

SOYINSIGHTS

Insights from the Value Chain 

Soy Insights Perspectives Survey

Executive Summary

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EXECUTIVE SUMMARY

The primary objective of Soy Insights is to provide industry-wide information on issues that may impact the entire U.S. soy value chain, enabling the industry to create long-term strategies for an increasingly global and changing environment. A key tool in collecting this valuable information is the new Perspectives Survey, which gathers insight from a variety of experts on what the industry should be doing, discussing and focusing on in five primary focus areas, including general industry, customer focus, freedom to operate, soybean meal and soybean oil.

For the first Perspectives Survey, in-depth interviews were conducted with a total of 27 experts. Experts were asked to provide their short-term (1-2 years), midterm (3-5 years), and long-term (5+ years) perspective on the soybean industry outlook among five primary factors, and 25 sub-factors, to help determine whether the outlook for that factor is unfavorable, neutral/stays the same, or favorable.

The results of this first Perspectives Survey specified a favorable environment for U.S. soybeans in both the short and long term, with a key factor being the anticipated market normalization and recovery following the 2012 drought and its effects on the industry chain. Overall, experts shared the opinion that soybeans will continue to share success with other crops for the next several years.

- Soybean oil, soybean meal and areas of customer focus received a favorable outlook with experts specifically calling out soybean oil as the most favorable climate for U.S. soy. Also, consumer demand for soy had a favorable outlook over the next five years; and experts noted a highly favorable environment for international soybean meal demand due to continued growth in emerging economies.
- Experts identified challenges in areas such as water access and regulation, U.S. laws, and consumer pressures, such as labeling.

Based on the survey results, the Soy Insights Steering Committee prioritized the top trends impacting the soy industry currently, and any known implications of those trends.

The top four trends included:

1. Composition of Soybean Meal Impacting the Market
 - Implication: reduction in protein, which leads to alternative sources in the market
2. Soybean Oil Demand in the U.S.: Focus on oil demand
 - Implication: Work on demand 24/7 (food, industrial, biodiesel)
 - Implication: Renewable Fuel Standard
 - Implication: Market high oleic oil
3. Freedom to Operate: Infrastructure
 - Implication: U.S. international competitiveness declines, which could be a tipping point that levels the playing field with Brazil
4. Customer Focus: High oleic opportunity
 - Implication: Producers need to see a demand for high oleic soybeans prior to transitioning their current crops to the IP bean

GENERAL INDUSTRY

Overview:

General Industry covers a wide variety of subjects related to the U.S. soybean value chain. Although receiving an overall neutral to positive outlook, experts did identify both favorable and unfavorable areas for the soy industry in the short term and long term.

- U.S. soy acreage had the most favorable outlook by the experts in the near term, followed closely by U.S. technology adoption. Technology Adoption (biotech, traits, etc.) received an increasingly favorable outlook long term from experts, while U.S. soy acreage remained steady.
 - New traits, including drought resistance and improved quality, will have huge impacts.
 - However, experts noted that U.S. approval processes need to be efficient to avoid slowing offshore approval processes. They suggested using data and precision software to show environmental improvements and avoid overregulation.
- Survey respondents also had an increasingly favorable outlook for increasing demand by U.S. consumers. Health conscious consumers, and lactose and gluten intolerances, are going to drive an increased demand for soy. There will also be growth within the beverage market (protein shakes).
- U.S. farm profitability received the most unfavorable outlook in the near term. It needs additional time before experts see a balance and equilibrium restored, followed by a more positive outlook in the long term.
 - Recent record levels of profit, and higher ending stocks, will keep profitability lower until equilibrium can be maintained.
 - The value proposition of soybean quality, along with global markets and labeling, all factor into the long-term outlook for on-farm profitability.
- Water access received the most unfavorable outlook by experts in the long term.

Sub-factors	1 – 2 Years	3 – 5 Years	5+ Years
US technology adoption	2.60	2.96	3
US farm profitability	1.48	2.45	2.81
US soy acreage	2.61	2.33	2.61
US pest control, weeds, etc	1.8	1.8	1.94
US water access	1.9	1.5	1.5
US consumer soy demand	2.35	2.54	2.75



FREEDOM TO OPERATE

Overview:

Experts noted an unfavorable outlook for several sub-factors in the short and long term within the Freedom to Operate category.

- Consumer Pressures (e.g., organic, labels, etc.) is the one area in which experts see significant improvement opportunities in the 5+ year outlook.
 - Two varying points were given for the change to a favorable outlook over time. One is that activists start to accept the technology in place. The other is that producers and processors become more compliant to the demands of niche markets.
 - There will continue to be an increase in demand for transparency, traceability, organic, etc., although it may be less than what is perceived.
- While Favorability of International Laws reported a neutral outlook, experts shared an increasingly unfavorable outlook for Water Rights/ Regulation and U.S. Laws.
 - Water quality will likely drive regulations, such as Environmental Protection Agency actions, on certain livestock operations, as dead zones in water grow.
 - Internationally, there continues to be an increasing number of trade regulations and certifications, which U.S. farmers often resist.
 - As the public and lawmakers are further removed from the farm, and we have less rural input in the government, regulations will be less favorable to the soy industry.
 - In terms of water rights and access, soy will increasingly have to compete with the general population's use.
 - Experts have concerns regarding a likely increase in water regulations coupled with demand from the food and grocery industries for information regarding sustainable practices for food items.
 - As the world population increases and puts pressure on productivity needs with no additional water available, farmer education regarding the importance of water management and sustainability is recommended. Education also has the potential to help farmers combat future water regulations and meet consumer demands for sustainably raised food.

Sub-factors	1 – 2 Years	3 – 5 Years	5+ Years
Favorability of US laws	1.54	1.38	1.25
Favorability of international laws	1.92	2.08	2.17
Water rights/regulation	1.55	1.1	1.1
Consumer pressures for organic, labels, etc.	1.31	1.31	2.46
US transportation infrastructure	2	1.85	2.15



CUSTOMER FOCUS

Overview:

Surveyed experts noted Customer Focus provides both a positive and neutral outlook for the U.S. soy industry.

- Consumer demand for soy had a favorable outlook over the next 5+ years.
 - Despite other non-dairy and lactose-free alternative products on the market, soy remains a good, versatile product with opportunities for further growth in those segments.
 - Just as Mexico is working to enrich tortillas with soy, the industry might consider working with consumer companies to develop new soy-food products with emphasis on quality and cleanliness of soy going into the food chain.
- Component pricing continues to be a key area of discussion, and the experts recognized this will be an area of interest with potential to improve over the next 5+ years.
 - It would be beneficial for buyers to pay a premium for marketplace demands, such as higher protein, as those demands will likely drive soy-technology. However, there will likely be some resistance in shifting away from volume-based to value-based shipping.
 - Experts responded with support for component pricing with the hope that it will drive soy-technology innovation, boost premium pricing for new traits, and guide the farmer in seed purchasing. The biggest stumbling block is large grain originators, who know the localities with preferred composition. They recommend for the United Soybean Board (USB) to consider acting as a direct mediator.
 - Overall, experts say component pricing will take time with little positive movement in the short term. With so many barriers overall, the soy industry might consider shifting its focus to an easier system or capitalize on the container-shipping trend.
- A key positive to highlight in this area is the impact and influence that experts foresee China will continue to play in the U.S. soy industry.
 - China will continue to have a large impact on U.S. soy. They have the capacity to crush even more beans, and their demand continues to grow, fueled by increasing meat consumption.
 - Building better relationships with China, especially in light of the Smithfield acquisition, is suggested. One suggestion was to include developing closer ties with Chinese poultry and livestock groups to assist in the development of their cold-chain (or temperature-controlled) infrastructure.

Sub-factors	1 – 2 Years	3 – 5 Years	5+ Years
US soy differentiation	2.14	2	2.17
Component pricing	1.86	2.14	2.5
Consumer demand for soy	2.56	2.78	2.75
China impact/influence	3	2.87	2.86

