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Ban on soybean imports could drive up costs in EU

By Elaine Mills

LONDON—The costs faced by the European Union's agriculture sector could skyrocket if the trading bloc doesn't agree to lift a strict ban on genetically modified soybean imports, traders and analysts say.

The EU has traditionally imported most of the soy used in animal feed from South America. For the marketing year running from September 2008 to August 2009, the trading bloc imported 96% of its soy meal from South America, according to the U.S. Department for Agriculture.

This year, however, South American harvests have been exceptionally small, with Argentina having experienced a drought-related drop of 30% in soybean production, the European Commission said. In addition, demand from China is also rising, the Commission said.

To compensate, the EU will have to import nearly double the usual amount of soy from North America over the next six months—7.5 million metric tons compared with just 3.6 million tons imported in the year-earlier period—until the next South American export season starts in March, industry and trade groups say.

The price of U.S. soy sold on the Rotterdam exchange has risen from an average of $413 per ton in January, when dry weather conditions in South America first indicated a disappointing harvest, to $425 per ton in June.

But a prolonged freeze in U.S. soy imports will drive up the prices of all feed grains much more substantially—by as much as 30%, said Klaus Schumacher, chief economist for commodities trading firm Alfred C. Toepfer.

The crunch time is the next six months, when the price impact will be felt if the imports freeze continues. At this stage, industry players are still hopeful the trading disruption will be resolved in a timely manner. Expectations for a record U.S. soy harvest are also having a bullish impact. But traders say for the moment the market is mostly caught in limbo.

While the EU has approved a range of genetically modified organisms, or GMOs, for import, it rejects any shipment that contains even minute traces of unauthorized GM material.

Indeed, this happened over the summer when several U.S. soy shipments with traces of unapproved GM maize were called back by German and Spanish authorities. Subsequently, EU operators have stopped buying soy from the U.S. to avoid the risk of having their cargoes rejected, said Siegfried Falk, a Hamburg-based oilseeds analyst with Oil World.

Last month, EU Agriculture Commissioner Mariann Fischer Boel said there was a need for the EU to act urgently, given the risks of low-level presence of non-authorized GM in soy meal.

She said a lack of U.S. soy imports over coming months risks a serious shortage and higher prices that could hurt the EU compound

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feed industry's competitiveness and the viability of an already struggling EU livestock sector. The industry is already hampered by reduced demand for meat and diary products due to the economic downturn.

If Europe is unable to procure the necessary soy supplies from North America it could suffer losses of €3.5 billion to €5 billion, or about $5.2 billion to $7.4 billion, in the next six months, the EU's Food and Feed Chain, a coalition of trade associations, has warned.

To put these costs in perspective, annual revenue of the European crushing industry and the compound feed industry are €20 billion and €45 billion respectively, while Europe's livestock industry generates €142 billion a year.

"The ultimate disaster would be if feed became so expensive that it put EU livestock farmers out of business, while we import meat from animals reared on non-approved GM feed from outside the EU," said Michael Mann, the EU Commission spokesman for agriculture.

The quickest solution would be for ministers to approve the corn strains that caused this summer's trade disruptions. Those were caused by seed strains owned by Monsanto Co's MON88017, and MIR604 from Syngenta AG.

EU member states will vote on approval for MON88017 on Oct. 19 and if a qualified majority—a vote based on the size of each country's gross domestic product—gives their support, the GM corn strain could soon be cleared for import. But MIR604 still has to be scrutinized by a standing committee, so the earliest it could attain approval is December.

Ms. Fischer Boel urged ministers to take up their responsibility during future votes and accelerate authorization procedures.

But continuing division among member states on the issue makes a conclusive ministerial vote highly unlikely, so the Commission will probably have the GM strains approved through a default procedure, whereby it has the power to adopt a proposal in the absence of a position for or against by the Council of Ministers.

However, industry groups argue this is only a short-term solution because newer, unauthorized GM strains continually emerge on the market and the bulk handling of agricultural commodities means residual particles in ship holds can easily contaminate GM-free or GM-approved cargoes.

Hence industry representatives are pushing hard for the EU to introduce a low-level presence threshold that would allow small, incidental amounts of unapproved GM organisms in agricultural imports.

The Joint Research Center, which provides scientific and technical support to the European Commission on policy issues, in July released a report that predicts trade disruptions will become more frequent, affect more products and inevitably lead to higher EU grain prices as GM varieties not approved by the EU are more widely cultivated.

Currently there are only about 30 commercial GM crops cultivated world-wide, but by 2015 these will increase to over 120, according to the report. Of these, soybeans will constitute 17 different GM varieties.


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