



Bi-weekly Bulletin

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VEGETABLE OILS: Competition in a Changing Market

Over the past decade the world market for vegetable oil (veg-oil) has expanded sharply. This expansion was largely driven by the increased production of palm oil in Malaysia and Indonesia, higher soyoil production in Brazil, Argentina and China and the rise in veg-oil consumption in China and India. World trade also grew sharply since 1994-95 as international trade rules were liberalized and industry invested heavily in the sector. Over the medium term, the world veg-oil sector is projected to continue expanding, although, at a slower pace. This issue of the Bi-Weekly Bulletin highlights issues affecting the soyoil, palm oil, canola/rapeoil and sunflowerseed oil sectors and discusses some factors that will influence the continued growth of the world veg-oil market.

The world market for veg-oil has expanded sharply. Production of the seven major edible oils (soyoil, palm oil, canola/rape oil, sunflowerseed oil, cottonseed oil, peanut oil, coconut oil, olive oil and palm kernel oil) has increased by over one half since 1994-95 to about 107 million tonnes (Mt) forecast for 2004-05.

Over the past ten years, the world veg-oil market has become slightly more concentrated. In 1994-95, production by commodity was: soyoil 30%, palm oil 22%, canola/rape oil, 15% and sunflowerseed oil 12%, with the remaining oils accounting for 21% of the market. By 2004-05, the four major veg-oils accounted for 82% of the market. Palm oil has expanded its market share by one-third, largely at the expense of sunflowerseed oil which declined by one-third. Soyoil and canola oil market share remained constant while the remaining oils accounted for 18% of the total world veg-oil output.

Expansion shifting to emerging economy countries

The growth in the world veg-oil market has occurred at the same time as production was shifting from the northern hemisphere to the southern hemisphere and the expansion in consumption was shifting from North America and Europe to Asia. In 1994-95, world production of vegetable oils was dominated by North America and the European Union (EU) which, between them, accounted for about 30% of the total world production. By 2004-05, the output from these two regions is expected to make up only 23% of the world's veg-oil output.

Since 1994-95, the production of veg-oils in the US and the EU ranged from 14 Mt-15 Mt per year, each. By contrast, in China the production of edible oils nearly doubled as it surpassed the US to become the world's largest veg-oil producing country (although in part this may reflect an improvement in

collecting production data as processors increased scale and size). Similarly, in Brazil and Argentina, soyoil production increased by one-half and nearly doubled, respectively. In Malaysia, palm oil production rose by two-thirds as the major investment in replanting plantations began to pay off. In Indonesia, palm oil output rose by two and one half times.

During the same period, consumption of veg-oils increased sharply in several emerging economy countries in response to a rise in population growth and disposable incomes. While veg-oil usage also rose significantly among the developed countries, the net effect was a geographical re-distribution of the veg-oil consumption.

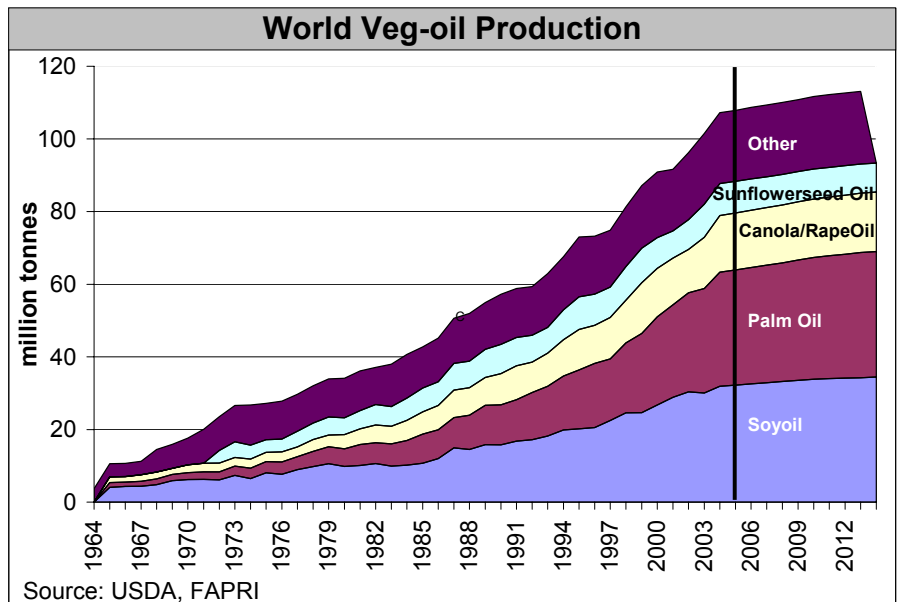
Since 1994-95, consumers in both the US and the EU-15 increased their veg-oil consumption by about one-quarter, while Chinese disappearance nearly doubled. India has emerged as the world's fourth largest consumer of veg-oils with usage

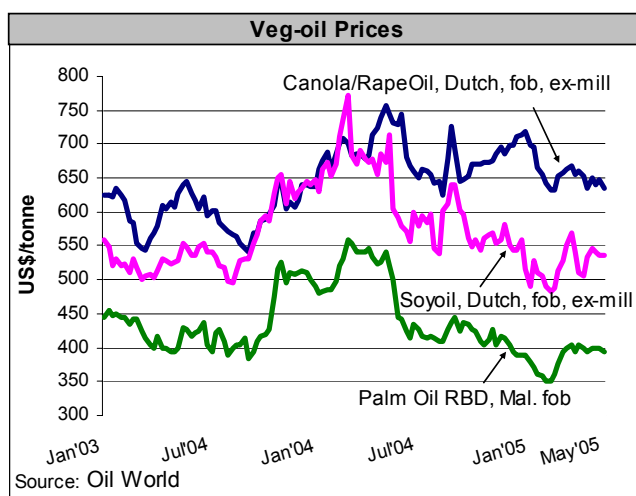
rising by more than one-half over the past decade. While, smaller in size, consumption in countries such as Pakistan, Malaysia, Indonesia and Mexico has also increased sharply

Growth based on a number of factors

The growth in the world veg-oil market has been impacted by numerous changes in national economic, agricultural and trade policies, economic and financial crises and currency fluctuations. The cumulative impact of these changes was to remove a number of restrictions to allow crushers to respond to increased consumer demand by the increasing production and trade of veg-oils among a number of countries.

Loosely speaking, the growth of the vegetable oil industry began in the early to mid-1970s when a series of events, such as the failure of the Peruvian anchovy catch, inflation in agricultural commodity prices, improved processing technology and rising North American and European incomes





raised the demand for vegetable oils. This growth was further supported during the 1970s when the US boycott on soybean sales to the former Soviet Union had the unintended result of expanding soybean production in South America.

Since 1994-95, veg-oil production increased sharply when, as the result of a series of policy changes and currency fluctuations, the processing industry responded to growing demand by expanding processing facilities in emerging economy countries. The sudden devaluation of the Malaysian Ringgit, Brazilian Real and Argentine Peso, made the production of palm oil, soybeans and soyoil more attractive in the respective countries. The expansion in veg-oil production in these

domestic production of veg-oils fell short of domestic demand and China had to depend heavily on imports to make up the shortfall. With China being largely self-sufficient in soybean meal, the government imposed a 13% value added tax (VAT) on meal imports. This is supporting the domestic production of soyoil. Given the relatively low oil content in soybeans, China then increased imports of soyoil to satisfy the unfulfilled domestic demand, to the point where the country accounts for 30% of the world trade in veg-oil. Per-capita consumption of veg-oils is only 15 kg compared to 34.7 kg in the US and 20 kg in Mexico. This suggests that there is ample room for growth in the Chinese market and that the country will remain a major importer of veg-oils for the foreseeable future.

countries was facilitated by the availability of outside credit at the same time domestic credit was tight. In South America it has been estimated that industry traders cover about 50% of the financing required for the soybean crop, especially in the frontier regions where opening costs are much higher.

While production was expanding, the demand for veg-oils was increasing in China. Although China is the world's third largest oilseed producer,

The spurt in world trade was supported, in part over the past decade, by the strength of the US dollar against most major currencies. This gave emerging economy countries a competitive advantage by artificially reducing prices compared to US soybeans and soyoil. Following the 18% devaluation of the US dollar against the European Euro since January 2003, along with other major currencies, although it remains pegged to the Chinese renminbi, this form of support for veg-oil production and exports to emerging economy countries has been reduced.

Soyoil: Value and versatility supports growth.

Over the past decade, the production of soyoil has increased by 60%. Although the US remains the largest producer of soyoil, output increased by only 20% since 1994-95, despite a 25% increase in the supply of raw soybeans during that period. Similarly, the production of soyoil remained stagnant in the EU-25 at around 2.5 Mt, annually. The major growth in soyoil production occurred in China, Brazil and Argentina which increased the official soyoil output by 450%, 50% and by over 300%, to 5.2 Mt, 5.7 Mt and 4.7 Mt, respectively.

The growth in soyoil consumption was led by the tripling of Chinese soyoil disappearance to 7.5 Mt annually for 2004-05. The US remains the world's largest consumer of soyoil using slightly over 8 Mt annually. Brazil, India and the EU-25 consume about 3 Mt, 2.5 Mt and 2 Mt, respectively. The remainder of the soyoil is consumed among a widely dispersed number of countries.

Largely due to the expansion of soyoil production in South America and the growth in Chinese demand, trade in soyoil increased by 60% over the past ten years. The growth in trade was facilitated by changes in Chinese import regulations, low ocean freight rates and by the 72,000 tonnes per day expansion in oilseed crushing capacity in Brazil and Argentina.

The expansion of the world soyoil sector is forecast to continue but at a slower pace. The production and consumption of soyoil is forecast to rise by about 8% over the medium term. The rate of growth will be affected by how fast the Brazilian soybean sector expands with another 90 million hectares reportedly available for seeding, expansion will be limited by economic and infrastructure constraints. Recent events suggest that the rate of expansion will decrease for 2005-06 because of low market prices for soybeans in combination with higher input costs.

A recent cost of production analysis for soybeans indicates that Argentina and Canada have a cost advantage in growing and delivering soybeans into the EU. While Brazilian producers have low land costs,

A selected history of events affecting world veg-oil production and trade

1970s	Malaysia began replanting rubber plantations into palm oil Peruvian anchovy catch failed World grain and oilseed prices rose sharply US embargoed soybean exports -- soybean planting began in Brazil
1980s	Soyoil production expanded in US Soybean production expanded in South America
1994	Brazil implemented Real Plan, including removal from market management
1995-96	Brazil reformed agricultural policy/removed export tax on soybeans Argentina taxed soybean exports but offered rebates on soyoil and soymeal US FAIR Act removed program restrictions on soybeans, introduced marketing loan rates and loan deficiency payments for oilseed crops
1997-98	Asian financial crisis' and devaluation of the Malaysian Ringgit Devaluation of the Brazilian Real
1998-99	China enforced regulations governing veg-oil imports Agenda 2000, hectare limits established under Blair House Agreement gradually being phased out
2000-01	BSE EU ban on animal meal China entered World Trade Organization Devaluation of the Argentine Peso
2003-04	EU expansion EU decoupled grain and oilseed production from payment Devaluation of the US Dollar EU biofuel directive/EU energy taxation directive Trans-fat issues/Avian Bird Flu

Source: AAFC, based on a Survey of Documents

the cost of fertilizer is increasing and they are still constrained by high transport costs in getting the soybeans to port. US soybean producers have the highest production cost per tonne because of the high price of land.

Palm Oil: Driving Growth Through Low Prices

Since 1994-95, world production of palm oil has expanded sharply, to the point where it slightly trails, and is expected to surpass the output of soyoil. Production is highly concentrated in Malaysia and Indonesia. In Malaysia, palm oil production has nearly doubled over the past ten years because of the large scale increase in harvested area. With suitable area for further expansion becoming scarce, the expansion in palm oil production has shifted to Indonesia which has almost tripled its output over the past ten years. The growth in the palm tree area has been driven by the low operating costs compared to competing veg-oils. Investing in palm trees is capital intensive with a five year lag before production begins, but subsequent costs largely involve the cost of harvesting and on-going fertility.

The consumption of palm oil has increased sharply since 1994-95. The major consuming countries; India, the EU-25, China, Indonesia, Malaysia and Pakistan account for about 60% of disappearance with the remainder widely dispersed among numerous countries. As the major user, India consumes 13% of the world's palm oil while China uses 11%. Consumption is concentrated in the Asian countries, with the exception of the EU which is increasing imports to offset the shortage of rape-oil in response to shortages caused by increased bio-fuel consumption.

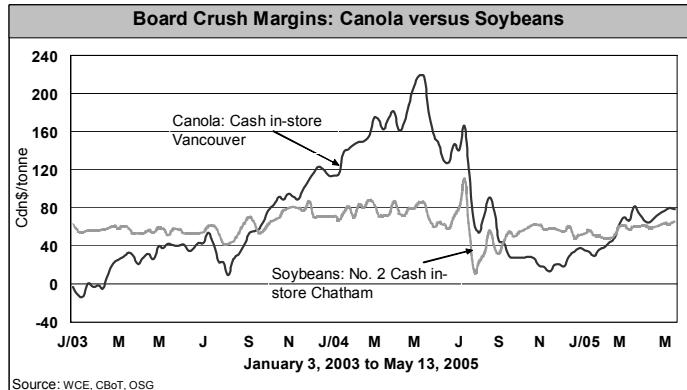
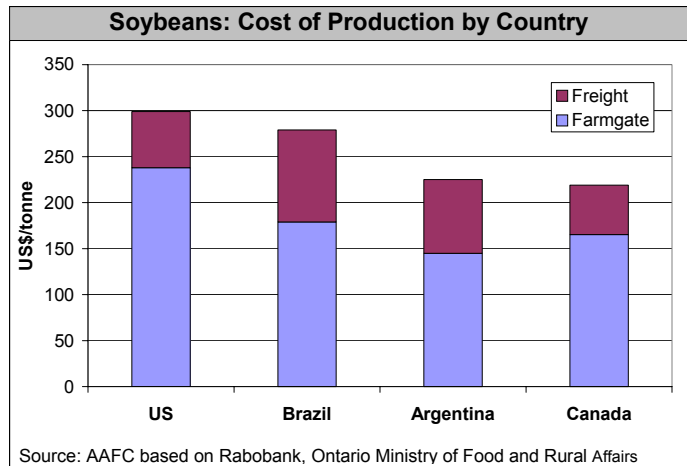
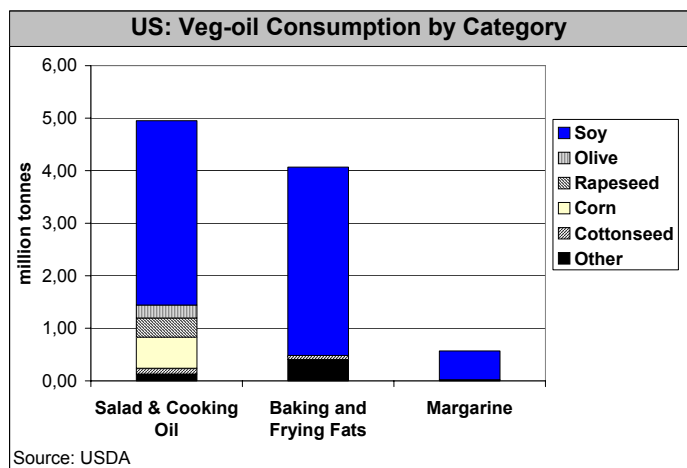
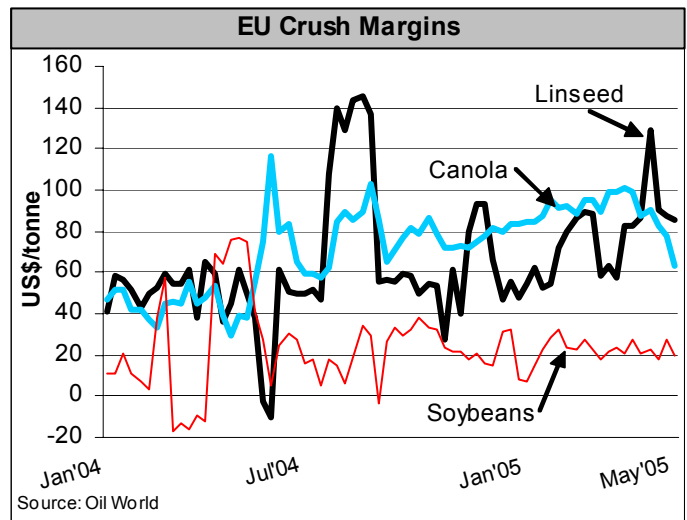
In response to the concentrated production of palm oil and its diversified usage, about two-thirds of production is exported with palm oil accounting for over one-half of the world trade in veg-oils. Estimates derived by industry analysts suggest that the international palm oil prices trade at up to a US\$120/t discount to soyoil due to differential tariffs in India, of 66% for soyoil and 45% for palm oil. Despite importing only 18% of the world's palm oil and 11% of the world's soyoil, the widely quoted analysis states that this differential in tariffs is sufficient to pressure world palm oil prices.

The expansion in world palm oil production is forecast to continue at a slower pace over the medium term as planting of new trees is slowed by low veg-oil prices. Output is forecast to rise by 10% by 2014-15.

A Roundtable on Sustainable Palm Oil Production was recently announced as a joint EU-Malaysian environment preservation initiative to support the production of palm oil in ecologically sensitive regions. Some of the projects approved under the Roundtable were: (1) to construct a functional Identity Preserved system for sustainable Palm Oil usage in European margarine, (2) building Palm Oil Supply Chains and (3) to fund a project to reduce tiger attacks on livestock and humans. In addition, Malaysia recently announced success in cloning palm oil trees, which could increase yields by up to 30% and in the production of Red Palm Oil, which is low in saturated fat and does not require hydrogenation.

Canola/rape oil: Premium-priced and focused on health and biofuel

Since 1994-95, world production of canola/rape oil has increased by about 50% on steady growth. The largest increase occurred in China where output rose by 80% to about 4.5 Mt expected for 2004-05. Smaller increases occurred in the EU-25 and Canada where production increased by about 25% respectively. Production of canola/rapeoil in India and Japan remained stable or decreased slightly.



China had the largest increase in canola/rapeoil **usage** and for 2004-05 is expected to consume 4.8 Mt of canola oil. In the EU-25, the consumption of canola/rapeoil is also expected to reach 4.8 Mt for 2004-05, with most of the rise due to its increased use in biofuels. World **trade** in canola/rapeoil declined by about one-third largely due to decreased EU exports. World production of canola/rapeoils is projected to increase marginally over the **medium term**.

Over the past decade, canola/rapeoil had positioned itself as a healthy veg-oil, low in saturated fats, and good for human health. During the early to mid 2000s, consumer concerns over **trans-fatty acids**, generated when the canola/rapeoil is hydrogenated, challenged the canola/rapeoils healthy image. During the same time frame, **biofuel** production began to expand rapidly in the EU-25 as the Union sought to reduce its dependence on fossil fuels and to find a market for oilseeds grown on set-aside land. Since 2000, the production of biodeisel quadrupled in the EU and is estimated to

account for 32% of EU-25 rapeoil consumption. In Canada, biofuel production remains at a standstill, with large scale government support required to build a biodiesel plant in western Canada.

Sunflowerseed oil: pressured by high costs

Similar to canola/rapeseed, sunflowerseed contains 50% oil and tends to be crushed close to its growing area. Prices are determined by the world vegetable oil market, unlike the preceding vegoils, there is no one country that dominated production. Unlike the previous three veg-oils, the **production** of sunflowerseed oil has remained stable at slightly under 9 Mt for the past decade. In order of size, the largest producers of sunflowerseed oil are the EU-25, Russia, Ukraine, Argentina and the combined countries of central Europe. The **consumption** of sunflowerseed oil is highly dispersed, with the EU-15 and Russia being by far the largest consumers, with Turkey, Ukraine, India, Romania, South Africa and Argentina also being significant

users. The demand for sunflowerseed oil is expected to grow moderately in the EU-25 and Eastern Europe while consumption in other regions declines. Ukraine is expected to surpass Argentina as the world's largest sunflowerseed oil exporter while Russia will shift from being an importer to an exporter of sunflowerseed oil.

Sunflowerseed oil is perceived as a high quality vegetable oil and trades at a premium to other veg-oils. However, future growth is expected to be constrained as it lacks the competitive cost structure of competing soyoil and palm oil. Sunflowerseed oils is likely to command only a small portion of the world veg-oil market.

Competitive strategies include price and product differentiation

Over the past decade, the world veg-oil market became more competitive with the major veg-oils increasingly differentiating themselves and, in the process, many are repositioning and re-imaging themselves.

How the Oilseed Industry is dealing with trans-fatty acids

Stage/method	Developer/company	Characteristics	Commercial Brands
Seeds			
High Oleic canola	Cargill Dow AgroSciences	Increases resistance to oxidation and heat	Clear Valley™ and Odyssey™ oils Transend™ shortening Natreon™
Mid-oleic sunflower	Almost all sunflower seed companies	No hydrogenation and less than 10% saturated fat 65% monounsaturated; 26% polyunsaturated; 9% saturated	
High-oleic sunflower		High Stability. No need for hydrogenation. At least 77% monounsaturated	High Oleic Sunflower Oil™
Low linolenic soybeans	Iowa State University Monsanto Pioneer	Eliminates need for hydrogenation	VISTIVE™
Palm Oil	Loders Crokian Cargill	Premise: Consumers are more concerned with trans fatty acid than with saturated acids.	Sanstrans™-frying oils and bakery shortenings TransAdvantage line
Process			
Enzyme inter-estification	ADM	Rearranges fatty acids on the glycerol backbone. Products are similar to those obtained via hydrogenation but has little or no TFA	NovaLipid™line
Use of emulsifiers	Danisco	Reduces TFA content and allows the use of non-hydrogenated oil	Benefat salatrim™
Use of stearic acid	Degussa Food Ingredients	Fully hydrogenated acid blended with soyoil and short chain organic acids	Benefat salatrim™
Use of antioxidants		Allows use of unsaturated oils without compromising product stability	Emulzym™
Improving hydrogenation	Bunge	Use of a different catalyst and set of conditions. Reduces TFA content by 75%.	Vream Right™ – all purposed shortening Vreamay Right™ –cake and icing shortening
	Southern Illinois University	Hydrogenation under low temperatures. Reduces TFA content by 80%	
End Product			
Production and marketing TFA-free/reduced products	Most consumer product companies as well as fast-food chains	Minimizes TFA in the final product	n/a

Source: Rabobank

CANADA: CANOLA OIL SUPPLY AND DISPOSITION			
August-July Crop year	2003- 2004	2004- 2005e	2005- 2006f
... thousand tonnes ...			
CANOLA SEED			
Crush	3,390	3,100	3,100
CANOLA OIL			
Carry-In Stocks	25	30	30
Production	1,395	1,342	1,302
Imports ¹	10	10	10
Total Supply	1,430	1,382	1,342
Exports ¹	1,015	900	850
Domestic Use ²	385	452	462
Total Use	1,400	1,352	1,312
Carry-Out Stocks	30	30	30
/1 Includes crude and refined oil but excludes hydrogenated oil and processed products (margarine, salad oil and shortening).			
/2 Domestic Use = Total Supply minus Exports minus Carry-Out stocks. Domestic use includes exports of processed products.			
e: estimate, AAFC May 2005			
f: forecast, AAFC May 2005			
Source: Statistics Canada			

Overall, **palm oil** is regarded as the price leader and is favored for its use in baked goods with the drawback of being solid at room temperature and high in saturated fats. Further growth is expected as consumer concerns over saturated fats decline and palm oil expands its geographical reach into Europe from Asia. However, as it is produced in a small geographic region, it remains vulnerable to localized events such as drought, disease or civil unrest.

By contrast, **soyoil** is higher priced than palm oil and is well regarded for its assurance of supply and its adaptability. For example, in the US it is used in a wide variety of end products from salad and cooking oils, baking and frying fats and in margarine. As the middle priced oil, soyoil remains vulnerable to competition from the lower priced palm oil and to the health concerns expressed about all veg-oils. Given the large area of land available for conversion into soybean fields in Brazil, the outlook for further expansion is bright. Currently, established crushers in industrialized nations are expected to face increased competition from palm oil and from newly expanded soyoil processors in developing nations.

Canola/rapeoil has historically commanded a price premium in the world vegoil market compared to the previous two veg-oils largely on the perceived health benefits of being low in saturated fats. With the expansion of the world veg-oil sector, competition from other veg-oils has increased while the output of canola/rapeoil has remained stable. The usage of canola/rapeoil is projected to grow with the expansion of biodiesel usage in the EU-25 with further growth in North America awaiting the development of low-lin, high-

oleic, varieties. Canola/rape oil faces the challenge of retaining its image as a "healthy" oil as concerns over transfats rise while falling over saturated fats.

Canada: Outlook for canola oil and soyoil

Canada produces about 1.6 Mt of veg-oil annually, of which 1.3 Mt is canola oil and 0.3 Mt is soyoil. The majority of the canola oil is produced in western Canada and all of the soyoil is produced in eastern Canada. Since 1994-95, the production of soyoil and canola oil have each increased by 30%, due to increased crush capacity and seed supplies.

For 2004-05, Canadian crushers have had to contend with unusually high chlorophyll levels in the canola which slows down the refining process and

increases processing costs. The high chlorophyll levels were a result of the delayed seeding, unusually cool growing condition and mid-August frost that struck a wide swath of the Canadian prairie region. According to the Canadian Grain Commission harvest survey, 38% of the canola samples submitted graded No. 2 or lower compared to the less than 10% received during a typical year. The problem was most severe in Saskatchewan where 47% of the samples received graded number No. 2 or lower.

For 2005-06, canola oil production is forecast to remain stable at 1.3 Mt, as crushers maintain the crush pace in response to increased supplies of high quality canola, reduced competition from burdensome US soyoil supplies and increased world demand for veg-oils in general. This forecast assumes a conversion factor of 0.42 and a normal quality crop. Crush margins are expected to remain near current levels as pressured veg-oil prices offset an expected decline in raw seed prices. Crush capacity utilization is expected to remain at about 75% for canola and around 80 % for soyoil production. Canadian canola oil exports are expected to fall to about 0.85 Mt, with the US representing about three quarters of total trade. The price of canola oil crude, in-store Vancouver, is forecast to average C\$700-750/t for 2005-06, versus C\$745/t for 2004-05.

By contrast, Canadian soyoil production for 2005-06 is forecast at 0.3 Mt, based on an expected increase in soybean crush of 1.8

Mt as a result of stable crush margins, ample supplies of raw soybeans and reduced competition from US soyoil. Imports of soyoil into Canada are projected to decline while domestic usage of soyoil remains stable. The benchmark farm price of soyoil, simple average DeCatur is forecast by the USDA to decline to US\$0.20-0.23/lb (C\$550/t-C\$650/t) for 2005-06.

Medium Term Outlook: More growth and volatility

Over the medium to long run, the market for veg-oils is projected to grow as incomes rise in Asia and more land is seeded to soybeans in South America and to palm oil in Indonesia. The world veg-oil sector is forecast to become more competitive at the same time it becomes more concentrated. The world oilseed market will continue to be affected by a series of economic, policy and monetary shocks although the timing and impact remain unknown.

Some upcoming policy changes are expected to affect the veg-oil market. The World Trade Organization (WTO) is expected to reach an agreement within a couple of years that will gradually reduce tariffs and liberalize trade in veg-oils. The International Association of Seed Crushers is expected to press for greater trade liberalization at the DOHA round of talks. Econometric analysis conducted in Canada indicates that reducing tariffs on veg-oils in importing countries results in a modest expansion of the world veg-oil production and trade.

World: Vegetable Oils: Situation and Outlook (million tonnes)			
	2003- 04	2004- 05e	2005- 06f
Carry-In Stocks	6.82	6.82	7.25
Production			
Soy	29.99	31.90	33.62
Palm	28.78	31.58	32.97
Canola/Rape	14.16	15.92	15.56
Sunflowerseed	9.16	9.03	9.79
Other	18.51	19.48	19.48
Total Production	100.51	107.91	111.42
Total Supply	107.15	113.95	118.67
Trade			
Soy	8.58	9.50	10.11
Palm	21.11	22.63	23.94
Canola/Rape	1.25	1.31	1.39
Sunflowerseed	2.58	2.36	2.60
Other	4.43	6.77	4.53
Total Trade	38.39	42.57	42.57
Consumption	98.44	106.96	109.99
Carry-out Stocks			
Soy	1.55	1.59	1.77
Palm	2.46	2.68	2.68
Canola/Rape	0.49	0.63	0.49
Sunflowerseed	0.51	0.48	0.47
Other	1.81	1.61	1.56
Total Carry-Out Stocks	6.82	7.25	6.96
Source, e: USDA f: AAFC			

Another policy unknown is the US Farm Bill presently being negotiated and slated for adoption in 2007. Previous farm bills, especially in the early to mid 1990s, resulted in a significant increase in US soybean

production. While the contents and implications of the present Farm Bill are still being negotiated, in general it appears that support for soybean production will remain stable or be scaled back and is most

unlikely to be increased. The impact on US soybean area as a result of these changes remains unknown.

For the first time in history, China has switched to subsidizing its agricultural production rather than taxing it. Given the various economic, administrative and infrastructure constraints faced by the country, the impact on the domestic veg-oil market is uncertain. Industry analysts believe that China is prepared to offer few concessions on tariffs in the Doha round of talks.

In conclusion, the cumulative impact of these policies and other unanticipated changes remains unknown. The veg-oil market is expected to continue to expand in the emerging economy countries while remaining relatively stable in fully industrialized countries. As the market matures, the focus for price discovery will increasingly switch to Asia and South America. The industrial concentration is expected to increase although there is some concern that processing capacity is overbuilt, forcing a possible rationalization of the crushing sector over the medium term. World trade in veg-oils is expected to grow over the medium term and may soon surpass world trade in wheat, by value.

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Factors to Watch: More Change Expected in the Veg-oil Market

Over the next decade, world markets for vegetable oils are expected to grow while the industry continues to consolidate in an increasingly competitive environment, according to analysis conducted by Rabobank. The major factors include the continued shifts in the production of veg-oils, the growth of the Asian economies, consumer concerns, changing power relationships along the food value chain and the development of non-food markets.

Growing income and population in Asia to drive demand

The growth in Asian populations and incomes over the next ten years is expected to support the expansion of the world veg-oil market. By 2015, the Asian population is forecast to increase by 11%, reaching 4.045 billion people, equal to 56% of the world population. More importantly the Asian economies are expected to be among the world's fastest growing. In 2005, the economies of China and India are projected to grow at over 50% and 90% of the world average, respectively.

At lower economic levels, as per capita income grows, the consumption of vegetable oils grows at a rapid pace. Once per capita income reaches US\$5,000 the growth in usage begins to level off. Per capita income in most of the Asian economies and in South America is below that level. In low income countries, veg-oil consumption is expected to increase at about 0.5% for every 1% rise in incomes. In China, urban incomes have tripled in the past decade, while rural incomes have grown at twice that rate. By 2004-05, more than 40% of China's population lives in towns and cities, while 1% of the country's population makes the move from country to city every year. Chinese imports of palm oil, soyoil and canola/rapeoil are projected to grow by over 5% annually until 2014, implying annual imports in excess of 10 Mt. As well, veg-oil imports to India may rise sharply over the medium term in response to increased incomes and policy changes.

Growing Concerns over health and food safety

Health and food safety are increasingly becoming more important for consumers, especially in the developed markets or market segments. Growing health concerns about trans-fatty acids are expected to pose a threat to the soyoil in the short to medium term. Transfat labelling requirements have been or will shortly be enacted in Denmark, Canada and the United States. Concerned about consumer reactions, many food companies have begun to reformulate their products to eliminate or reduce trans-fatty acid levels. The oilseed industry has responded with the development of new seed varieties and processing technology. In the short run, this issue will cause some adjustment in the market but over the medium to long run the industry is expected to manage the situation.

For 2005-06, in Canada the production of low lin-high-oleic, canola oil, which is low in trans-fats, is expected to reach 0.2 Mt based on estimates that 8% of the canola crop will be seeded to low trans-fat varieties.

Retailers increasingly setting rules for marketing veg-oil products

As retailers consolidate, and their market power grows in many national markets, retailers are increasingly setting the rules and standards for marketing food products including for veg-oil products. Often, these are more stringent than government standards and they include traceability requirements. The increased competition in the retail sector has pressured prices downwards through the food value chain. Near the bottom of the chain, crushers and refiners are increasingly being caught in a cost-price squeeze as they are essentially price-takers with regards to oilseeds.

In response, veg-oil companies are following two strategies: (1) selling in bulk and looking to achieve a low-cost leadership position and (2) developing strong consumer-focused brands. While branded oil is important in the EU and North America, it is also growing in importance in developing countries like India where it is estimated that branded oil accounts for almost 9% of the market and by 2014, it is projected to rise to 12%.

Industrial markets continue to grow

The market for biodiesel continues to grow and will be determined to a large extent by government incentives, tax exemptions, petroleum prices and in some cases by regulations for mandatory inclusion. The market for biodiesel is growing the fastest in the EU where biodiesel consumption could rise to 4-6 Mt by 2010. Brazil has also expressed interest in implementing an extensive biodiesel program while countries like Thailand, Malaysia and India have launched plans or programs to develop the biodiesel sector based primarily on palm oil.