

**Business potential and
challenges from the private
sector perspective**



“The Argentine crushing industry can be an efficient ally of the Chinese low cost meat producers, combining strengths in favor of the consumers”.



Key issues

- Soy products demand increased dramatically in China during the last decade and will duplicate towards 2020. Sharp increase in per caput and aggregate pork, broiler and edible oil demand.
- Trade and tax regulations in China almost banned soybean meal imports and created very positive local crushing margins.
- Crush capacity increased steadily. Local crush of imported soybeans from USA and Mercosur satisfied the majority of the soy products requirements at a significant higher cost for the meat industry and the final consumer.
- South America could supply most of the expected increase in soybeans or soy products equivalent demand.
- Argentine cost efficient industry could be a strategic partner for the Chinese meat industry.



Molinos Río de la Plata

Founded in 1902, Molinos Río de la Plata S.A is a key player in the Argentine oilseeds crushing industry and a large scale branded food manufacturer.



Branded Food (0.8 BiU\$S)

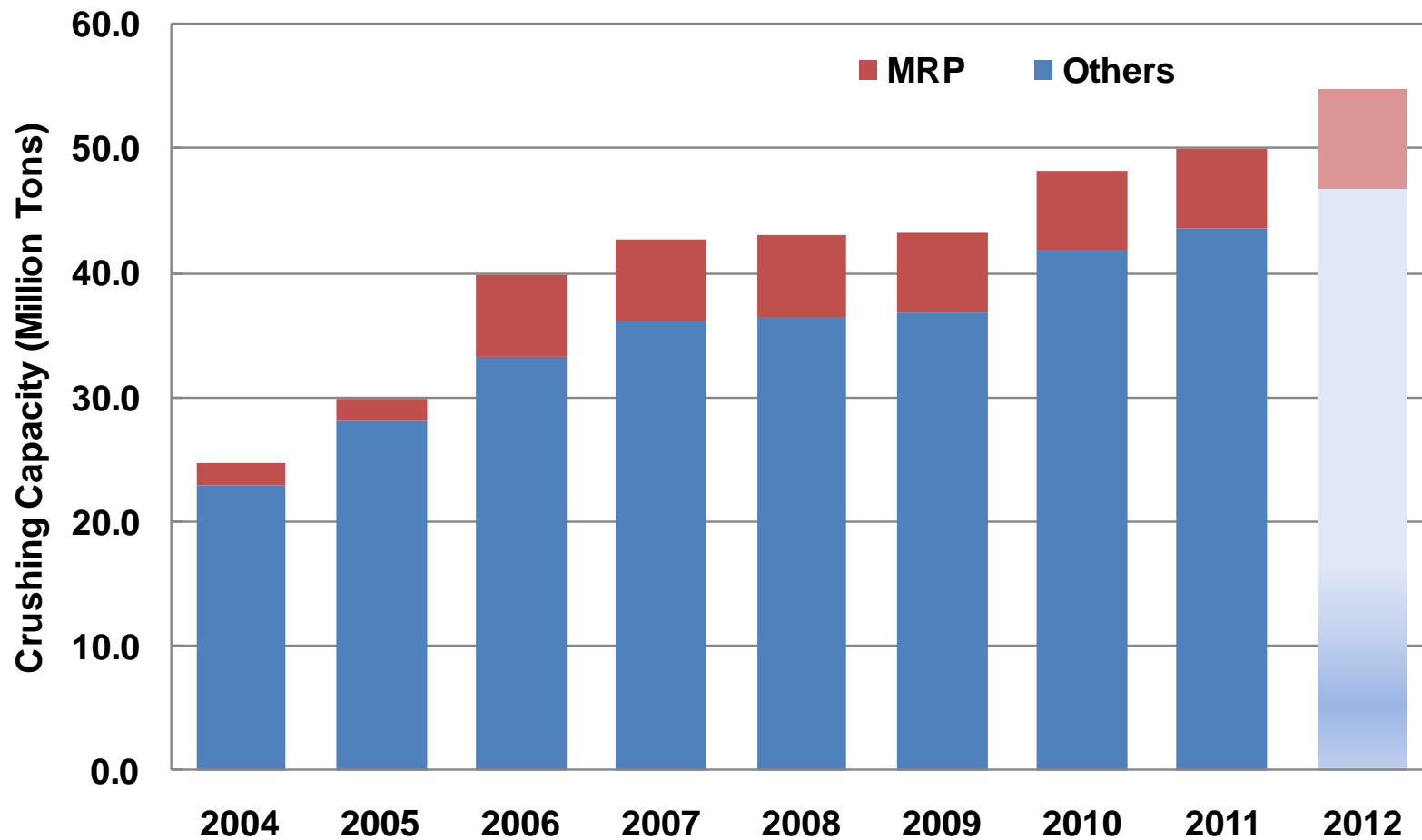
- Dry Pasta (31%)
- Wheat flour and premixes
- Edible Oils
- Rice (21%)
- Sausages and Hamburguers
- Chicken nuggets (83%)
- Frozen Vegetables (51%)
- Wines (12%)
- Infusions

Crush Industry (1.8 Bi U\$S)

- **Soybean Complex**: Hi Pro soybean meal, Crude Soya Oil, Soybean hulls, Olein, Biodiesel
- **Sunseed Complex**: Crude & Refined Oil, High-Oleic Oil, Sunflower pellets



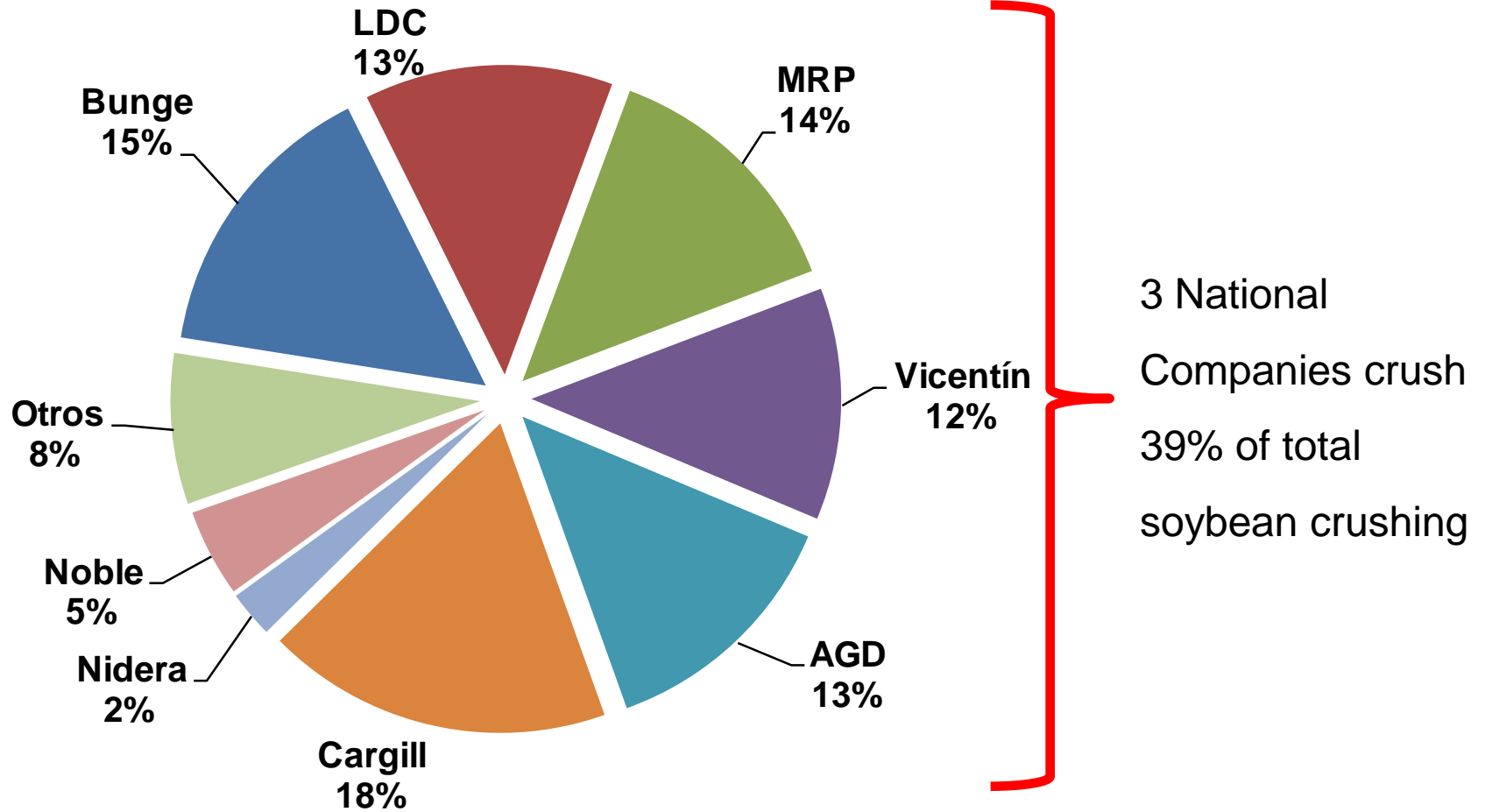
Argentine Soybean Crushing Capacity



Source: Molinos Research Department



Soybean Crushing Share by Co.



Argentina & China



Argentina

China

2000 2010

2000 2010

Country Area (Sq. Km)

2,791,810

9,596,960

Population (Million people)

37,3

40

1,264

1,341

GDP (Million U\$S)

284,204

368,712

1,198,480

5,878,629

GDP per cápita (Current U\$S)

7,460

8,450

930

4,260

Total Exports (% of GDP)

11%

21%

23%

27%

Total Imports (% of GDP)

12%

16%

21%

22%

Foreing Direct Investment (Current Million U\$S)

10,418

3,902

38,399

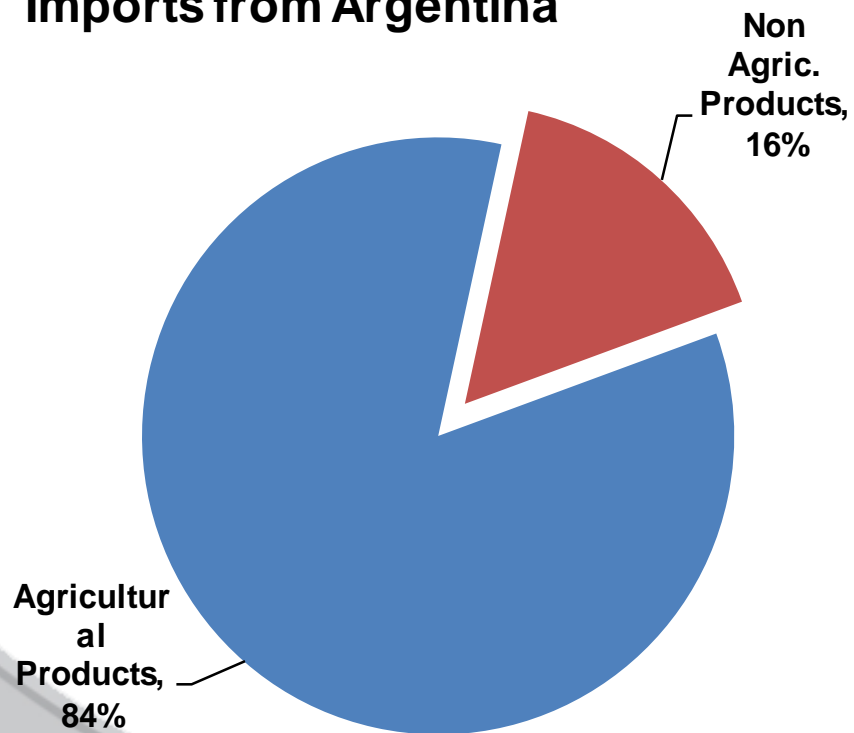
78,193



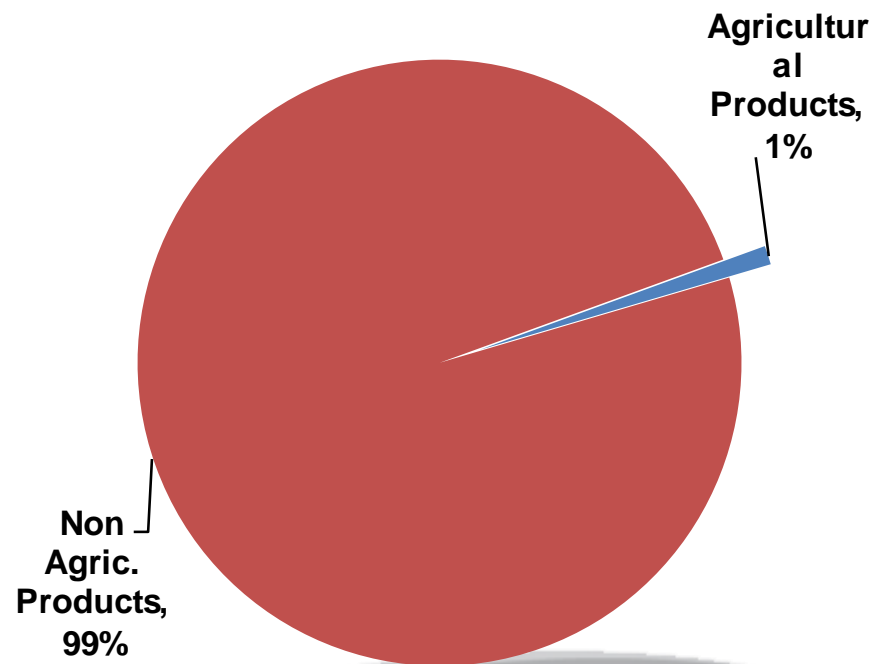
Bilateral Trade between Argentina and China

- Argentina is a net exporter of agricultural products to China.
- China is the second largest destination and origin of argentine exports and imports.
- Argentina is 26th origin and 44th destination of Chinese imports and exports.

Imports from Argentina



Exports to Argentina

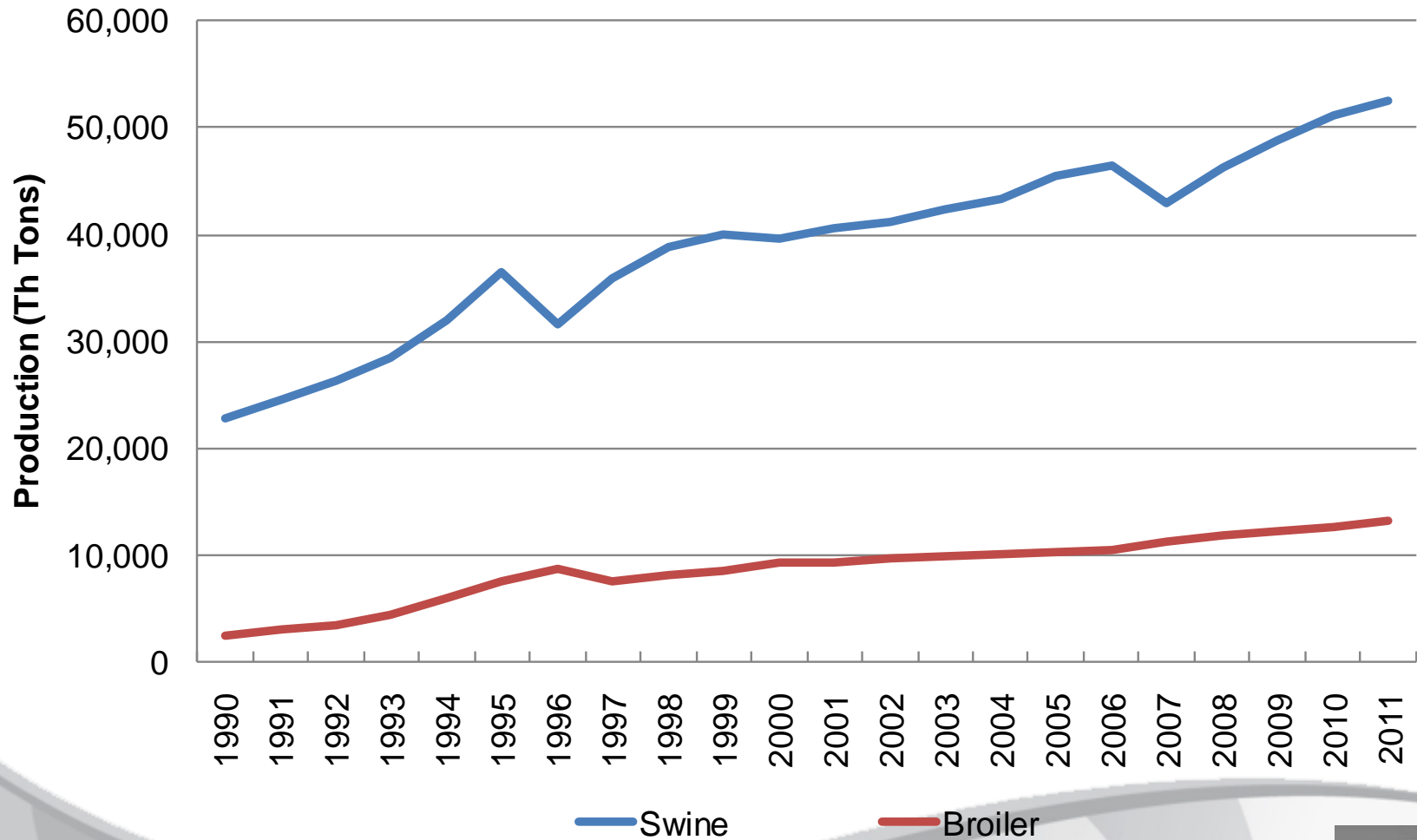


Source: China Customs / Agric. Min. – Argentine Embassy in China.



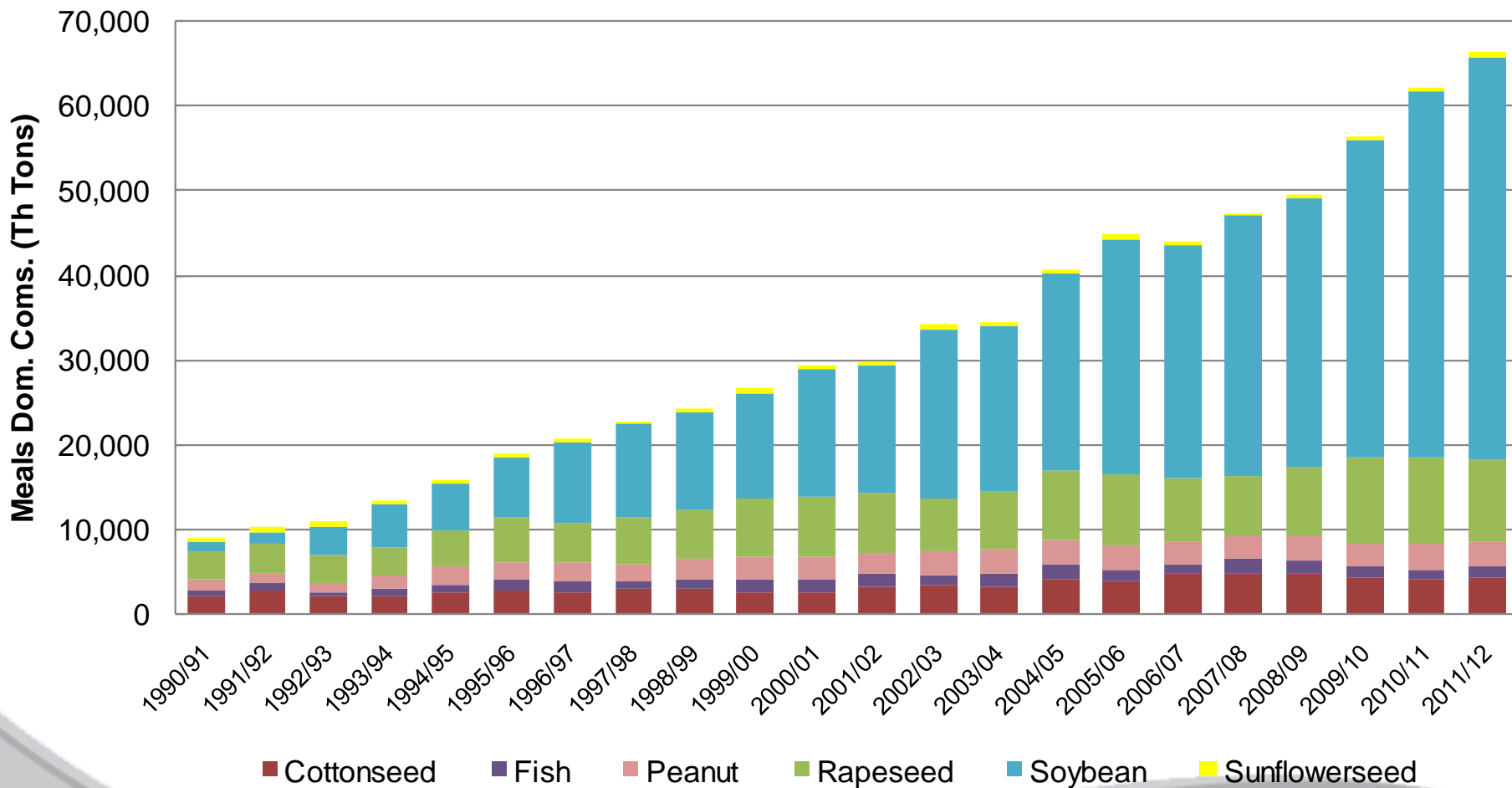
China Meat Production

- Increasing pork and poultry production and consumption in China



Meals Domestic Consumption

- SBM main source of vegetable protein for meat production.

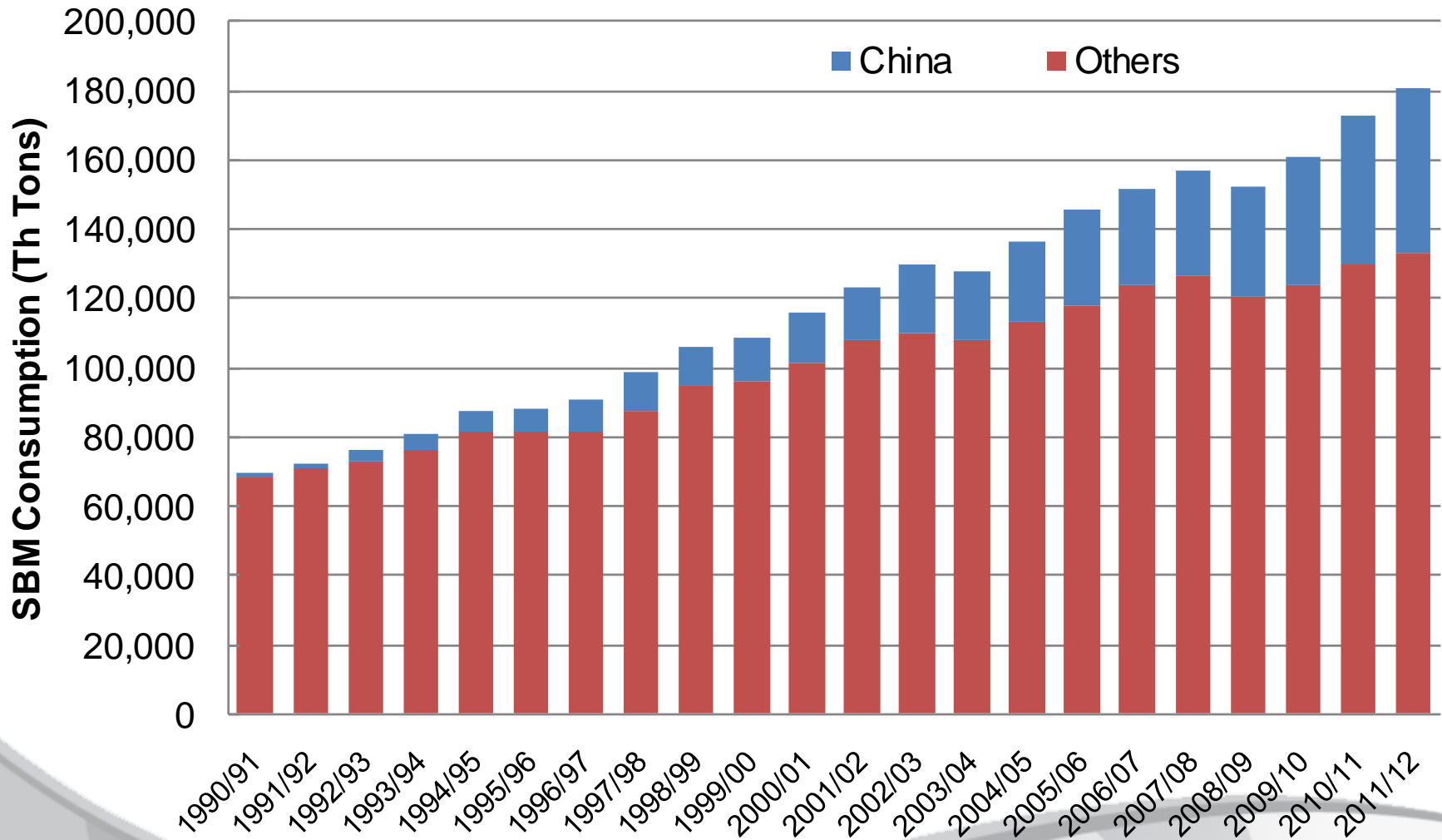


Source: PS&D Online – USDA.



SBM Domestic Consumption

- SBM in China represents more than 25% of the world SBM Consumption.

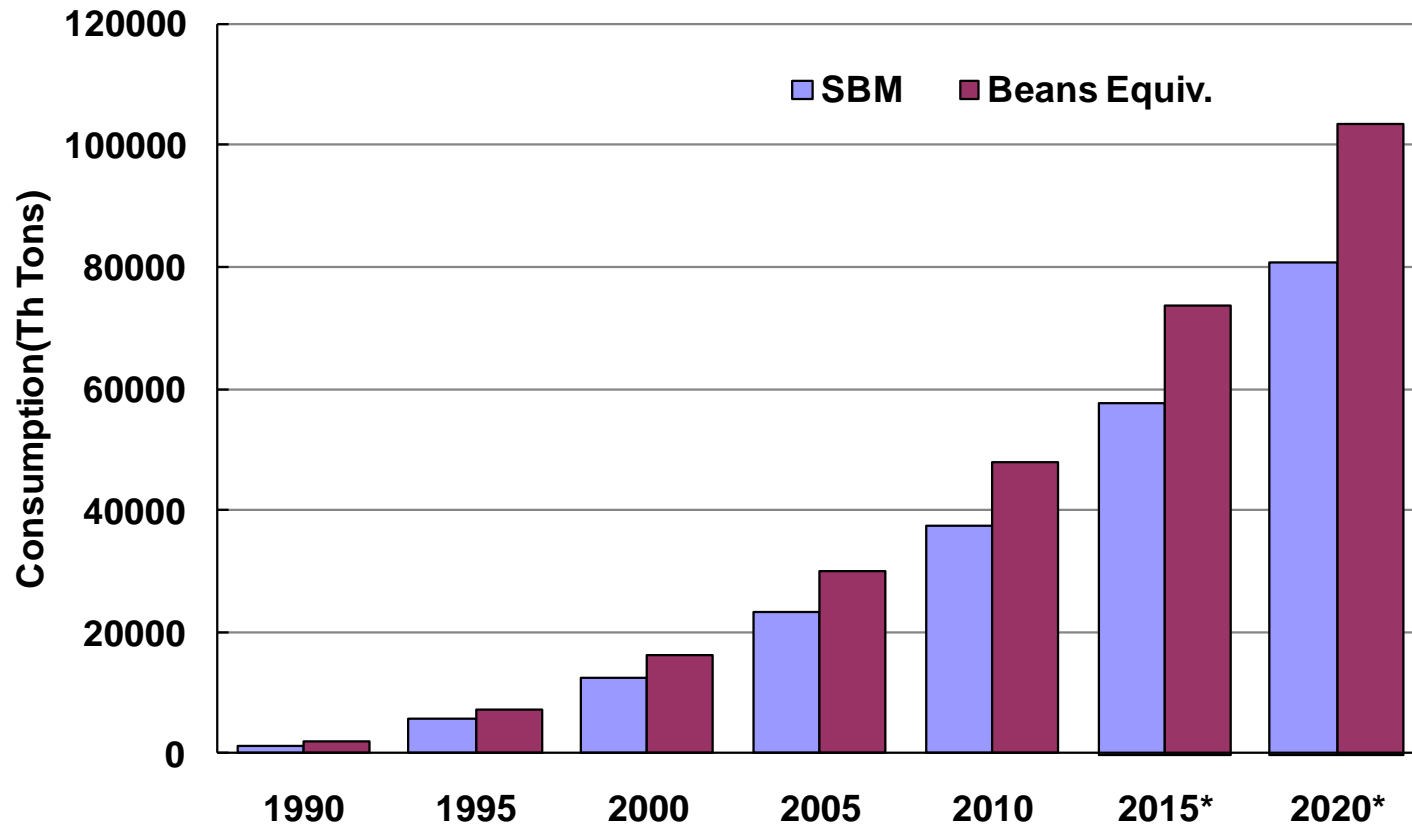


Source: PS&D Online – USDA.



China SBM Consumption for Meat Production

- China soybean meal demand will exceed 80 million in 2020 (100 million soybeans equivalent).

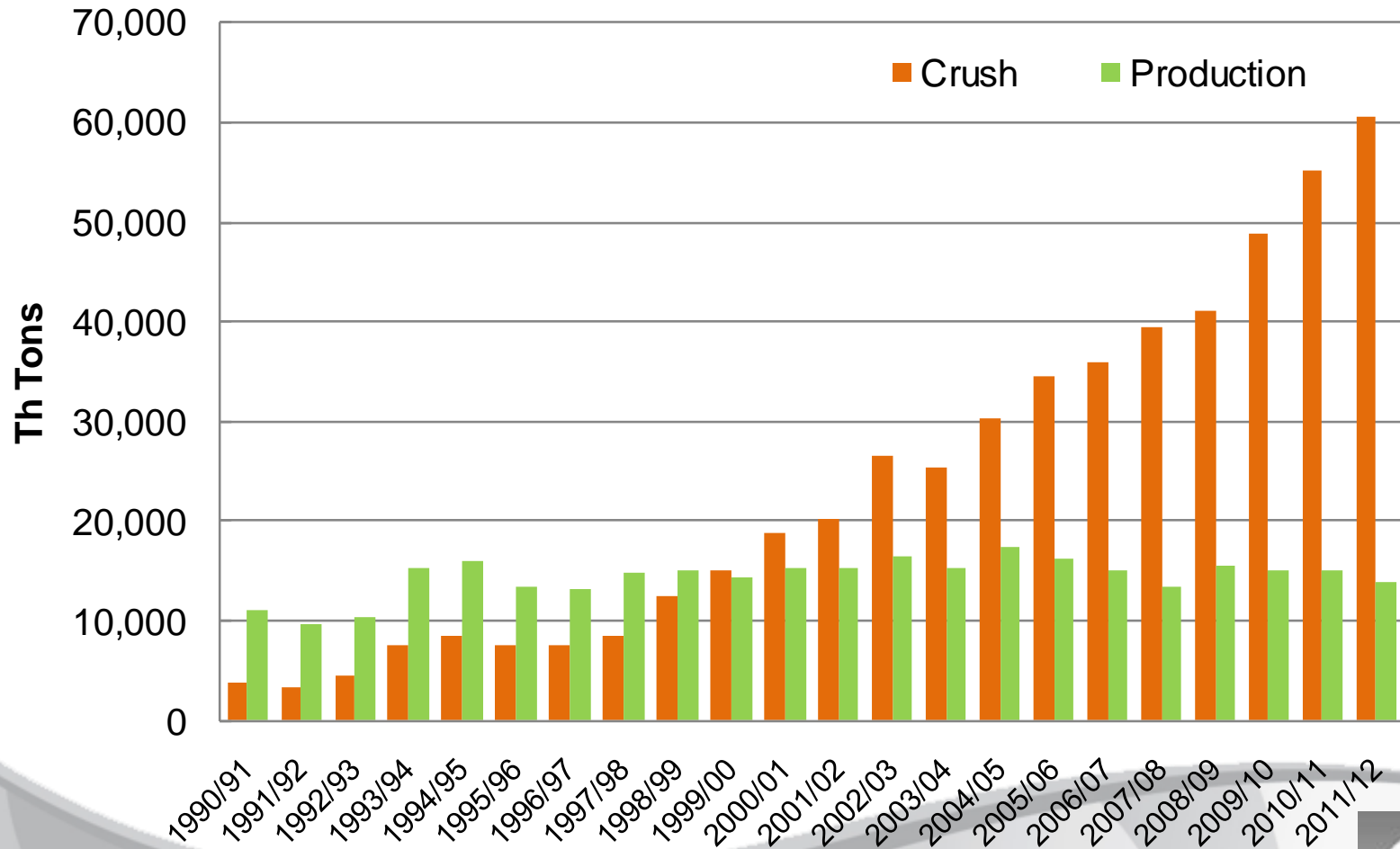


Source: PS&D Online – USDA / MRP Research Department.



China Soybean Production & Crushing

- Soybean production has been stagnated in the level reached in the 90's, but crushing capacity grew very fast during the last 10 years.

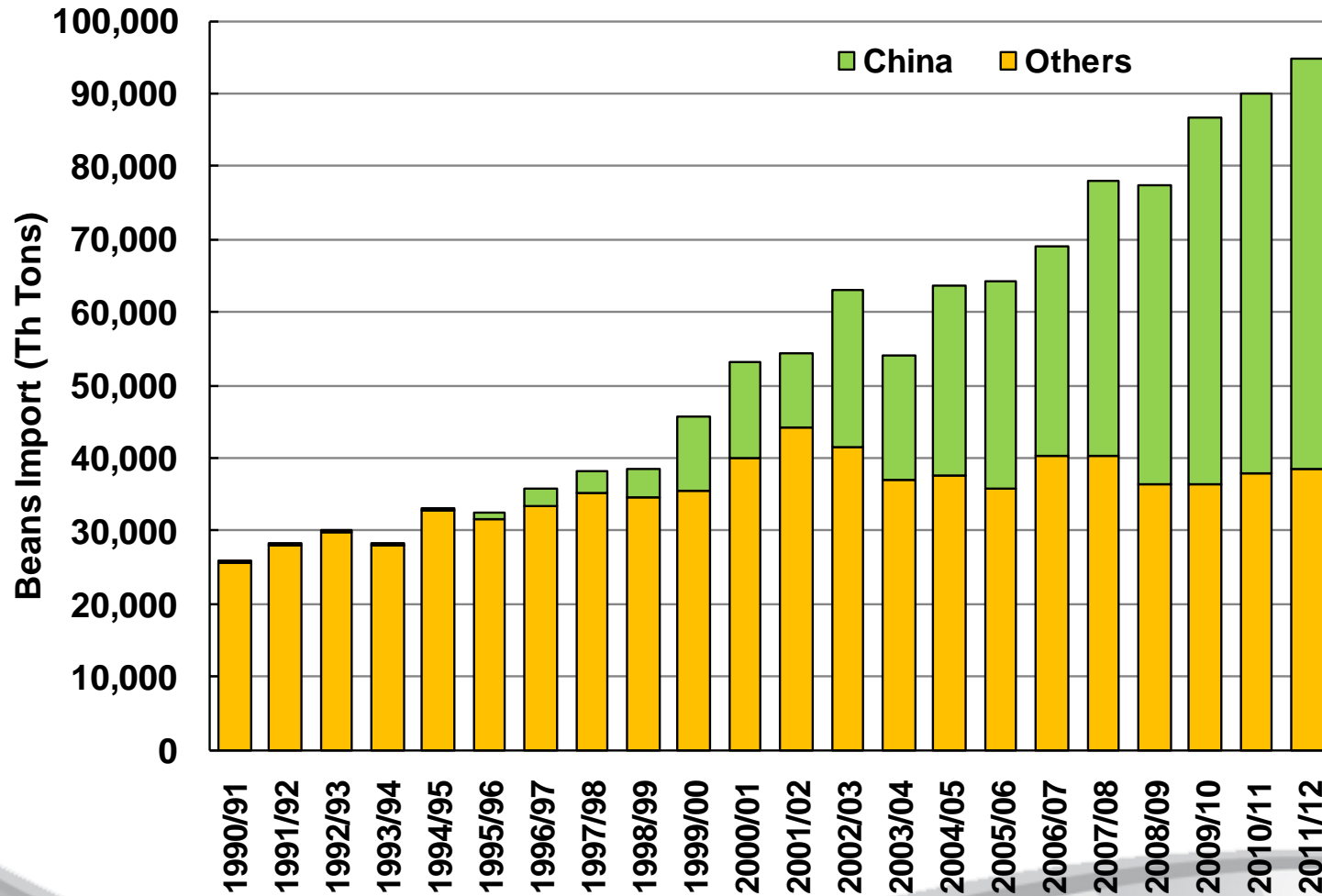


Source: PS&D Online – USDA.



Soybean Imports

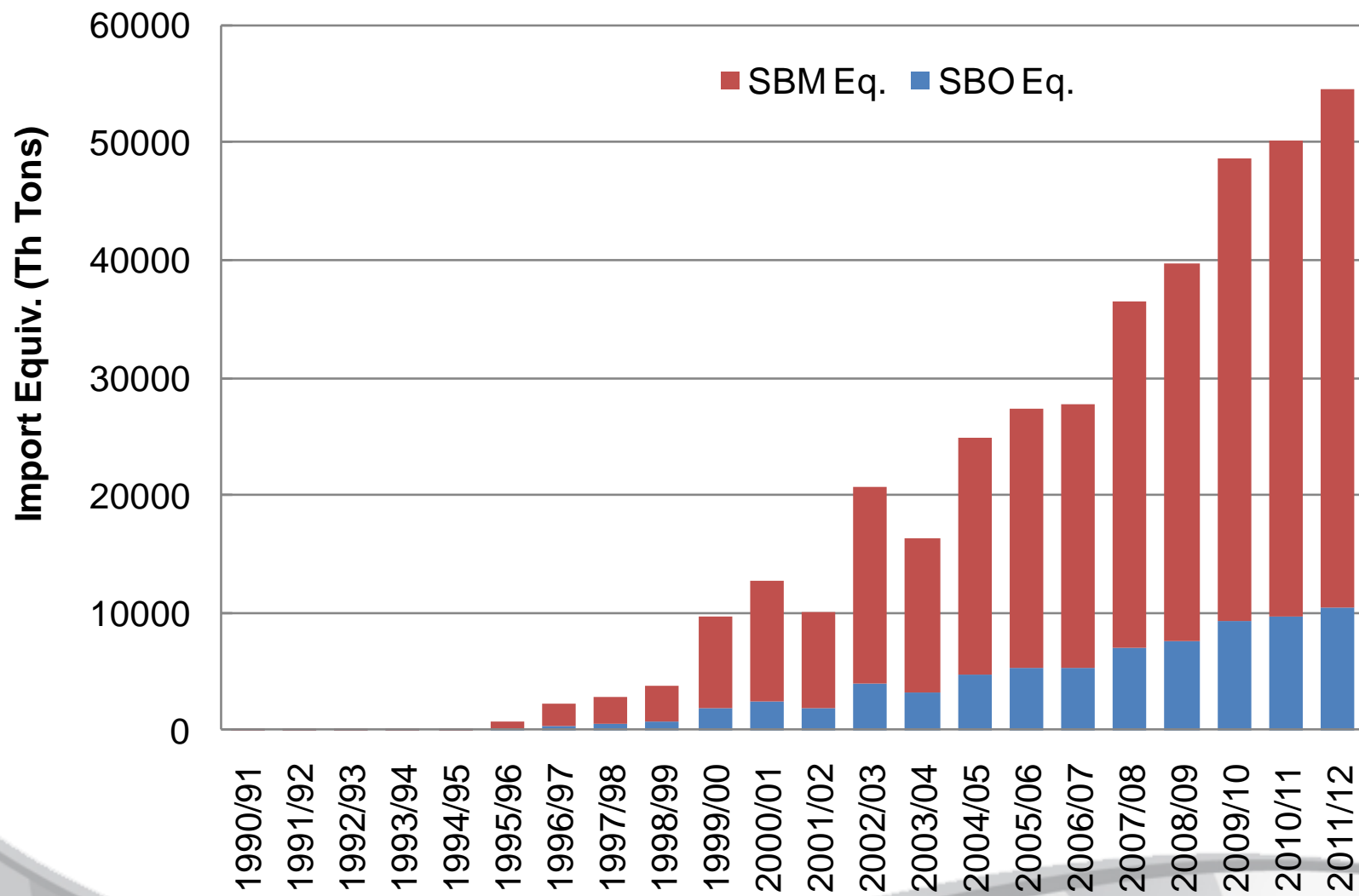
- China soybeans imports represent 60% of World Trade.



Source: PS&D Online – USDA.



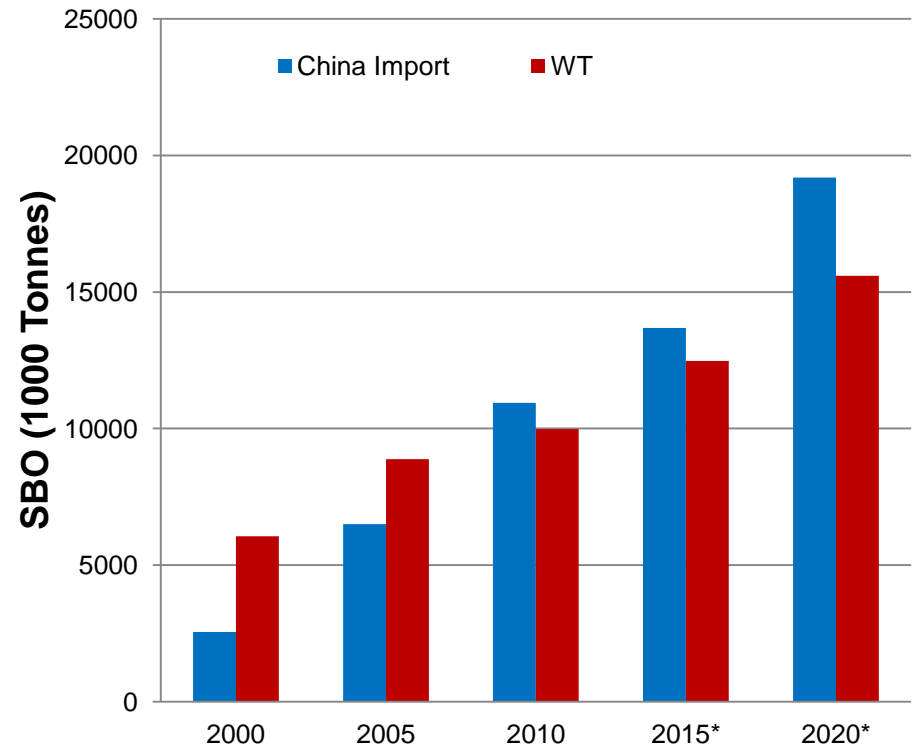
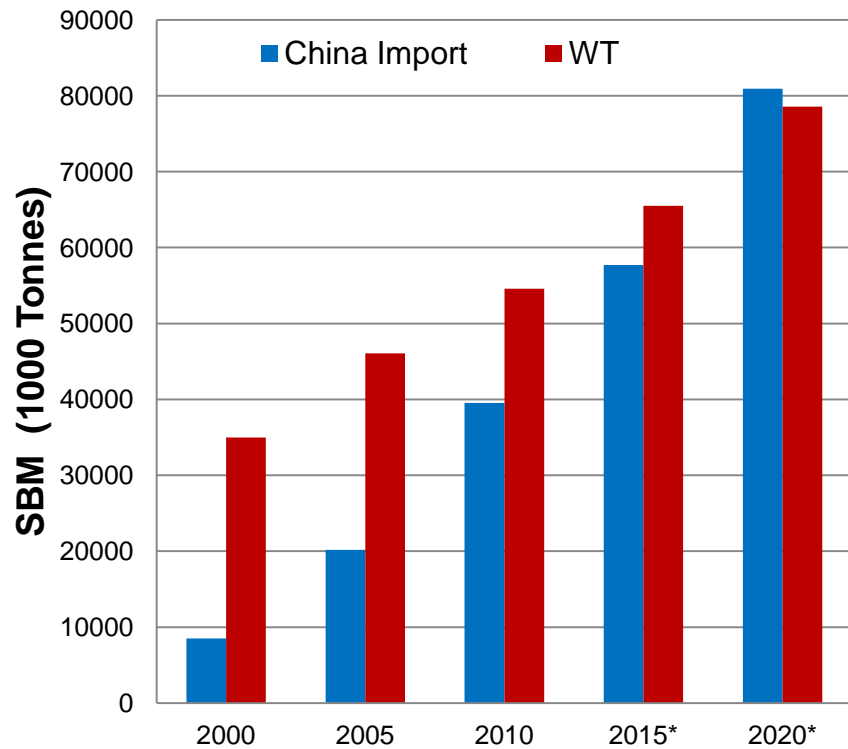
China imports SBO & SBM equivalent imported as soybeans



Source: PS&D Online – USDA.



China SBM & SBO equivalent of imported beans compared to SBM & SBO World Trade

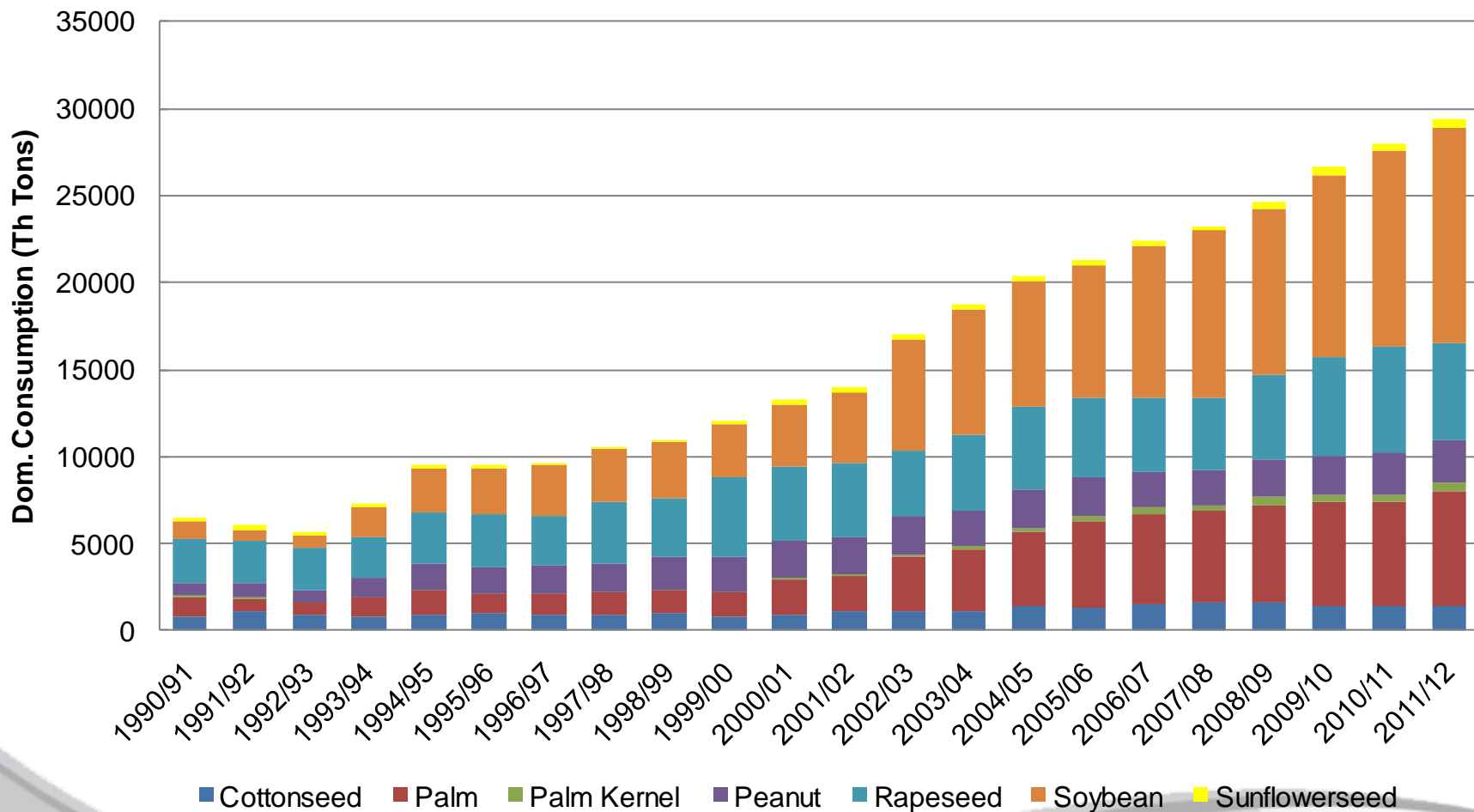


Source: PS&D Online – USDA/ Molinos Research Department.



China Oils – Domestic Consumption

- Soybean oil and palm oil support the increasing aggregated edible oil demand

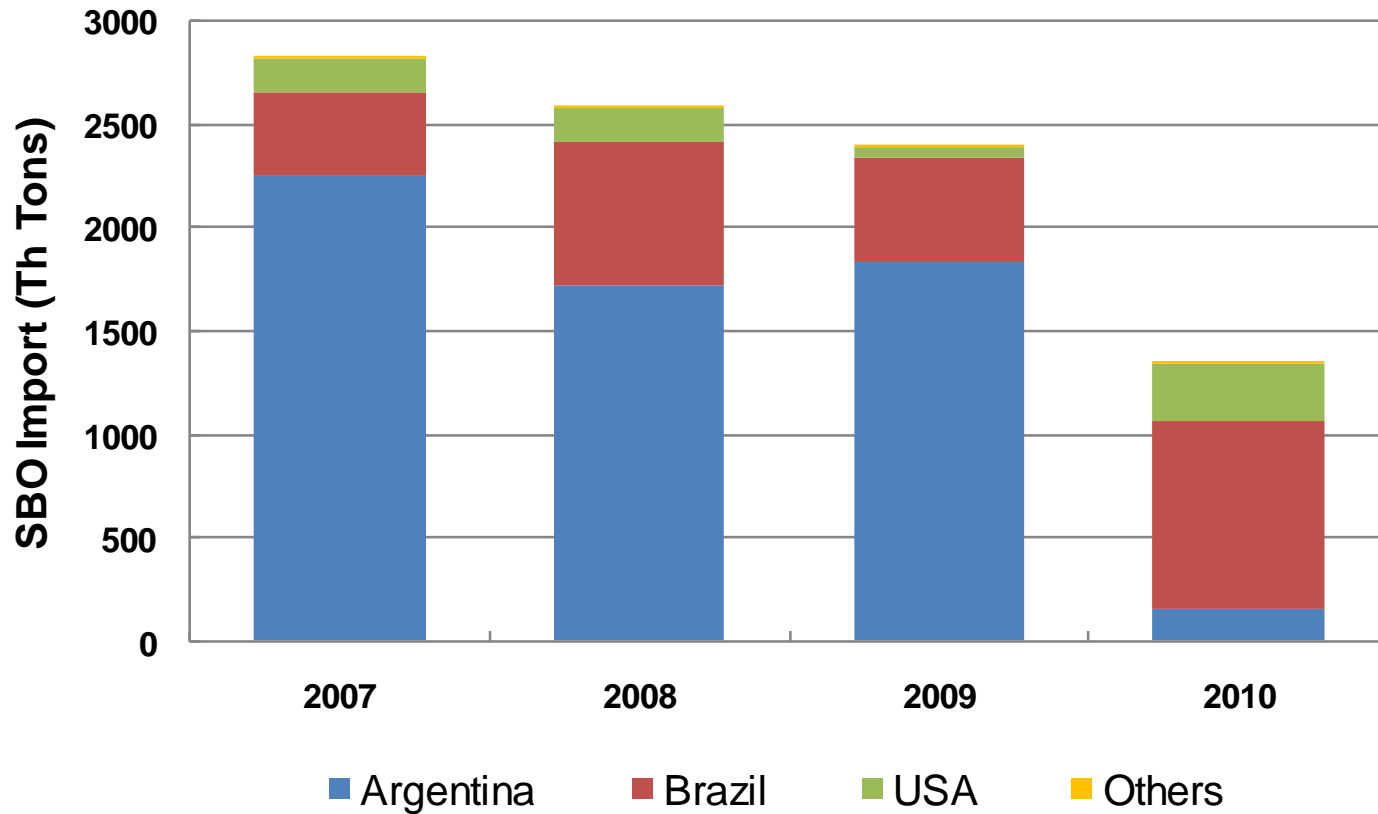


Source: PS&D USDA - 2011.

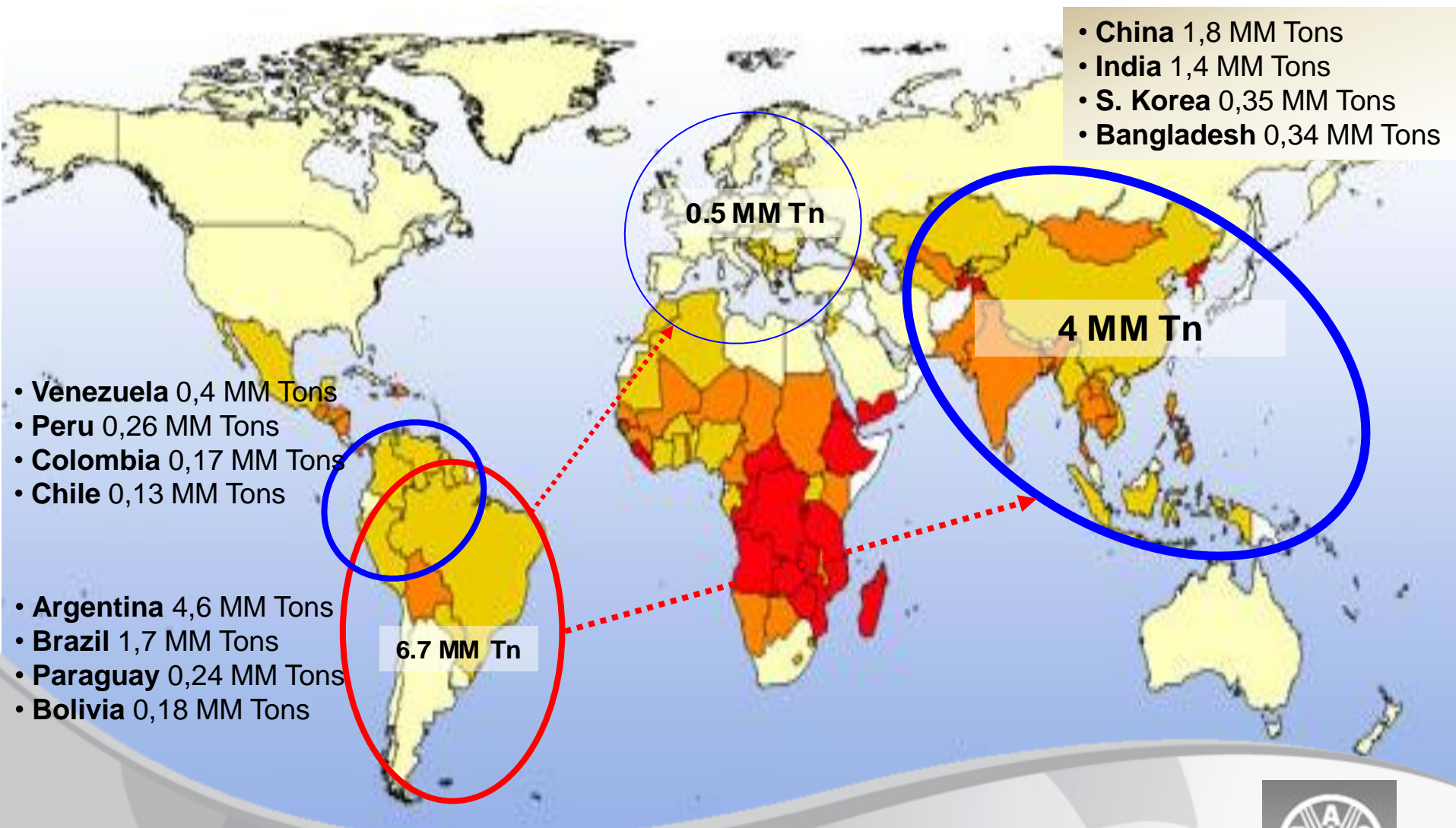


China Imports Origins – Soybean Oil

- Declining soybean oil imports. Argentina used to be the main origin



Main Destinations for South American SBO



Source: Oil World Annual 2010.



Chinese trade policies

- Import permits based on quarantine reasons for grain and oils, which are given by health and quarantine Authorities of China
- Regulation #73: quarantine requirements for agricultural products and its derivatives (oils, meals and grains)
- Regulations in new limits of tolerance for solvent residues in crude and refined soybean oil
- Application of Value Added Tax in Imports
- Refund of Value Added Tax for SBM Exports
- Refund of Income Tax for exporter Companies
- Import tax differentials in the soybean complex (Beans = 3%, SBO = 9% and SBM = 5%)



Chinese trade policies consequences

- Soybean meal imports almost banned
- Restrictions for soybean oil imports, particularly from the Argentine origin.
- Very profitable local crushing margins on imported soybeans.
- Strong competition for raw materials at the origin (USA, Brazil and Argentina).
- Higher soybean meal cost for the Chinese meat sector



Argentina trade policies

- Export tax rate differential for value added products over raw materials .
- Restricted exports licenses for wheat and corn since 2008

Brazilian trade policies

- Tax and credit support to value added production (Poultry, Swine)
- State/regional taxation promoting soybeans exports

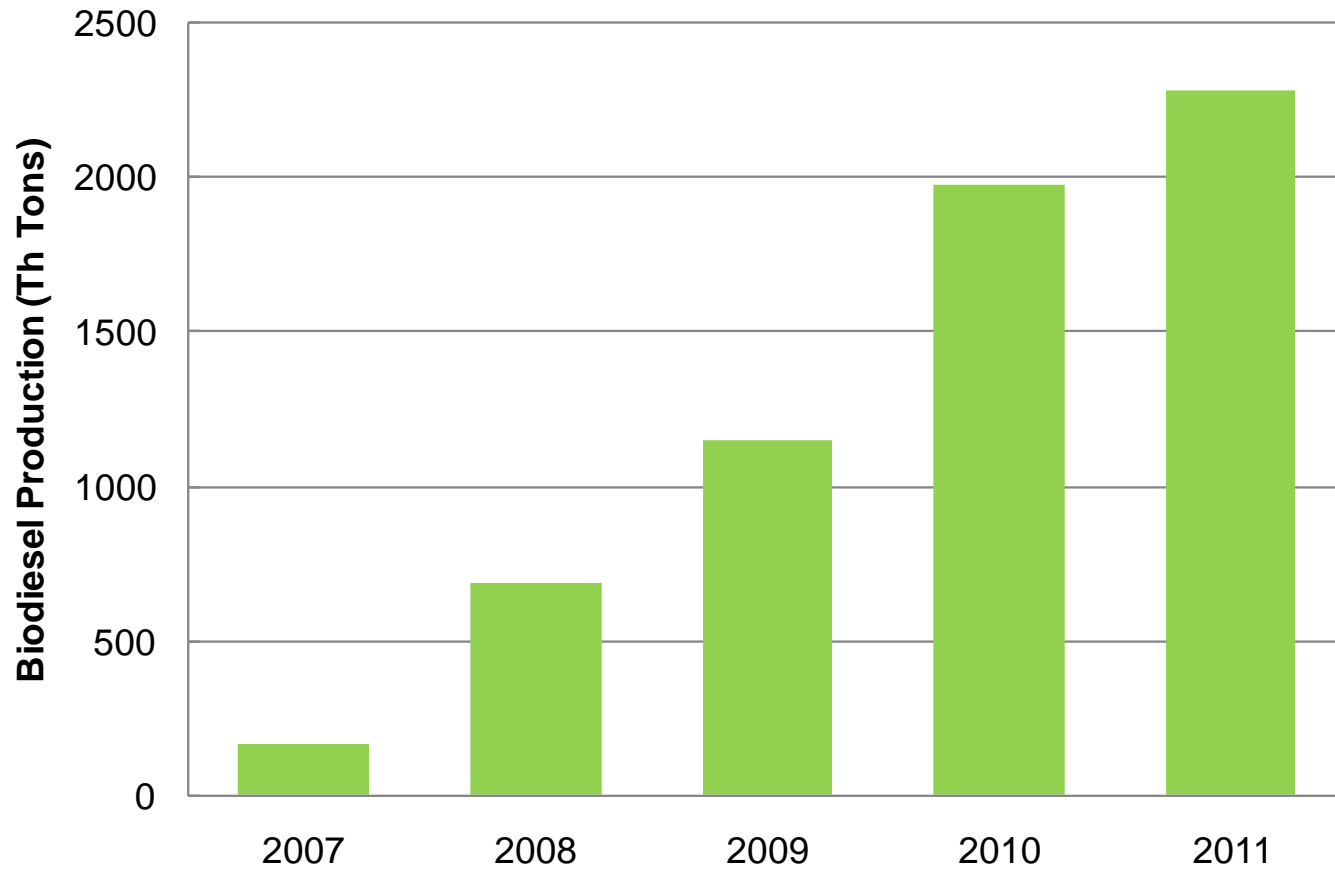


Brazil and Argentina policies consequences

- Brazil became a larger exporter of soybeans, poultry and pork.
- Argentina developed a large scale very efficient crushing industry for export .
- Argentina became the largest world exporter of soybean meal, soybean oil and biodiesel.
- Brazil and Argentina are consuming increasing quantities of soybean oil to supply the local biodiesel market.
- Argentina is gradually becoming a more relevant broiler exporter.
- Agricultural land will keep on growing in LA, but with more restrictions on deforestation and limited access for foreigners.



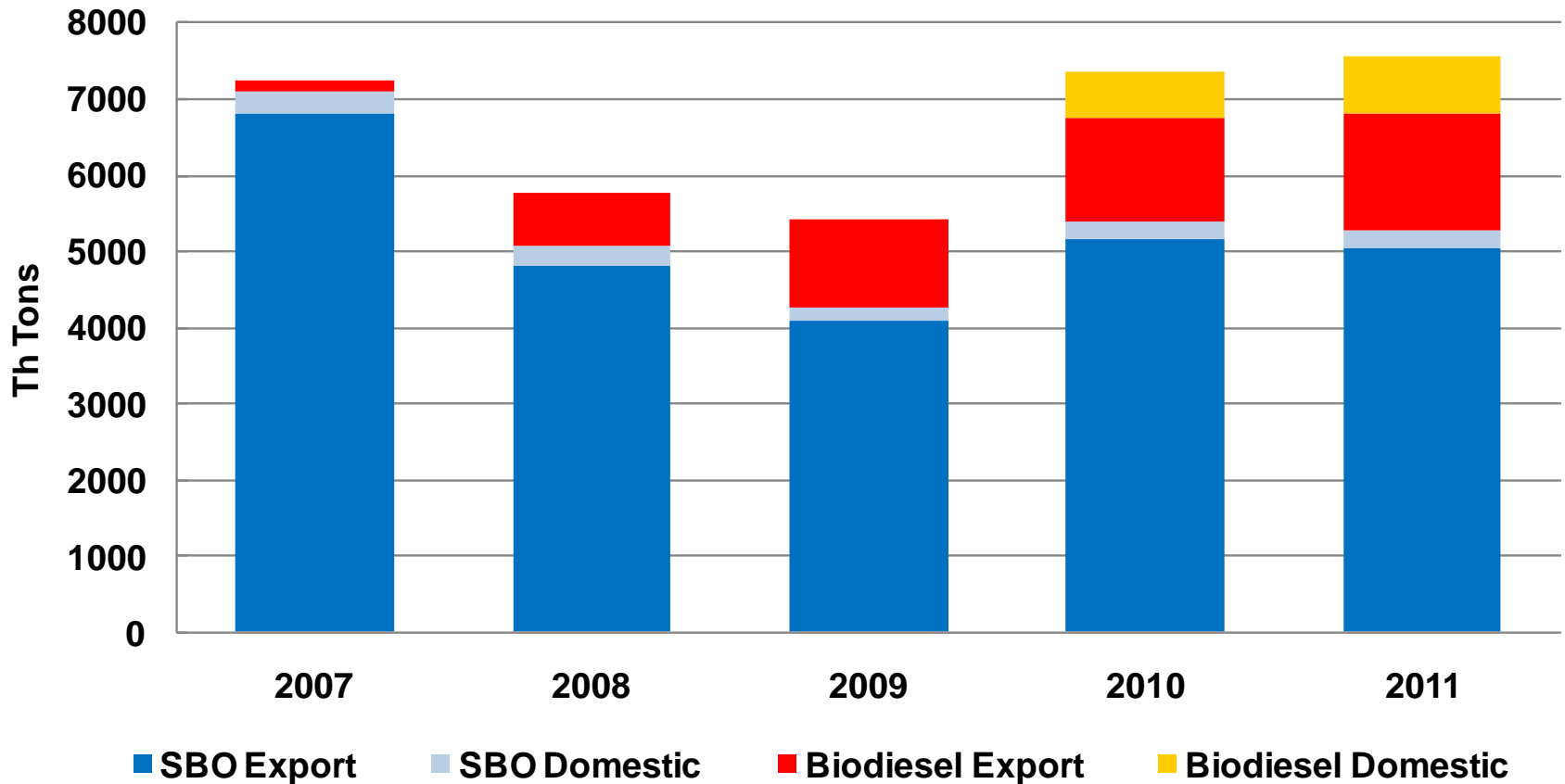
Argentina Biodiesel Production



Source: Molinos Research Department



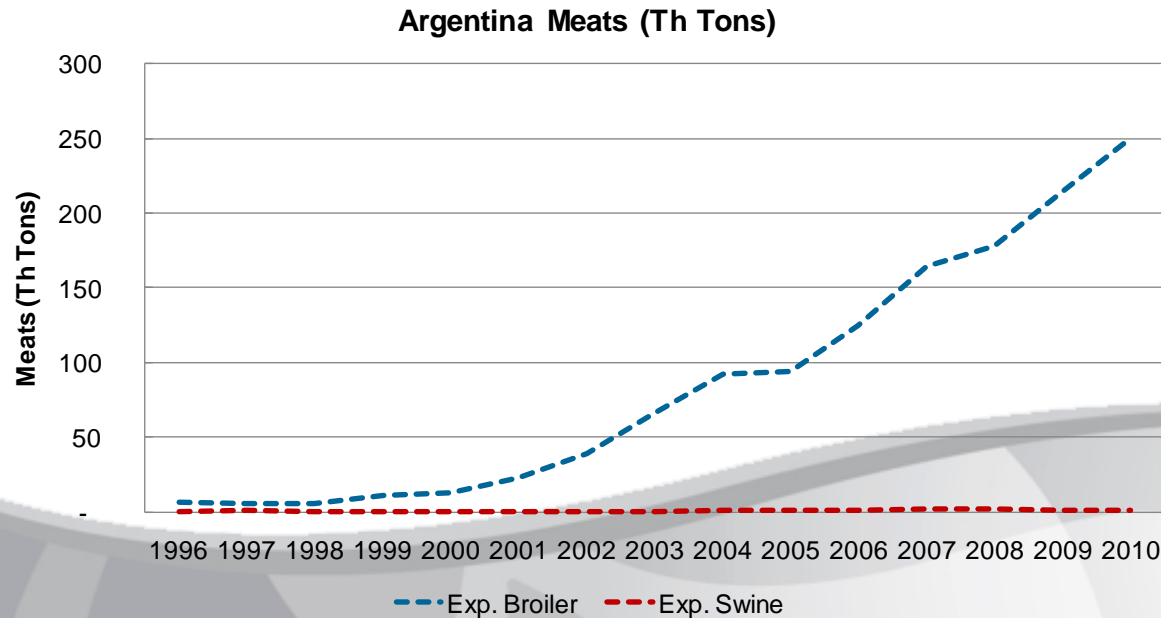
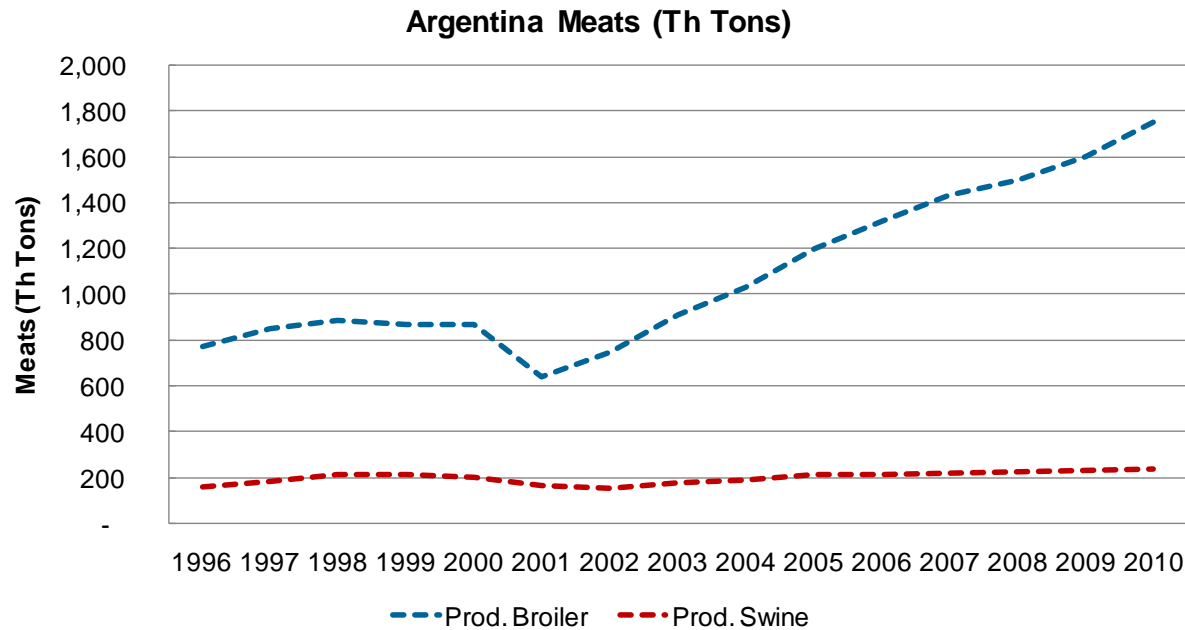
SBO & Biodiesel Exports from Argentina



Source: Molinos Research Department



Argentine and Brazil Meat Production & Exports Evolution



Potential business: facts and challenges

FACTS:

- Chinese soybean meal demand will duplicate to 80 million metric tones in next eight years.
- Brazil and Argentina could increase their soybean production to cover the majority of this significant jump of the soybean meal demand .
- Soybean crush in Latin America will raise to produce incremental quantities of biodiesel . This will result in lower soybeans export surpluses, but larger and cheaper availability of soybean meal.

CHALLENGES:

- Argentine crushing industry, supplying lower cost soybean meal, could be a very efficient strategic partner of the Chinese swine and poultry industry.
- Removal of trade barriers will result in cost efficiency along the supply chain.
- Chinese venture agreements to produce food in Latin America should be seriously analyzed



Main tasks in search of efficiency:

- The Argentine crushing industry and the Chinese Meat companies should work together to remove import barriers on soybean meal in China.
- Continued supply from the Argentine origin should be assured not only by the private sector but also by the Argentine authorities, both on meal and oil.
- Chinese Meat producers directly or through state run importer companies should celebrate soybean meal supply frame contracts with Argentine crushers. (target : one million metric tone /month).
- The Chinese meat sector should also explore opportunities to produce broilers and pork in Argentina, benefiting on very cheap feed raw materials.
- Import barriers on other soft oils like sunflower oil should be removed.
- State run Chinese edible oil importers should sign supply agreements with Argentine crushers (target 0.2 million metric tone/month).
- World Bank should provide finance support to cost efficient projects based on natural or technological national advantages.

