

Commodity prices to remain historically high, FAPRI

Increased ethanol and biodiesel production will reinforce high prices

AMES, IOWA — Continuing high crude-oil prices and new federal bioenergy mandates are expected to sustain prices at historic highs across all agricultural commodities over the next decade, according to the Food and Agricultural Policy Research Institute (FAPRI), whose analysts briefed Congress about their new 10-year projections for U.S. and international commodity markets.

Global net trade in ethanol is

decade. Similarly, all vegetable oil prices soared in 2007/08 with new biodiesel mandates, and they will continue to increase by 1.28% to 3.60% annually for the rest of the period, according to the group.

All world grain markets were characterized by higher prices during the 2007/08 period because of supply shortages and an increase in demand from the emerging biofuels sector. In particular, the world

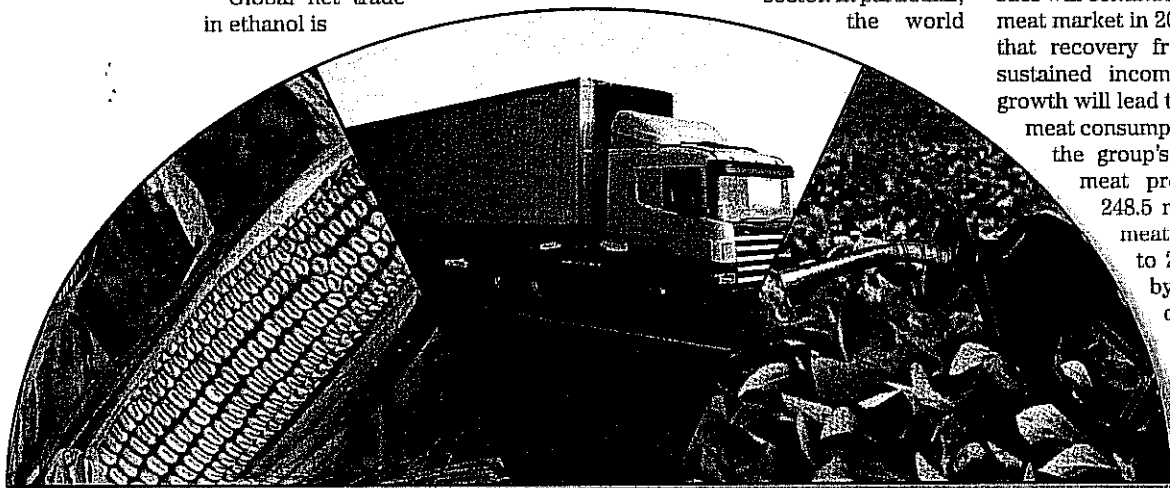
are forecast to remain the dominant soybean trio, accounting for 81% of world production. China, the world's largest importer of soybeans, may expand its import share to 57% of total world imports by 2017/18.

- Palm oil will remain the most widely used edible oil, and world consumption will increase by 46% over the next 10 years.

- Sanitary and phytosanitary issues will continue to affect the world meat market in 2007. FAPRI expects that recovery from the problems, sustained income and population growth will lead to higher per capita meat consumption. Consequently, the group's projections show meat production reaching 248.5 million tonnes, and meat trade expanding to 20.9 million tonnes by the end of the decade. Recovery in demand, along with strong grain prices, will push all meat prices to high levels. The outlook shows the United States and Brazil gaining

significant market shares compared to their average levels in 2003 to 2007.

- Because of strong global demand and limited growth in supplies from major exporters, the world prices of butter, cheese, nonfat dry milk, and whole milk powder increased to record-breaking levels in 2007. Strong prices have encouraged production growth in many countries. World dairy prices are forecast to taper in the mid-term, but strong economic growth and rising population favor higher dairy demand, which will put upward pressure on dairy prices in the long term. Australia, New Zealand and the European Union are forecast to remain the big players in export markets, and Argentina and Brazil may expand their dairy exports to substitute for exports that are declining in the European Union due to policy reforms. ■



Demand for alternative fuels will push corn and soy costs higher.

projected to increase by 2.53 billion gallons, reaching 3.61 billion gallons by 2017. New biodiesel mandates in the Americas and Europe will almost double the price of biodiesel, pushing it to \$6 per gallon with the doubling of net trade over the next decade. In the projection for ethanol, FAPRI researchers expect the world ethanol price to fall over the first half of the decade because of strong supplies encouraged by previous price increases. Thereafter, the researchers expect growing demand to strengthen the price again through 2017, and it to end at a projected \$1.52 per gallon.

The world corn price increased dramatically in 2007/08, to \$198.17 per tonne, because of demand from ethanol, the livestock sectors and sustained exports. FAPRI analysts expect demand will sustain the high price level over the rest of the

wheat price increased to \$313.55 per tonne because of production losses due to adverse weather. Adjustments in supply and demand will settle the wheat price at \$264.05 per tonne in the 2017/18 period, according to FAPRI.

Other notable forecasts in the FAPRI analysis include:

- The price of sugar will increase by 10.7% over the next decade because exportable surplus will be cut significantly in the European Union as a result of its sugar reforms and in Brazil as a result of increased production of ethanol there from sugarcane.

- Strong demand coupled with the doubling of biodiesel trade will drive up world trade within the soybean complex by 17% to 32%. World soybean production may reach 297 million tonnes by 2017/18. Argentina, Brazil, and the United States