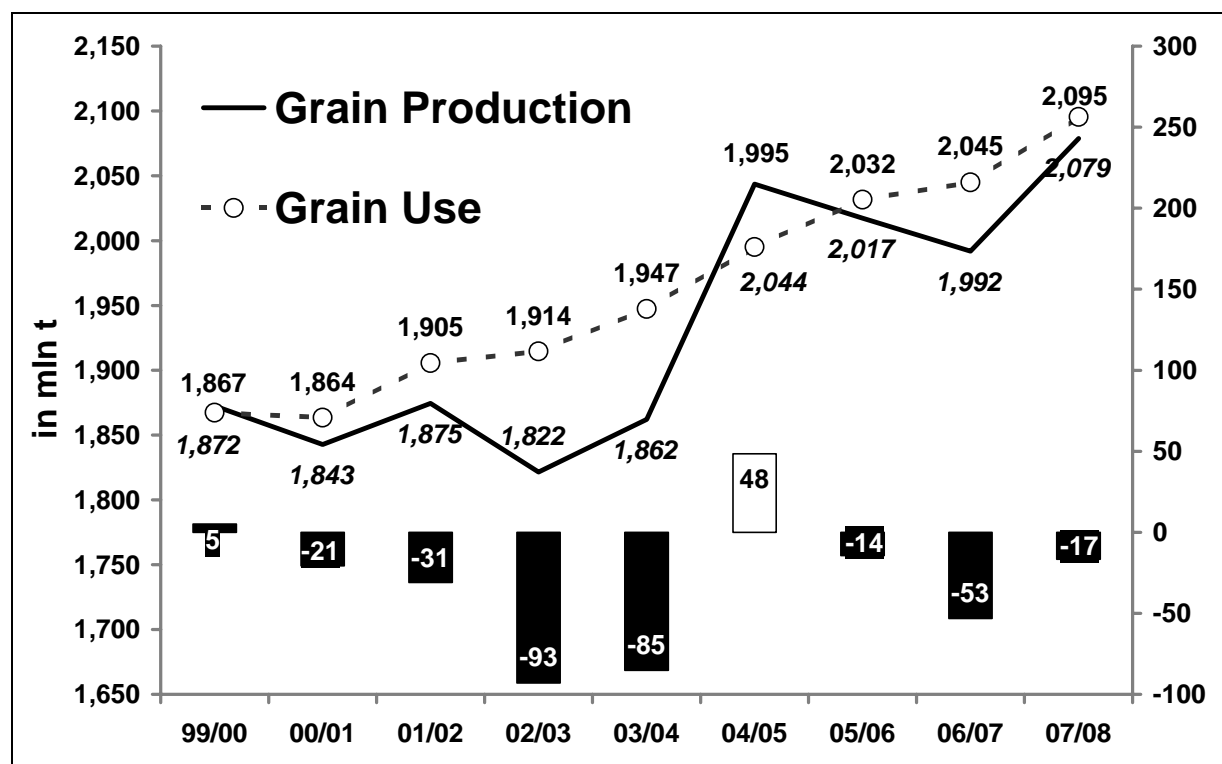


## The European Union Tapioca Market – Imports Revived due to Record High Grain Prices

This year's situation on the world agricultural markets is unprecedented. **An all time record grain crop of close to 2.1 billion tons is accompanied by record world wheat and barley prices** and very high corn prices. But grain is not an exception, as the same holds true for the oilseed complex. Again, a record world vegetable oil production could not avoid vegetable oil prices to reach levels close to their historical highs.

**Figure 1: World Grain production remains behind use**

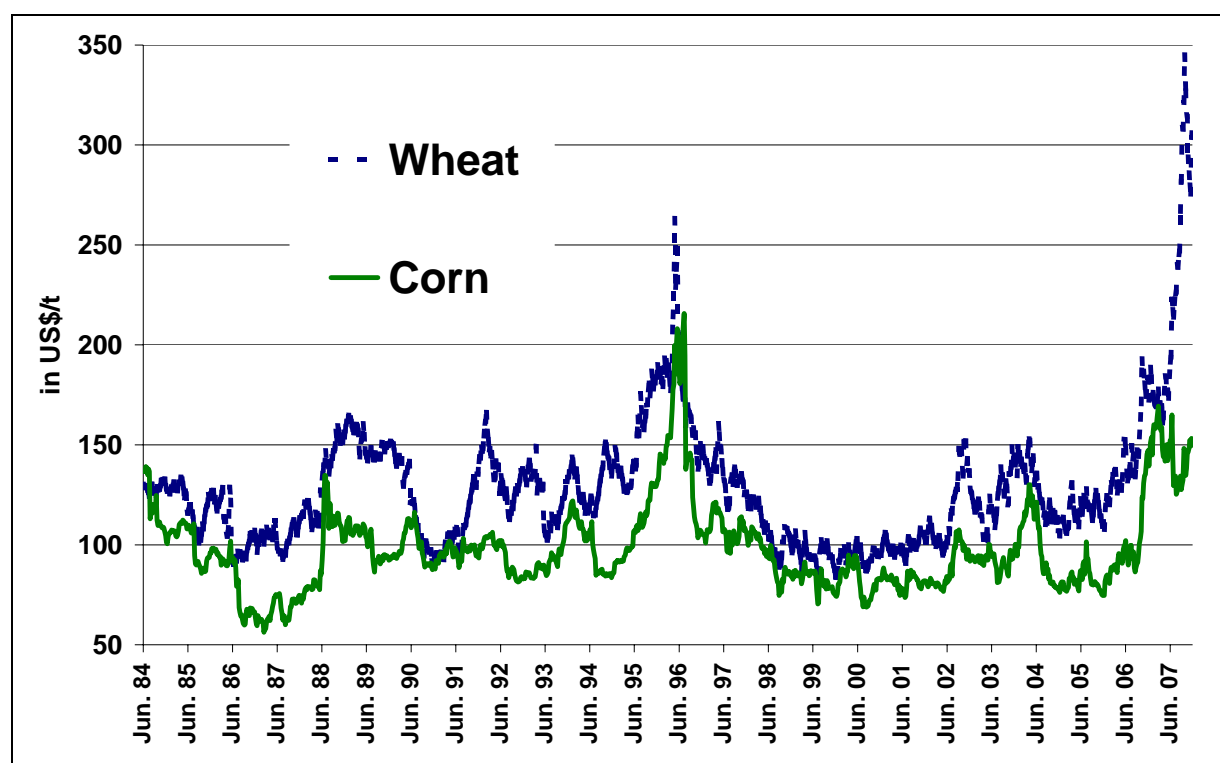


Source: USDA & Toepfer International

The reason for this remarkable situation is the **ever increasing world demand**. Whereas the world grain production has increased by 1.32 % since 1999/00, the demand has grown even faster by an impressive rate of 1.45 % in the same period. This is shown in figure 1. In fact, there was only one year after the 1999/00 marketing year, namely 2004/05, when the world grain production was bigger than the grain use. In all

other years production couldn't cope with consumption. This has inevitably led to a depletion of world grain stocks, which declined from 584 mln t at the end of the 1999/00 marketing year to only 319 mln t, a number that is expected by the US Department of Agriculture (USDA). This is only 15.3 % of this years usage and sufficient for 56 days of consumption only - a very low number, if one takes into account that from the end of the marketing year – in Europe for example at June 30 – until the arrival of the new harvest in August it can easily take between 20 and 50 days. For this reason world grain ending stocks are seen as very tight in the current marketing year and why prices on the world market have reacted so sharply.

**Figure 2: Grain Price Development in the USA – Wheat and Corn Prices at the CboT in US\$/t**



Source: Reuters

Especially the **situation on the wheat market is considered to be very tight**, and prices reached the record level of over 353 US\$/t in September 2007, well above the previous high of 263 US\$/t in May 1996. Corn prices couldn't follow in the US after the record corn production achieved this year, however, prices are high at above 150 US\$/t compared to the long term average of just below 100 US\$/t.

**In the EU-27 dry weather conditions in northern Europe** in the early spring this year and a long lasting drought in south eastern Europe in May and June 2007 have led to crop losses so that the total EU grain crop has dropped to only 254 mln t. Earlier expectation have been much higher at 270 to 280 mln t, and the record EU grain crop was above 300 mln t in 2004/05. But other than in earlier years the compound feed manufacturers, mills and other consumers of grain were not able to rely on grain stocks, which were depleted already in the 2005/07 marketing year. Especially the public intervention stocks declined sharply from 14 mln t at the beginning of the 2005/06 marketing year by 11.6 mln t to a mere of 2.4 mln t at the end of the marketing year. This was not enough to cushion again the very short supply in 2007/08. This is resulting in both, sharply increasing imports of grain of an expected 16 mln t compared to 11 mln t in 2006/07 and a decline in exports to 13 mln t from almost 19 mln t last year.

**Table 1: The EU-27 Grain Supply and Demand Statistic**

	<b>2006/07</b>	<b>2007/08</b>
<b>Production</b>	<b>259.0</b>	<b>253.9</b>
Imports	11.1	16.0
<b>Total Use</b>	<b>261.9</b>	<b>259.1</b>
<i>thereof feed</i>	159.3	155.7
<i>Human use &amp; industry</i>	88.0	87.9
<b>Export</b>	<b>18.8</b>	<b>12.9</b>
<b>Carry out</b>	<b>47.2</b>	<b>45.1</b>
<i>thereof intervention</i>	<b>2.4</b>	<b>0.0</b>

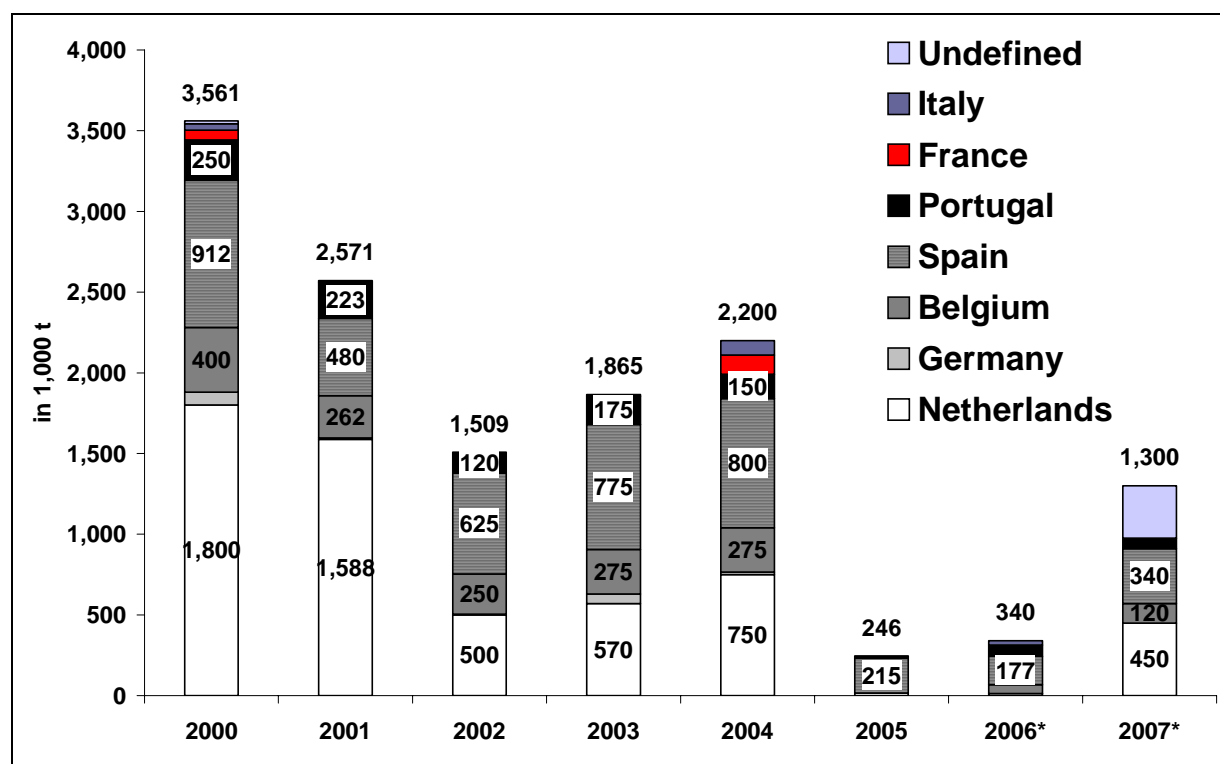
Source: Toepfer International

The tight EU grain balance has led to grain prices well above the US-grain prices. However, imports of corn out of the United states are not possible into the EU as some genetically modified corn varieties are grown in the US which have not yet the approval of the EU authorities. The same problem applies for imports of corn gluten feed – a protein rich by-product of the US sweetener and ethanol industry. In earlier years about 3 mln t or more were imported from the US, but these imports dried out, as the EU authorities are currently not able to approve the new GMO varieties timely. **Therefore,**

**the EU is heavily relying on feedstuff imports from other sources, out of which tapioca and soybean meal have been among the most important in recent months.**

The **EU tapioca imports** are depicted in figure 3. They have been impressive in the years from 2000 until 2004, but have declined to a mere of only 246,000 t in 2005. A number of factors have contributed to this development in which tapioca was simply not competitive on the EU market. Poor harvests and a high demand from China was only one factor, but low grain prices in the EU-27 (figure 4) and sharply increasing maritime freight rates have been the even more important factor for this development. In fact, tapioca imports have been competitive only into Spain and Portugal, that experienced poor grain crops in 2005 and 2006 and which is easy to reach by tapioca shipments. Therefore, from the 246,000 (340,000) to of tapioca imports in 2005 and 2006, approx. 230,000 (246,000) t were shipped to the Iberian peninsula.

**Figure 3: EU Tapioca imports by country from 2000 until 2007 in 1,000 t**

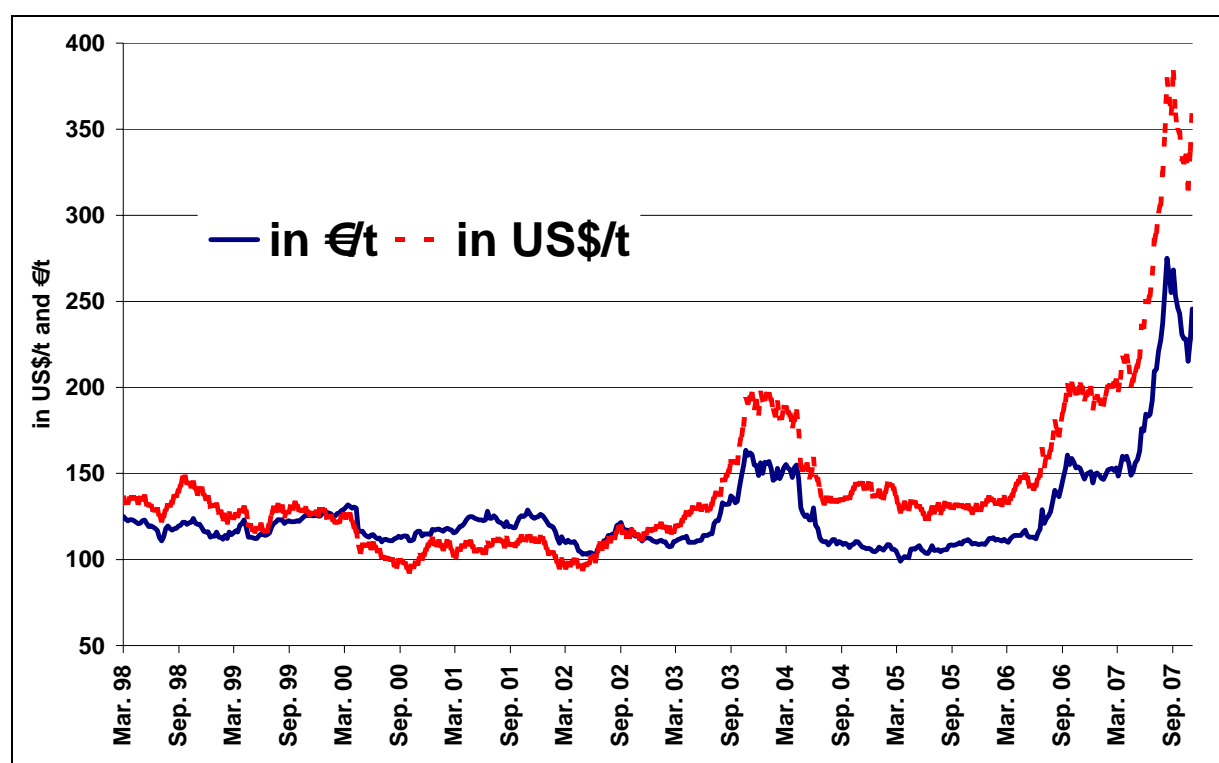


Source: Eurostat

This has changed in 2007 due to the record high grain prices in the EU, which are depicted in figure 4 for wheat both in €/t and US\$/t. **These prices have attracted**

**significant amounts of tapioca**, which will most likely come up to 1.35 mln t in the 2007 calendar year. Even more remarkable is that tapioca is competitive in the EU despite record high freight rates, which have again more than doubled since 2005. Furthermore, tapioca was not only shipped into Spain, that harvested a comparatively good grain crop in 2007, but also into the Netherlands, Belgium and Germany. However, since August and September, when most of the tapioca contracts were concluded on the European market, the business has declined again, mostly due to the falling grain prices. Wheat, for example, dropped from its one day contract high of 300 €/t (well above 400 US\$/t) by 85 €/t within two months. In the meantime the wheat price recovered to 250 €/t. As freight rates declined again, tapioca could become an option for the EU compound feed manufacturers again.

**Figure 4: EU wheat price development on the Euronext (Paris) in €/t and US\$/t**



Source: Reuters

**The future of tapioca imports is difficult to assess.** The experience of 2007 has shown that tapioca is only competitive on the EU market at high grain prices in the EU and at moderate maritime freight rates. Whether such situations will happen is impossible to assess. Indeed, the only characteristic of the grain markets that can be

**predicted with reasonable certainty is that market prices will remain highly volatile, not only in 2007 but most likely also in 2008.** World grain stocks are depleted and demand is growing at a very high pace, not only the food and feed demand, but also the demand for biofuel production. For this demand to be met the world needs a number of record grain crops. Or, to put it in other words, any major crop failure will send prices up. Also international maritime freight rates are expected to remain volatile. At the moment it is unclear when the boom will end, but it seems likely that this will not happen any time soon, although prices could drop well below the recently achieved record rates. And last but not least, the US\$/€ exchange rate is an important determinant of the competitiveness of tapioca in the EU. The recent strength of the Euro has sent prices in US\$-terms in the EU upwards, which contributes to the relative competitiveness of tapioca in the EU.

Thus, all factors that contribute to the competitiveness of tapioca in the EU are extremely volatile during these times and almost impossible to predict. This, however, increases the chance, that tapioca imports are competitive from time to time in the EU when certain market constellations occur, and there is reason to believe in tapioca imports to significantly increase compared to their low level in 2005 and 2006.

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November 30, 2007

**Source : Annual Report 2007. The Thai Tapioca Trade Association.**