kazakh banks and foreign equity investors.

Akylbek Kurishbayev, the Kazakh minister of agriculture, compares conditions in Kazakh-stan’s northern grain belt with the Saskatchewan prairies in Canada. Farms are vulnerable to high winds, unpredictable weather and frequent droughts. Average yields below 1.3 tonnes a hectare cannot match those in Ukraine and Russia, but grain quality is higher. Broader application of fertiliser and pesticides could help boost production.

Richard Ferguson, an agriculture expert at Nomura Securities, says Kazakhstan should be able to double grain yields and overshoot the 30m tonnes production target without even increasing cultivated land. However, huge investment is required in railway infrastructure if the country is to boost exports, Mr Kurishbayev says.

Most grain is exported through Russia and Ukraine to the Black Sea, more than 4,000km away. A new grain terminal at Aktau on the north Caspian coast has broadened the scope of trade, handling exports to Iran and Azerbaijan. Another terminal is under construction on the Georgian Black Sea. Temir Zholy, the state railway company, plans to build a series of railways including a southern route towards Turkmenistan and Iran, opening a path to Asia.

China is opening up as a new grain market on Kazakhstan’s doorstep. Mr Boiko recently attended a Chinese agricultural fair in Urumchi to look for business. He complains that it costs up to \$70 a tonne to transport grain from his Kazakh farm to the Black Sea. Kazhurat Nagmanov, the first vice-president of Temir Zholy, says that transporting grain is unprofitable. “But grain is now a strategic product,” he says. “So we will help if there is interest.”

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02/07/08 – PlanetArk.com

#### SOUTH KOREA QUIETLY STEPS UP GMO CORN IMPORTS FOR FOOD

South Korea may import more than twice as much genetically modified corn for food use as expected this year, a government source said on Tuesday, as soaring prices force companies to accelerate the switch to cheaper varieties.

South Korea, the world's third-largest corn buyer, imported 330,000 tonnes of GMO corn for food use for the first time in May and June, and this year's total may rise to 1.2 million tonnes, or about 60 percent of the total demand from the food sector, a Korea Food and Drug Administration source told Reuters.

That is far above the 500,000 tonne volume floated several months ago by the major buyers, who had indicated they would take a measured approach to shifting to cheaper GMO crops rather than risk a massive consumer backlash in one of only two Asian nations -- along with Japan -- that had stuck to non-GMO foods.

With unmodified supplies increasingly hard to find after China, once the major supplier of non-GMO corn, effectively halted overseas shipments, they've had little choice. "We see sharply increased imports of GMO corn as buyers are struggling to secure non-GMO varieties," said the source, who declined to be named because of the sensitivity of the issue.

But the four South Korean starch makers that supply nearly 90 percent of the country's corn starch and sugar -- Daesang Corp, Doosan Corn Products Korea, Samyang Genex and Shindongbang CP -- have opted to keep quiet about their latest deals at a time of heightened anxiety over food.

Tens of thousands of South Koreans took to the streets last month in a massive wave of protests against renewed imports of US beef. "Importers have kept corn deals secret as they fear public attention shifting back to GMO crops once beef protests die out, and losing business," said a corn trader.

#### GMO TABOO

South Korea, which relies on corn imports to meet 99 percent of demand and soybean imports to meet 90 percent, broke the GMO food taboo earlier this year, signing a deal to import the engineered corn for manufacturing starch and sweeteners.

The four firms indicated in February that they may have to buy more as prices soar, but have been coy on details. Company officials declined to comment about their purchases on Tuesday.

Global corn prices more than doubled over the past 12 months and reached a record high of above US\$8 a bushel last month, as demand for the grain, used for food, feed and fuel, increased, while flooding in the US Midwest last month raised fears of reduced supply from the world's largest corn exporter.

On Tuesday, July corn futures on the Chicago Board of Trade dropped 1.0 percent to US\$7.17 a bushel after the USDA raised its forecast for 2008 US corn plantings to 87.3 million acres from its March estimate of 86.0 million.

Non-GMO corn cargoes can command as much as a US\$20 or nearly 5 percent premium to GMO varieties, eating into profit margins for companies already under pressure from competitors. "The corn starch and sweetener market is shrinking sharply as foodmakers are switching to cheaper alternatives such as sugar to replace pricey corn," said an official at the Korea Corn Processing Association. "Future purchases are more likely to depend on how consumers react to processed food using GMO corn," the official said.

Governments around the world have been struggling with the inflationary impact of higher food and oil prices, with corn joining a long list of staples, from rice and wheat to vegetable oils and crude oil, that have been hitting record highs. Skyrocketing food prices are forcing South Korea, which only grows about 25 percent of the grain it needs, to switch to GMO crops. The country's consumer price inflation in 2008 is set to hit a 10-year high on soaring energy and commodities prices.

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NEW REPORTS:  
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July 2008 – FAO  
CROP PROSPECTS AND FOOD SITUATION, NO. 3 JULY 2008

World cereal production in 2008 is forecast to increase 2.8 percent to a record 2 180 million tonnes. Most of the increase is in wheat following significant expansion in plantings in all regions. Coarse grains output is expected around the bumper level of last year but lower than earlier anticipated due to severe floods in the United States, the world's largest producer and exporter. Rice is tentatively forecast to increase slightly from last year's good level.

Full report: <http://www.fao.org/giews/english/cpfs/index.htm>

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July 2008 – World Bank  
A NOTE ON RISING FOOD PRICES

The rapid rise in food prices has been a burden on the poor in developing countries, who spend roughly half of their household incomes on food. This paper examines the factors behind the rapid increase in internationally traded food prices since 2002 and estimates the contribution of various factors such as the increased production of biofuels from food grains and oilseeds, the weak dollar, and the increase in food production costs due to higher energy prices. It concludes that the most important factor was the large increase in biofuels production in the U.S. and the EU. Without these increases, global wheat and maize stocks would not have declined appreciably, oilseed prices would not have tripled, and price increases due to other factors, such as droughts, would have been more moderate. Recent export bans and speculative activities would probably not have occurred because they were largely responses to rising prices. While it is difficult to compare the results of this study with those of other studies due to differences in methodologies, time periods and prices considered, many other studies have also recognized biofuels production as a major driver of food prices. The contribution of biofuels to the rise in food prices raises an important policy issue, since much of the increase was due to EU and U.S. government policies that provided incentives to biofuels production, and biofuels policies which subsidize production need to be reconsidered in light of their impact on food prices.

Full Report: [http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/07/28/000020439\\_20080728103002/Rendered/PDF/WP4682.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/07/28/000020439_20080728103002/Rendered/PDF/WP4682.pdf)

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July 2008 - OECD  
ECONOMIC ASSESSMENT OF BIOFUEL SUPPORT POLICIES

Government support of biofuel production in OECD countries is costly, has a limited impact on reducing greenhouse gases and improving energy security, and has a significant impact on world crop prices, according to a new study of policies to promote greater production and use of biofuel in OECD countries.

OECD's Economic Assessment of Biofuel Support Policies says biofuels are currently highly dependent on public funding to be viable. In the US, Canada and the European Union government support for the supply and use of biofuels is expected to rise to around USD 25 billion per year by 2015 from about USD 11 billion in 2006. The report estimates that biofuel support costs between USD 960 to USD 1700 per tonne of greenhouse gases (carbon dioxide equivalent) saved.

Full report: [http://www.oecd.org/document/28/0,3343,en\\_2649\\_33717\\_41013916\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/28/0,3343,en_2649_33717_41013916_1_1_1_1,00.html)

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WEB RESOURCES:

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THE INTERNATIONAL TRADE CENTER

<http://www.intracen.org/>

The International Trade Centre aims to enhance the export potential of developing countries by giving them free access to market analysis tools that help to identify markets and product diversification opportunities.

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WORLD FOOD SITUATION PORTAL:

<http://www.fao.org/worldfoodsituation/>

Portail sur la situation alimentaire mondiale:

<http://www.fao.org/worldfoodsituation/accueil.html?L=1>

Portal sobre la situación alimentaria mundial:

<http://www.fao.org/worldfoodsituation/inicio.html?L=2>

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