Impact of biofuels on animal feed: competition or co-existance?

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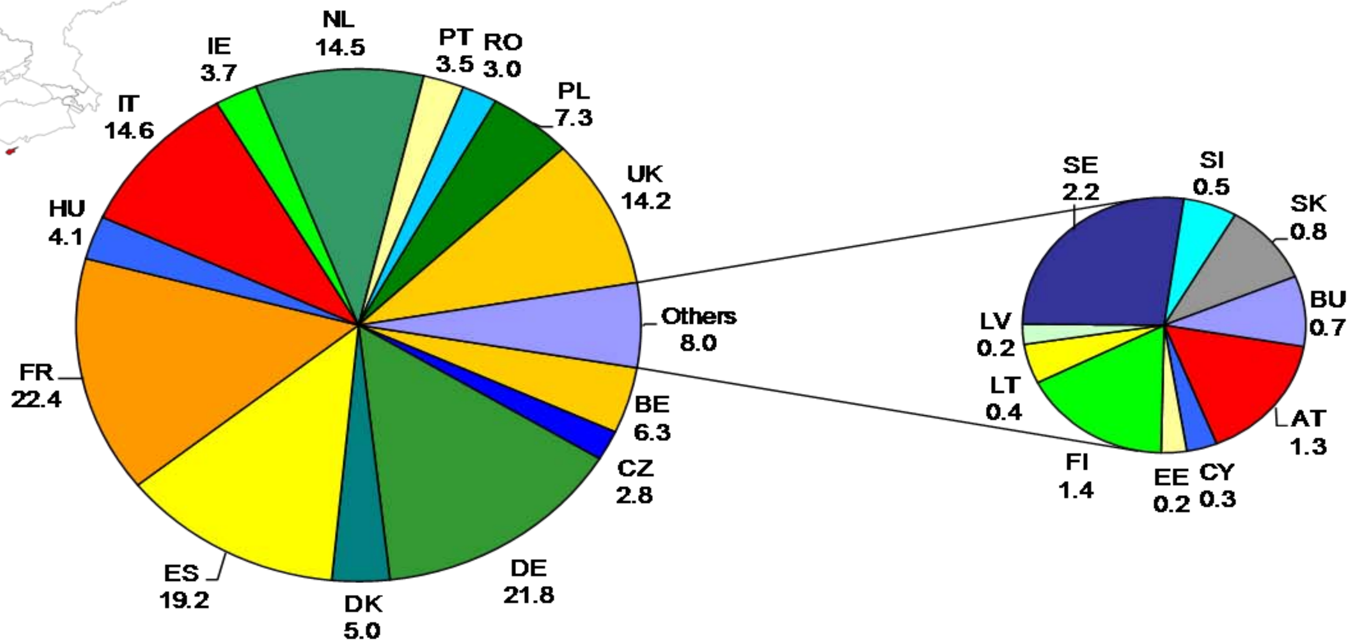
About myself…..

- Director General at CESFAC (Spanish feed producers Federation) → serving feed industry and livestock
- Secretary General at INTERAL (interprofessional Organisation of feed materials producers) → serving feed industry and livestock
- Director General at AFOEX/ANES (vegetable oil crushers and refiners) → serving feed, food & bio-diesel industries
- Secretary General/Director General at other six food industry sectors organisations (covering baby food, industrial bakery…) → serving food industry and consumers

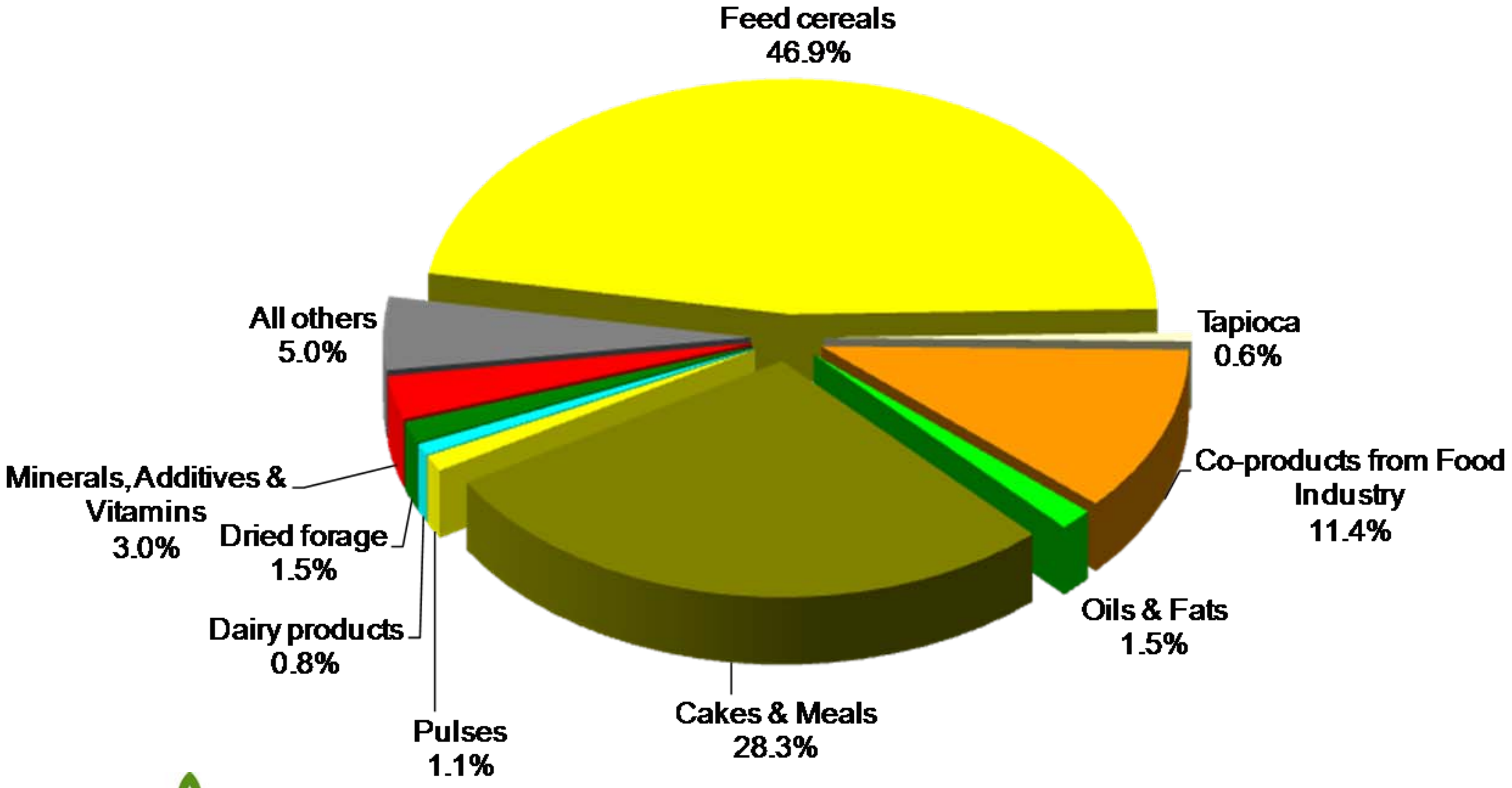
About CESFAC….

- Founded 1978; 15 regional organisations
- Represents Spanish industrial feed producers, including pre-mixers, pet food producers and aquaculture.
- Total production for 2008: 19,8 MTm (excluding on-farm production)
- Feed industry is by far, the largest consumer of cereal grain (both home grown and imports) and protein meals.
- Represented at European level by FEFAC

Industrial compound feed production per country
150.6 mio. t (50.6 billion € turnover) in 2008 in the EU-27. 70-80% of production costs are connected with raw materials



Average feed formulae by the EU-27 feed industry in 2008



About Bio-fuels and feed ..

- For the purposes of this presentation, the biofuels industry is considered as made of the bio-diesel subsector and of the bio-ethanol subsector.
- Bio-diesel (obtained through esterification of vegetable oils) and bio-ethanol (produced through fermentation of simple sugars followed by distillation) are known as “1st generation” biofuels. The so called “2nd generation” biofuels (mostly obtained from lignocellulosic feedstock) boast superior fuel properties, but their production and use are still in a semi-experimental phase: as existing and planned biofuels production capacity in the EU is almost entirely centered on 1st generation biofuels, thus the **potential competitors of feed industry for raw material sourcing BUT ONLY UNDER SPECIFIC MARKET CONDITIONS**
- So far commodity sourcing can not be segmentated for each industry

About Bio-fuels and feed ..(II)

- Top EU 6 producers of ethanol are Spain, France, Germany, Poland, Sweden and the UK; top 6 consumers are F, D, SE, UK, PL and NL
- EU Biodiesel installed production capacity has jumped from 7,7 MTm in 2008 to 21 Mtm in 2008.
- EU ethanol industry uses wheat, barley and and corn (1/3 comes back as a co-product); biodiesel favours rapeseed, soybean and palm oils whose meals are also used by feed industry
- Us policies encourages the maximun use of domestic biofuels and livestocks. The EU favours the import form developing countries

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About Bio-fuels and feed ..(III)

- Until the slow emergence of biofuel industry (in the EU not before 2004, peak by 2006-2008) feed and food were almost the exclusive clients of agrarian production → market predictability
- Biofuels did create **market distorsions** in the same period but only as an agregated factor contributing to a shortage of supplies together with other, namely droughts, reduction of yields, finantial speculation, supply-demand shocks at world level.
- It remains to be calculated which will be the real degree of distortion created by the measures taken by the EU and Membersv statres to set up ambitious objectives for the use fo biofuels, as none of these objectives have really been met.
- **High political expectations and legitimate enviromental concerns** created en erroneous perception towards European Biofuels industry (as a non-margin business), which misleaded the public debate and created animosity against the biofuel industry from both the food sector and public stakeholders

Backlash →G8-declaration on Agriculture and food security (April 2009)

- « Renewable energy production from biomasses ..must be increased in a sustainable manner through balanced combination of the energy policy needs and agricultural production in a way that provides a response to our energy, economic, environmental and agriculture needs and does not compromise food security ».
- « strong emphasis on the development ...of second generation biofuels »
- FAO (june 2008), the World bank (april 08), many relevant press (*The Economist*) and market analysis have also publically blamed Biofuels as the main cause for the supply-demand shocks of 2006-08

Doubts on the sustainability of the EU biofuels policy?

- Energy balance perhaps not so positive –greenhouse gas emissions-under the EU renewable energies directive (june 09)
- Soil acidification, water use & pollution
- More nitrates & ammonia (by-products in animal feed)
- Deforestation (Brazil, Malaysia, Indonesia)

About Bio-fuels and feed ..(and IV)

- World commodity factors are currently at low level, with the only alert factor created by a GMO asinchronicity probelem concerning american soymeal and unconnecetd to the “food vs fuel debate”.
- In despite of the strong renewable fuel mandates, **European Biodiesel industry is currently losing money** → production and capital costs plus the role of exports taxes are too high to ensure profitability(appart form captive markets such as transportation). This might change as many of the new players will leave the market adn reduce the excess capacity. US ethanol industry is also under heavy re-structuring after the unti-dumpnig measures taken by the EU.
- Nevertheless, **European feed and livestock industry are not making any money** either as they are facing losses of competitivity, credit restrictions and reduced demand.
- IT IS SIMPLISTIC TO ACUSE ONE INDUSTRY OF BEING RESPONSIBLE FOR THE PROFIT OF THE OTHER.

IT IS ONLY NOW THAT WE CAN MANTAIN A NON PARTISAN BUSINESS ANALYSIS ON THE FEED VS BIOFUELS VS PROCESSING COSTS VS PROFIT EXPECTATIONS

The CAP beyond 2013 according to European feed indsutry

- The EU agriculture/livestock must
  - Produce more (to meet the increasing world demand)
  - Be more efficient (considering the limited resources)
  - **Secure the supply of the EU feed & food chains**
  - Be developed everywhere in Europe
  - Be competitive and economically viable for farmers and related sectors
  - Generate safe, diverse, affordable products
- The EU must produce more, better, everywhere and at an affordable price

The key challenges of feed material supply for the EU feed industry

1. **Elimination of 0-tolerance for Low Level Presence of non-EU approved GMOs in imported feed materials**

2. **Biofuels and livestock sector: competition or synergies?**

3. **Buying feed materials from sustainable sources at competitive prices**

Complementarity: Valuable co-products from biofuels for feed use

- Rapemeal
  - Substantial increase in production
  - All absorbed by the EU feed industry
  - Replacing soya bean meal and other proteins
- Glycerine
  - Useful for poultry feeding, more R&D needed in other species
- Wheat Distillers (DDGS)
  - In demand, particularly as US maize gluten imports stopped by EU slow approval of GM varieties