

Food, Feed and Fuels: **An outlook on the agriculture, livestock and biofuel markets**

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Jeffrey Currie Goldman Sachs International 44-(0)20-7774-6112 jeffrey.currie@gs.com

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Food, feed and fuel takeaways

- Recent rise in agriculture prices likely represents a structural increase in prices, much like we have seen in energy and metals
- Food, feed and fuel demand are creating an acceleration in trend demand growth for agriculture commodities
- Reliance on domestic crops for biofuel supply will stress resources
- Biofuels create bushel-to-barrel convergence
- Corn today, soybeans tomorrow
- Rising wealth in the BRICs provides stable support for livestock
- European biodiesel outlook is much stronger than the US ethanol outlook
- High-cost biofuels are not likely to lead to lower energy prices
- Biofuels will likely put downward pressure on long-term gasoline margins, but not diesel

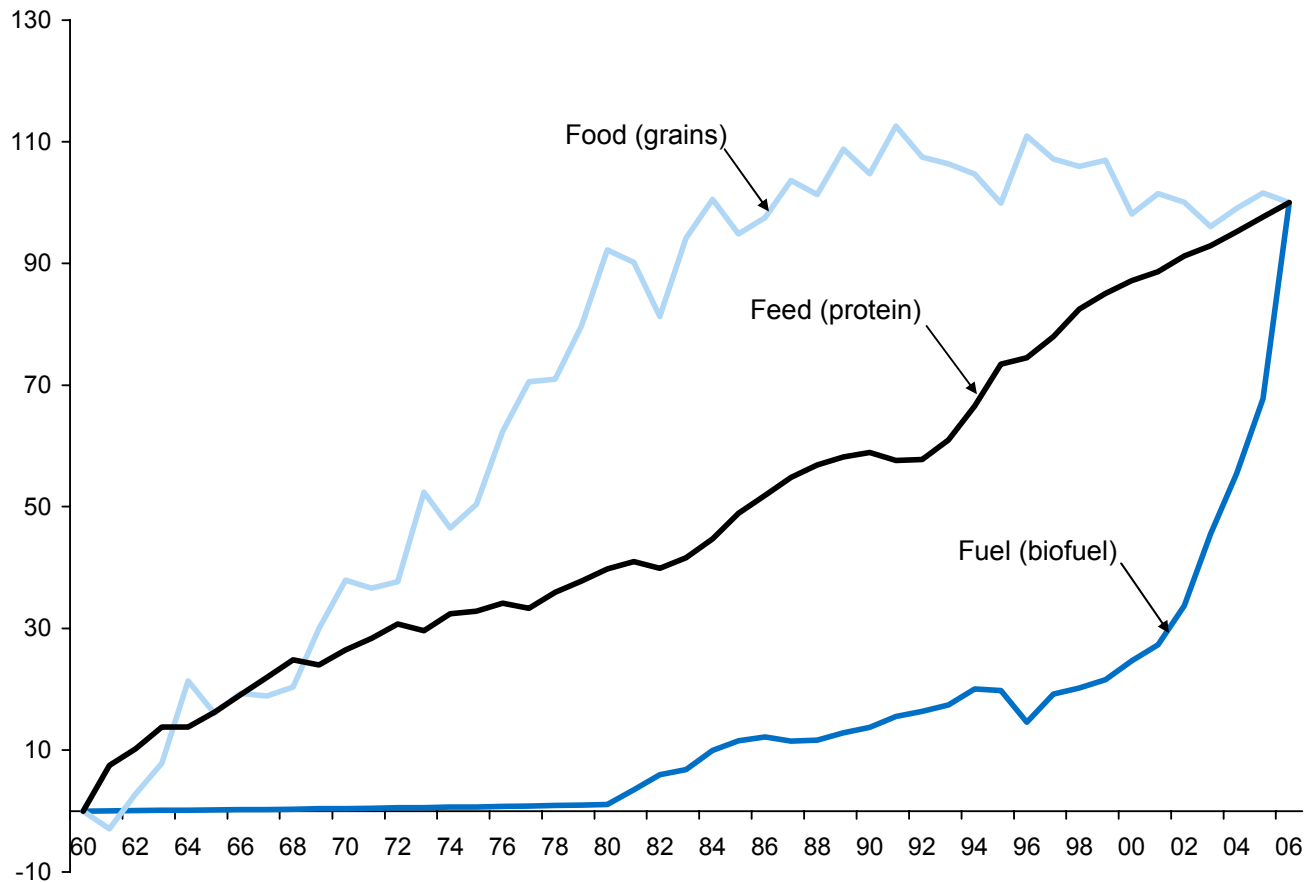
Food, feed and fuel demand creates structurally higher long-term prices

	Source	Unit	As of 03/22/07	Forecasts			
				3 month	6 month	12 month	5 year
Food (agriculture)							
Corn	CBOT	cent/bu	410	425	450	475	500
Soybeans	CBOT	cent/bu	788	750	800	800	1000
Wheat	CBOT	cent/bu	467	475	475	500	600
Sugar	NYBOT	cent/lb	10.2	10.0	10.0	11.5	13.0
Feed (livestock)							
Live cattle	NYBOT	cent/lb	98	100	100	95	100
Feeder cattle	NYBOT	cent/lb	105	100	100	105	110
Fuel (energy)							
Ethanol	CBOT	\$/gallon	2.30	2.37	2.27	2.24	2.20
Biodiesel	Platts	\$/mt	872	1008	1021	1022	990

Source: Goldman Sachs Commodities Research.

Food demand is stable, feed demand is rising, and fuel demand is exploding

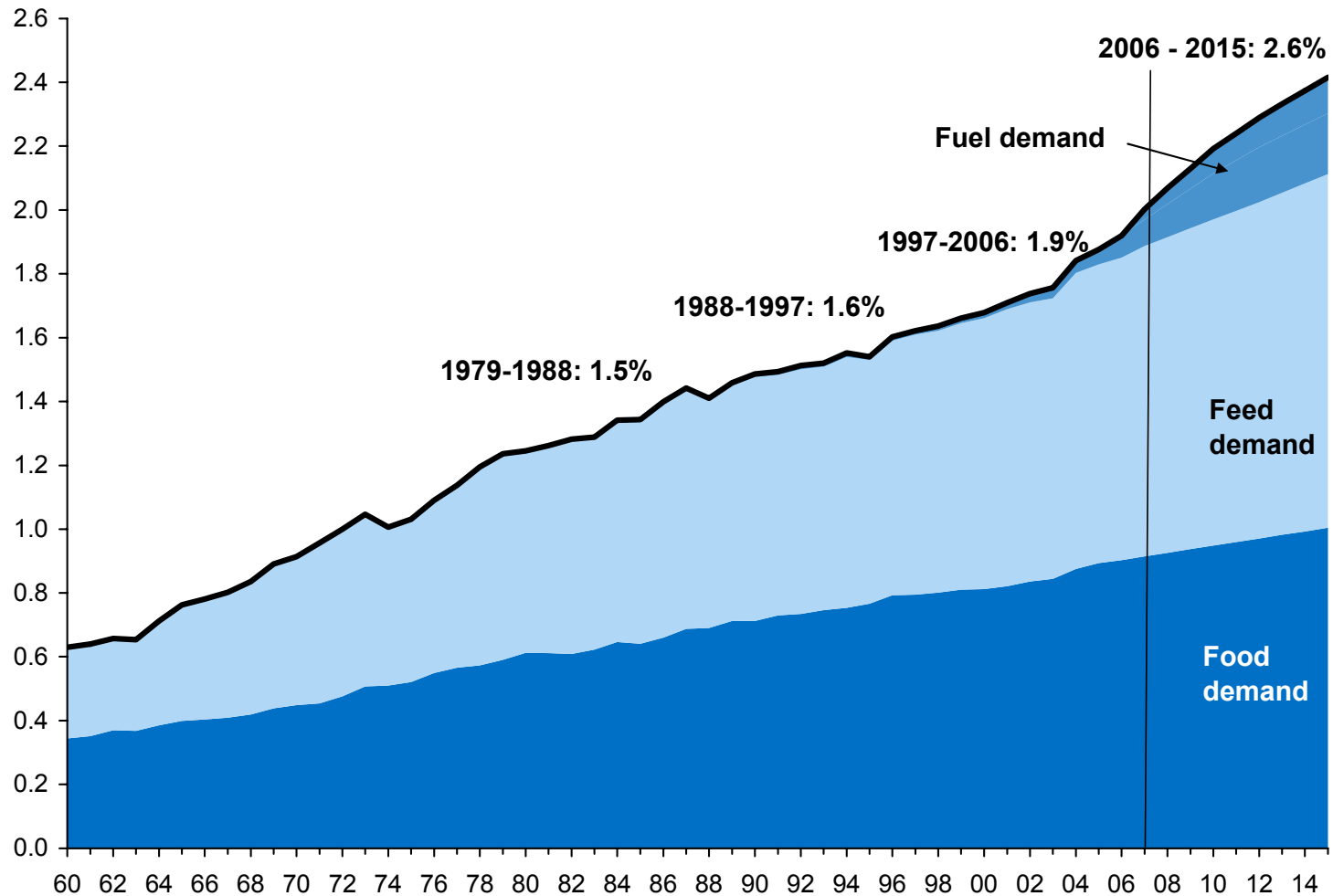
Indices of per capita consumption, 2006=100



Source: FAO, USDA and Goldman Sachs Commodities Research.

Food, feed and fuel use has led to an increase in the trend demand growth for agricultural commodities

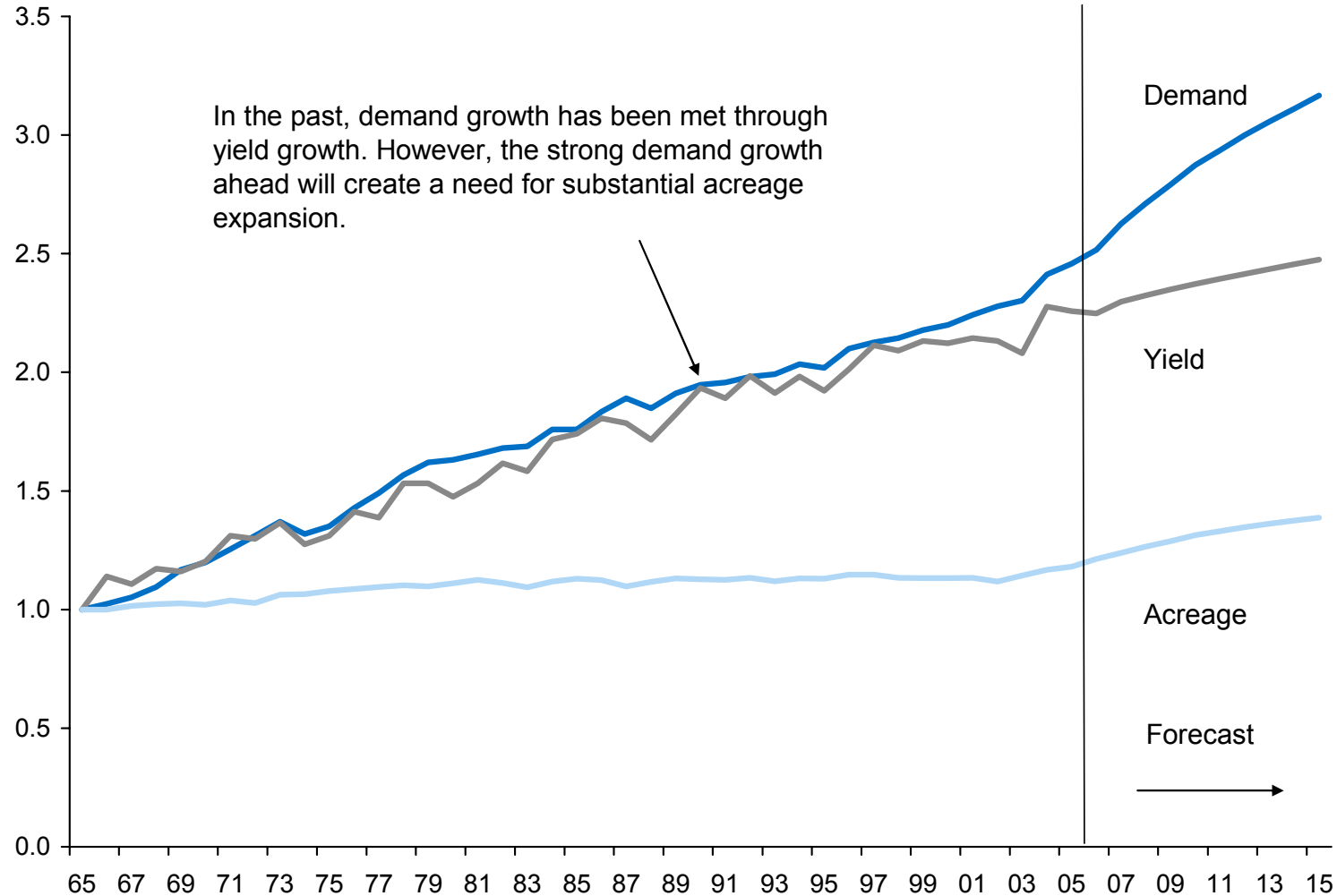
Billion metric tons



Source: USDA and Goldman Sachs Commodities Research.

Strong demand will require a substantial increase in acreage, which has been virtually unchanged for decades

Index 1960 = 100

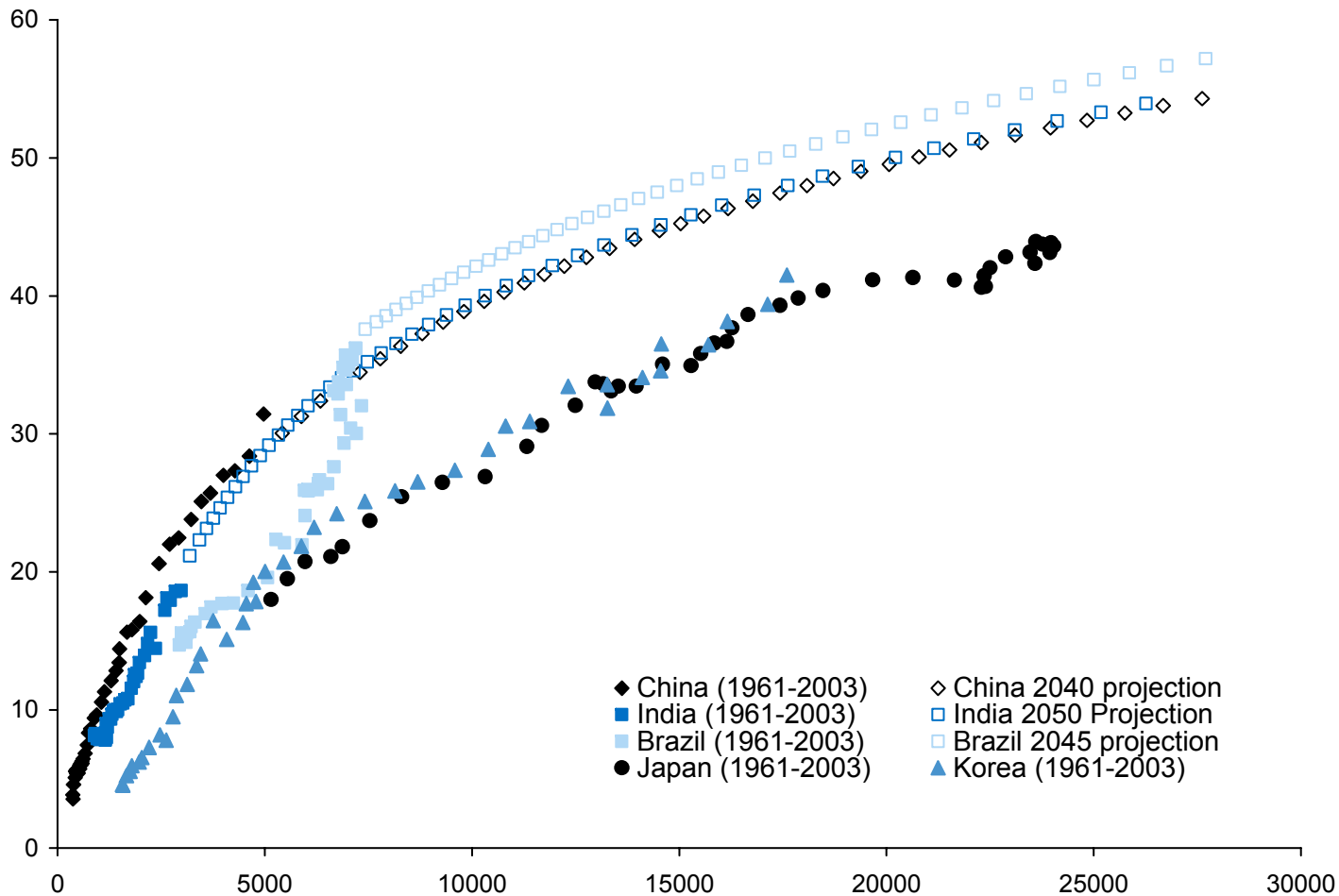


Source: FAO, USDA and Goldman Sachs Commodities Research.

Feed demand is driven by an emerging middle class in the emerging markets

China, India and Brazil have strong protein consumption growth potential

Vertical axis: protein consumption per capita, kg; Horizontal axis: real GDP per capita, 2000 \$

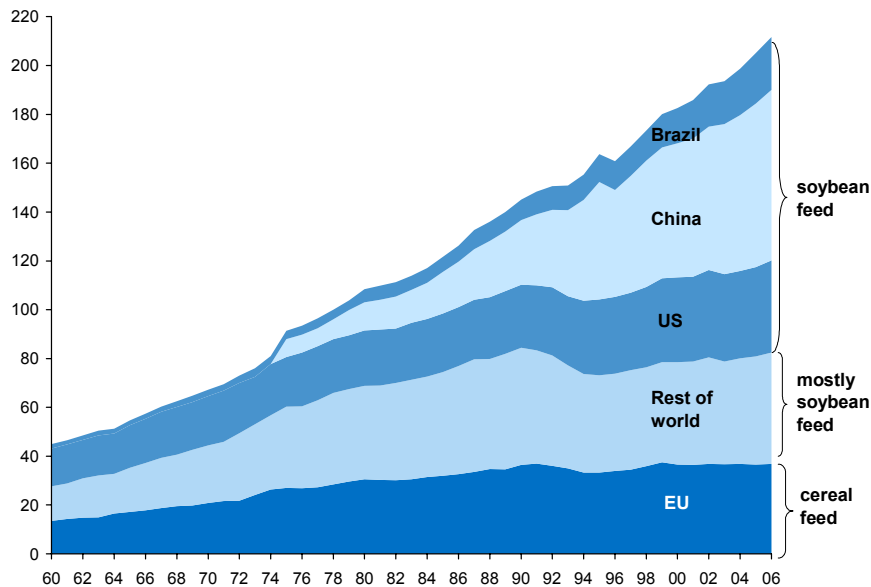


Source: FAO and Goldman Sachs Commodities Research.

Feed demand impacts the corn and soybean markets the most, particularly soybeans

A majority of meat production is now located in countries that practice and soybean meal feed

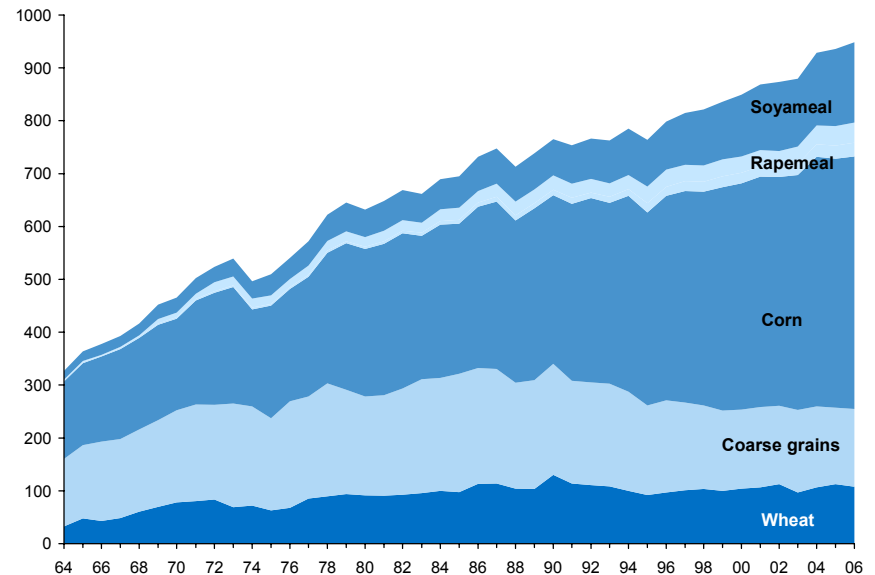
Million metric tons of beef, pork and poultry production



Source: USDA and Goldman Sachs Commodities Research.

Feed demand has increased substantially given the rise in consumption of protein-intensive foods

Million metric tons



Source: USDA and Goldman Sachs Commodities Research.

The leverage of the meat market to the grains market is significant, particularly cattle

Feed Efficiency (gram)				
	Cattle	Hog	Chicken	Fish
Grains required per gram of animal weight gain	8.3	3.1	2.0	1.5
Meat Efficiency (gram)				
	Beef	Pork	Poultry	Fish
Protein yield per gram of meat	0.17	0.14	0.18	0.20
Fat yield per gram of meat	0.23	0.35	0.15	0.03
Energy yield per gram of meat (kcal)	2.78	3.76	2.13	1.16
Feed to Meat Ratio				
	Beef	Pork	Poultry	Fish
Grains required per kcal of energy provision to human	2.99	0.82	0.94	1.29

Source: Chicago Mercantile Exchange (CME), USDA and Goldman Sachs Commodities Research.

Fuel demand is driven by government policy and trade barriers

Biofuels, though policy driven, are becoming an important part of the alternative energy mix

Thousands b/d

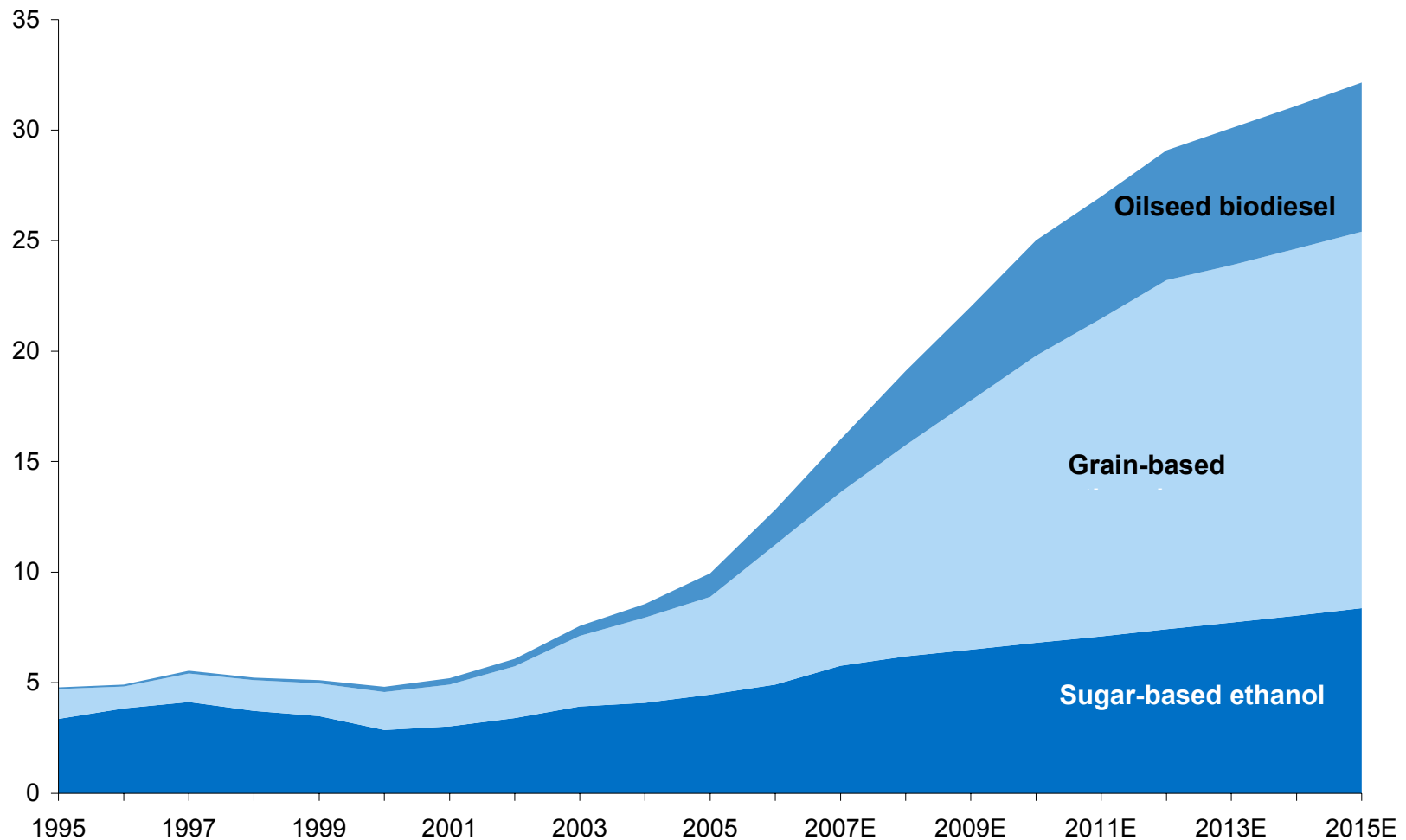
	2006	2015	2030*
Synthetic Crude Oils	1,308	2,600	5,550
Oil Sands (Tar Sands in Canada)	660	1,900	3,000
Extra Heavy Oil (Orinoco Belt in Venezuela)	648	700	2,500
Shale Oil	0	0	50
Renewable Fuels	846	2,225	3,500
Ethanol	733	1,650	3,000
Biodiesel	113	575	500
Synthetic Fuels	233	535	2,950
Coal-to-Liquids (CTL)	160	210	1,800
Gas-to-Liquids (GTL)	73	325	1,100
Biomass-to-Liquids (BTL)	0	0	50
Total Alternative Fuels	2,387	5,360	12,000
As a share of global market	2.8%	5.5%	10.6%

* 2030 forecasts are from DOE and IEA

Source: IEA, DOE and Goldman Sachs Commodities Research.

We expect global biofuel output to more than double in the next few years...

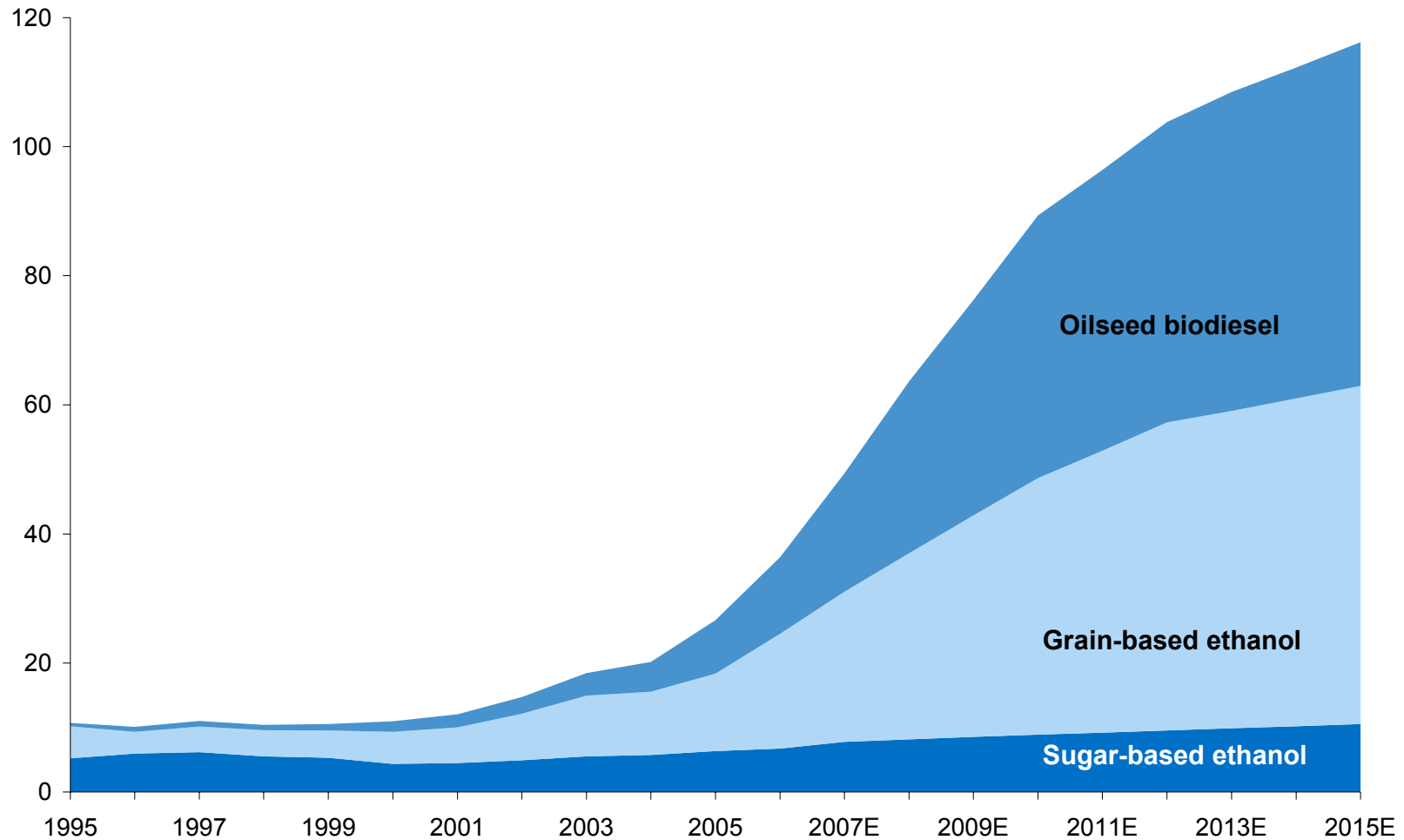
Billion gallons



Source: USDA and Goldman Sachs Commodities Research estimates.

... dramatically increasing the need for land given the preference for indigenous feedstocks

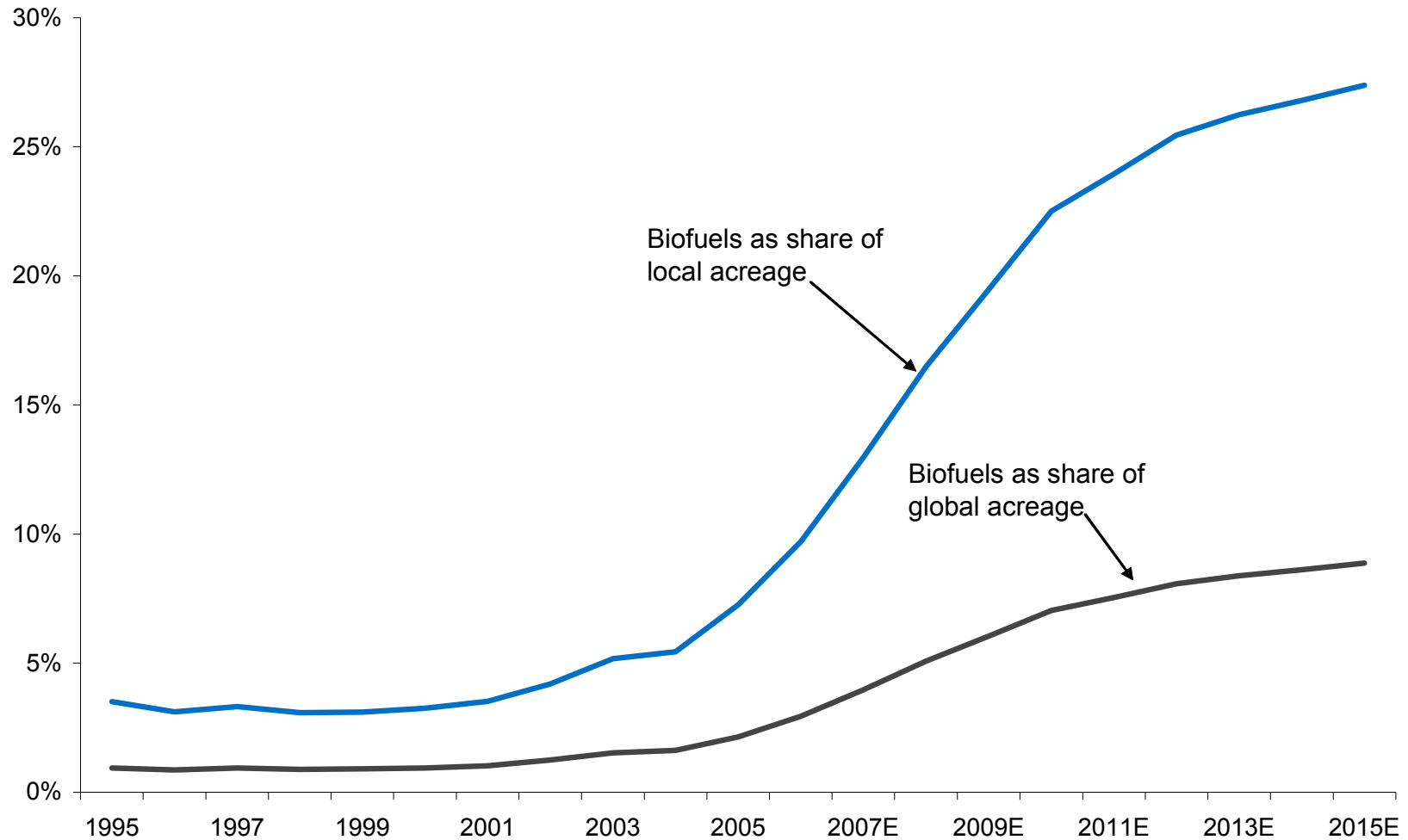
Million hectares



Source: USDA and Goldman Sachs Commodities Research estimates.

Land will likely be in shortage in key biofuel regions

Percent



Source: USDA and Goldman Sachs Commodities Research estimates.

Sugarcane and jatropha are the most efficient biofuel feedstocks

Commodity Input	Land Use (gal/acre)	Energy Use (output/input)	Breakeven prices, Feb 2007 (\$/bbl)		Countries Using the Input	Production By Product
			w/o Subsidy	w/ Subsidy		
Sugar-based Ethanol						
Sugar Cane	734	8.3	\$45	n/a	Brazil, Lat. America	Raw Sugar, Power
Sugar Beets	715	1.5	\$100	\$22	France	Raw Sugar
Grain-based Ethanol						
Corn	394	1.4	\$83	\$62	US, Canada, China	DDGS Feed
Sorghum	374		\$79	n/a	India	Animal Feed
Wheat	243	1.1	\$125	\$46	Europe	DGGS Feed
Biodiesel						
Palm Oil	508	2.0	\$41	n/a	Phillipines	Glycerine, Fertilizer
Jatropha	364	2.0	\$43	n/a	Africa, India	Glycerine, Fertilizer
Rapeseed	145	2.5	\$125	\$75	Europe	Glycerine, Meal
Soybean	60	2.8	\$122	\$80	US	Glycerine, Meal
Next Generation						
Cellulosic Ethanol*	1150	4.0	\$305	\$284	N. America, Europe	Energy

* These estimates are based on the DOE pilot programs, the economics of a true commercial scale cellulosic plant are not yet know, but could differ from these projections.

Source: Goldman Sachs Commodities Research.

Biofuel-efficient crops, however, are concentrated in the southern hemisphere and protectionist trade barriers prevent global flows

Canada: 5% biofuels by 2010. Current ethanol subsidies between C\$0.015/litre - 0.03/litre depending on blend percentage. Tax relief and additional incentives by province. Mostly ethanol.

France: Targeting 10% biofuels by 2010. Tax relief of €0.09/litre for biodiesel and €0.21/litre for ethanol. Import tariffs of 6.5% of purchase price. Major feedstocks are rapeseed and wheat (cereal crops).

UK: Compulsory blending of 5% biofuels by 2010. Current tax relief of £0.20/litre, likely to increase in 2008. Major feedstocks are rapeseed, wheat.

Europe: Targeting biofuels to be 10% of transport fuels by 2020. Tax relief ranges from €0.29/litre - 0.65/litre. Major product is biodiesel. Major feedstock is rapeseed.

Germany: €0.27/litre tax relief for biodiesel. Mandatory blending system 2006/07 for biofuels. Major feedstocks are rapeseed oil, cereal crops. Import tariffs of €0.19/litre for ethanol imported into the EU.

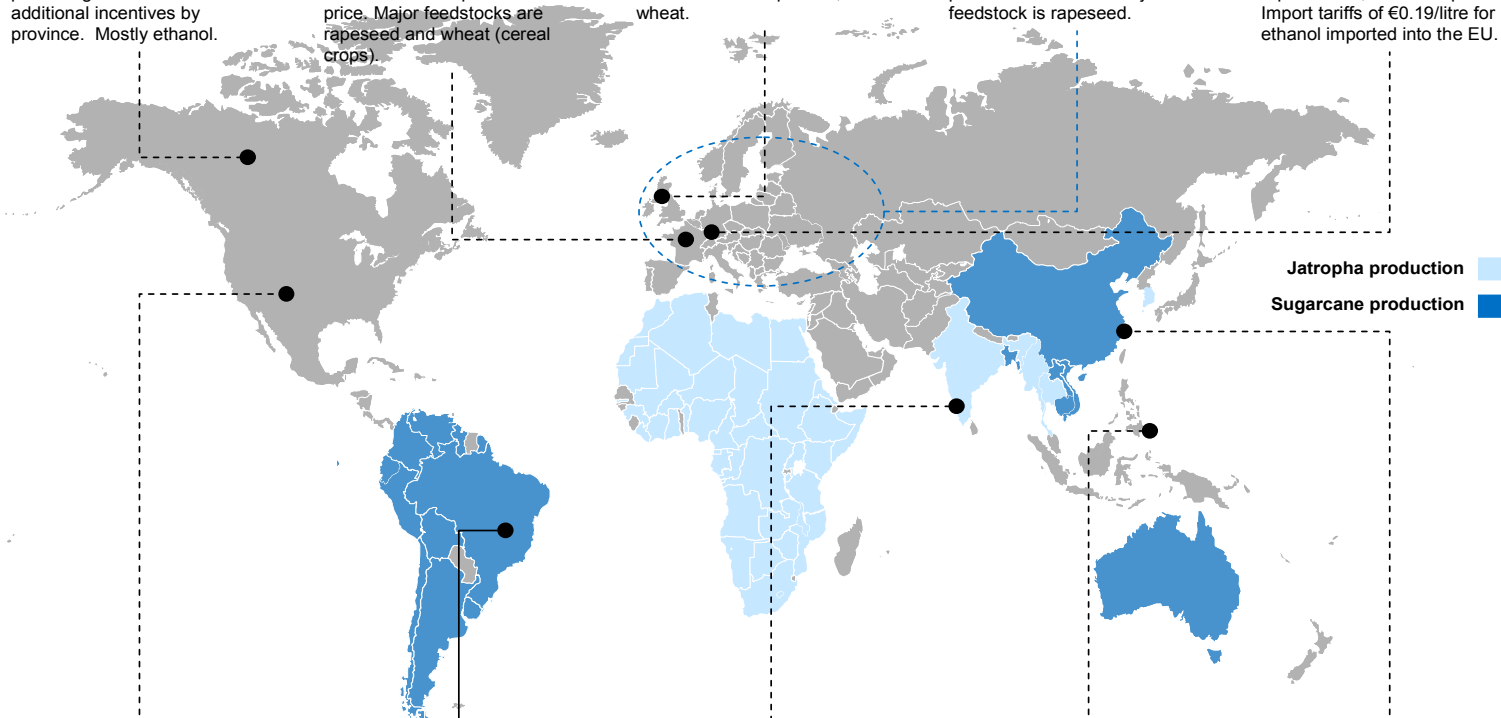
US: aiming to produce 7.5 billion gallons of biofuels by 2010. Current biodiesel tax relief of US\$1.00/gallon. Ethanol tax relief of US\$0.51/gallon. Import tariffs of US\$54/gallon on ethanol. Major feedstock is corn. Further tax reductions on flex-fuel vehicles.

Brazil: Mandatory blending of 20% ethanol in all transport gasoline. No tax relief. Major feedstock is sugar cane. Mandatory 2% biodiesel blending will take effect on Jan 1 2008 and 5% blending in 2013. Guaranteed Government purchase of biodiesel from family run facilities. Exports commencing to Venezuela, Sweden. R&D JV with Japan.

India: Mandatory blending of 5% Jatropha oil in biodiesel increasing to 20% blend by 2020. BP currently running a 8,000ha trial on Jatropha performance.

Philippines: 5% of ethanol blending within 2 years of the Biofuel Act that became effective in Oct 2006 and 10% within 4 years. 1% of biodiesel blending within 3 months of the Act and 2% within 2 years. Major feedstock is coconut oil for biodiesel and sugarcane for ethanol.

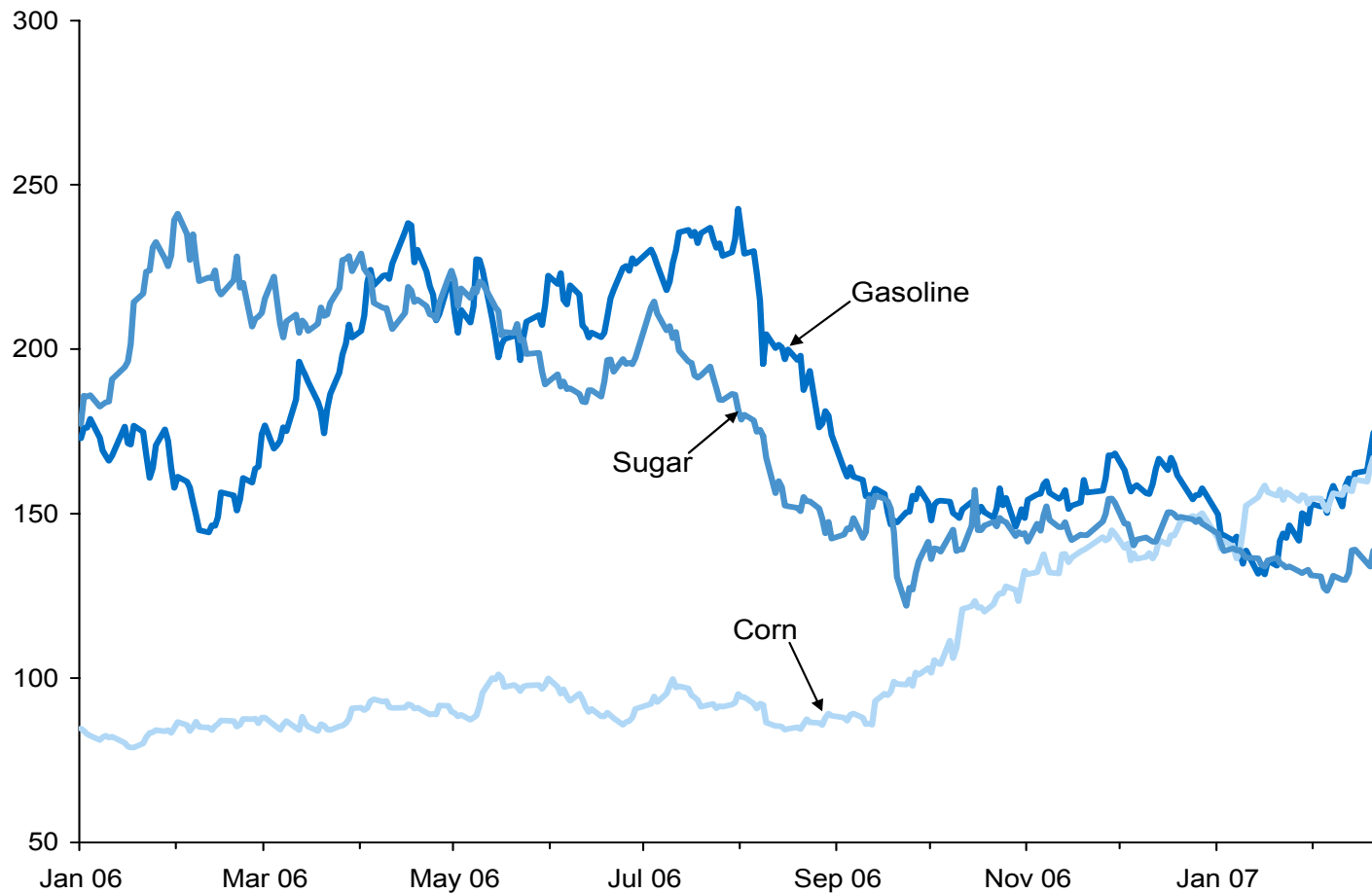
China/Japan: targeting 15 million tonnes of ethanol production and 5 million tonnes of biodiesel production by 2020. Limited agricultural resources in Japan to generate significant biofuels production, but the country is in talks to import biofuels from Brazil and Philippines.



Source: Goldman Sachs Commodities Research.

Bushel-to-barrel convergence: corn, sugar and gasoline are converging to the same energy equivalent levels

Cent/gallon

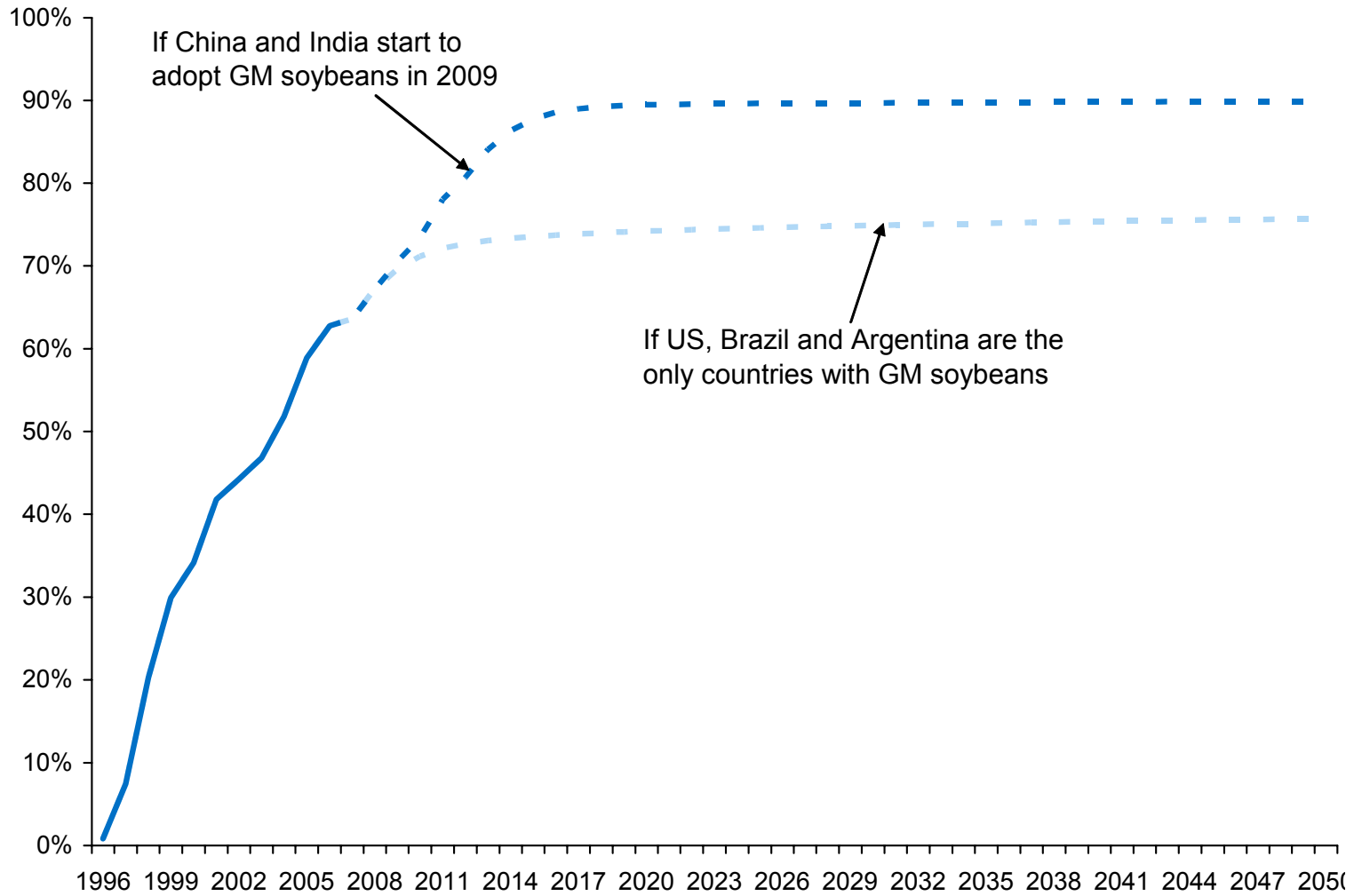


Source: Goldman Sachs Commodities Research.

GMO and CRP are not a magic bullets for supply growth

We estimate that GM soybeans will reach saturation in the next few years

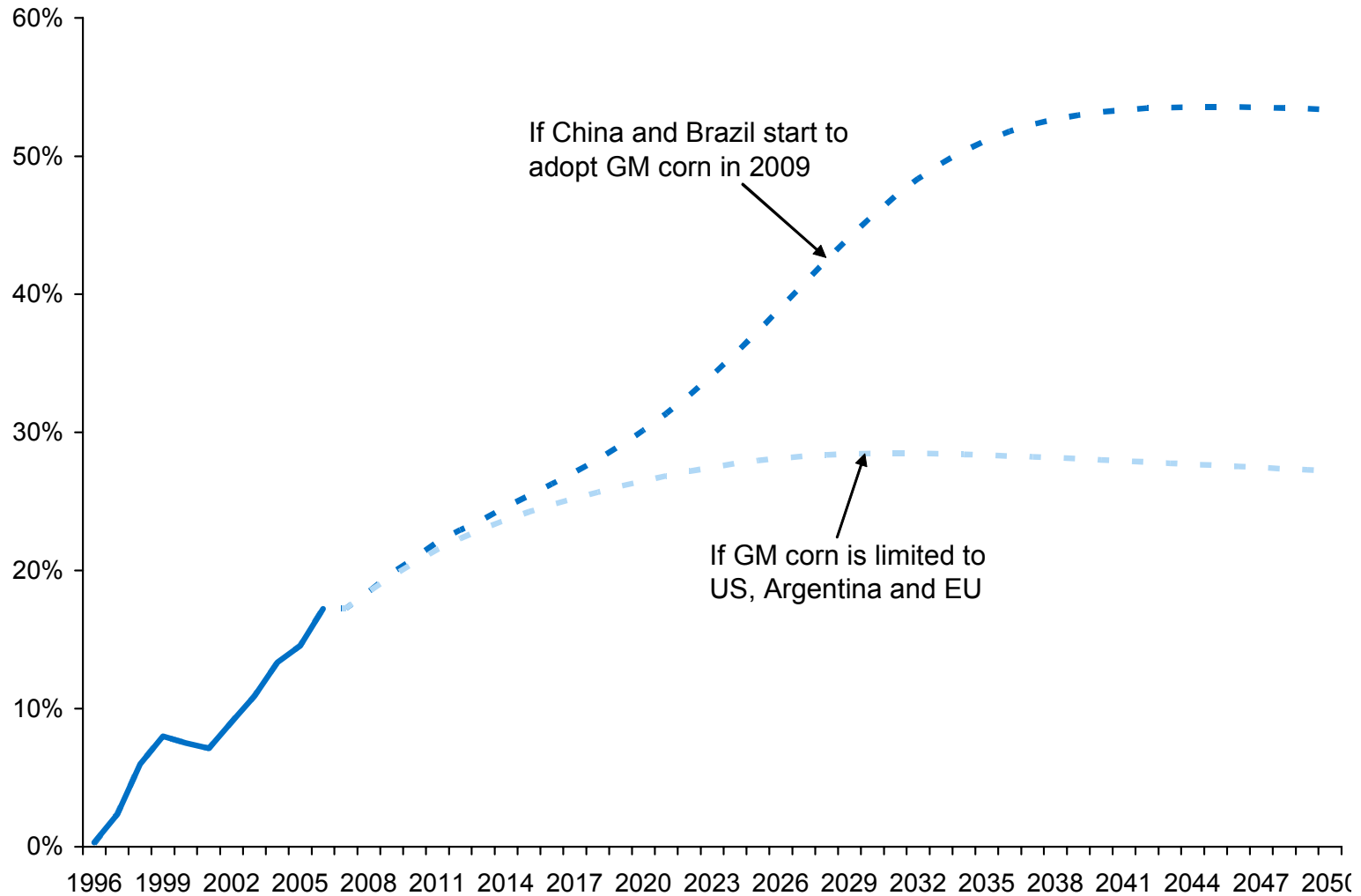
GM soybean acreage as a share of global soybean acreage



Source: USDA and Goldman Sachs Commodities Research estimates.

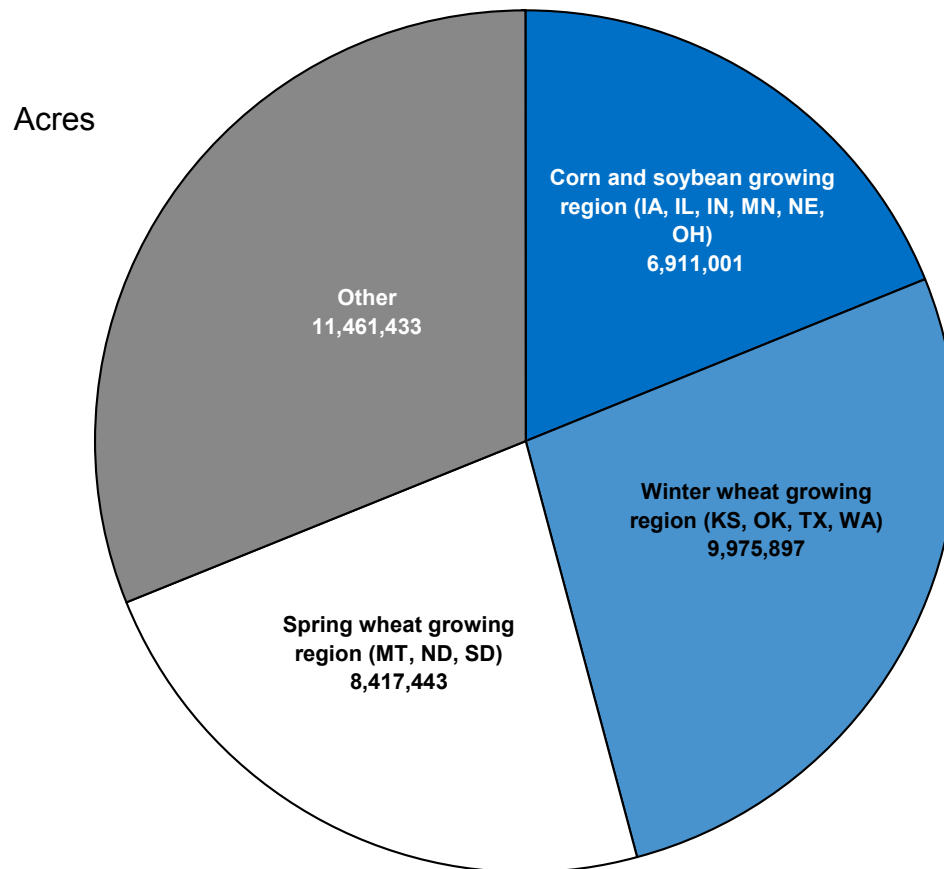
GM corn acreage expansion may have greater scope, particularly if adopted by China and Brazil

GM corn acreage as a share of global corn acreage



Source: USDA and Goldman Sachs Commodities Research estimates.

US Conservation Reserve Program (CRP) only has about 7 million acres of land suitable for corn and soybeans

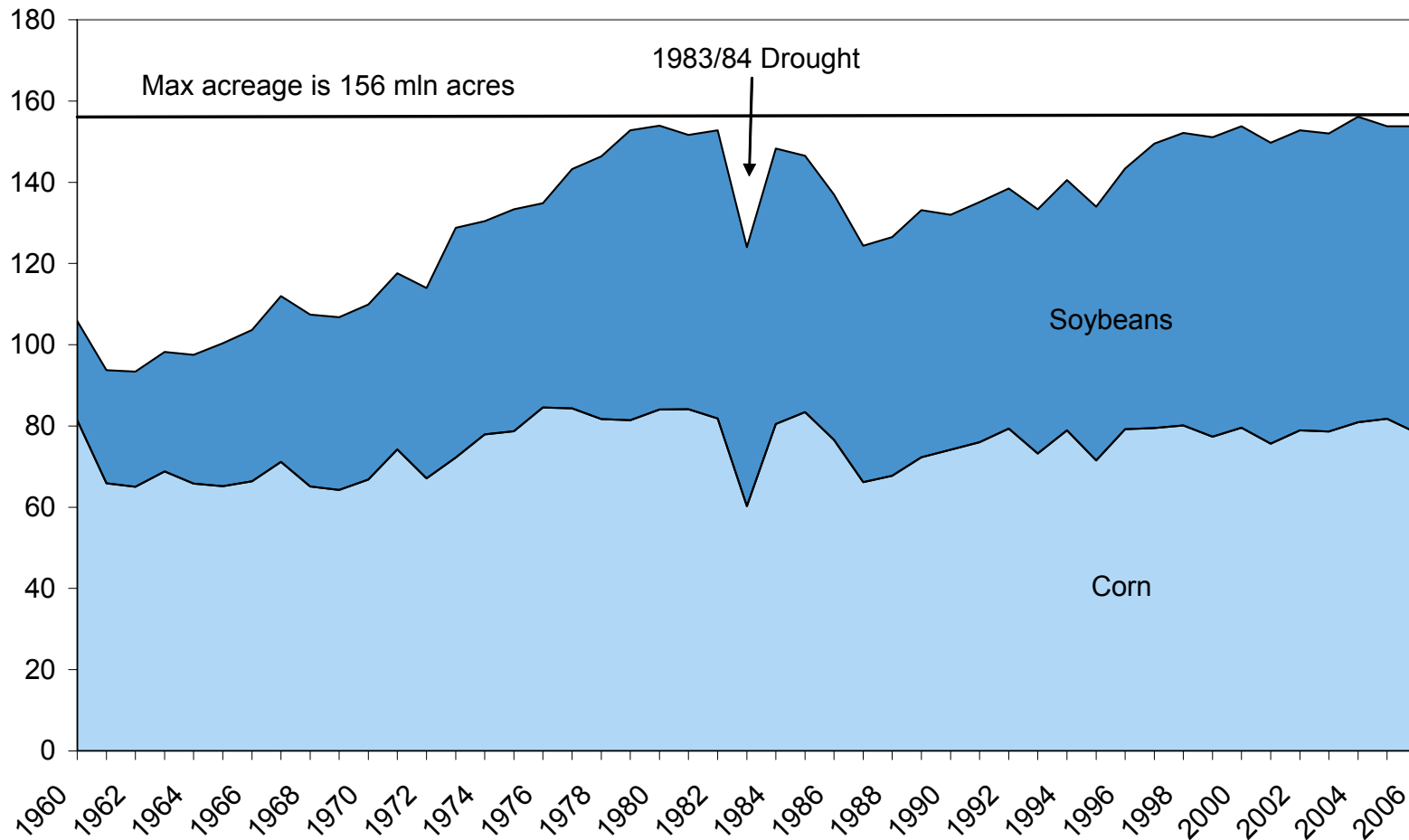


Source: FSA, USDA..

Corn today, soybeans tomorrow

Total corn and soybean acreage has not increased significantly since the 1970s

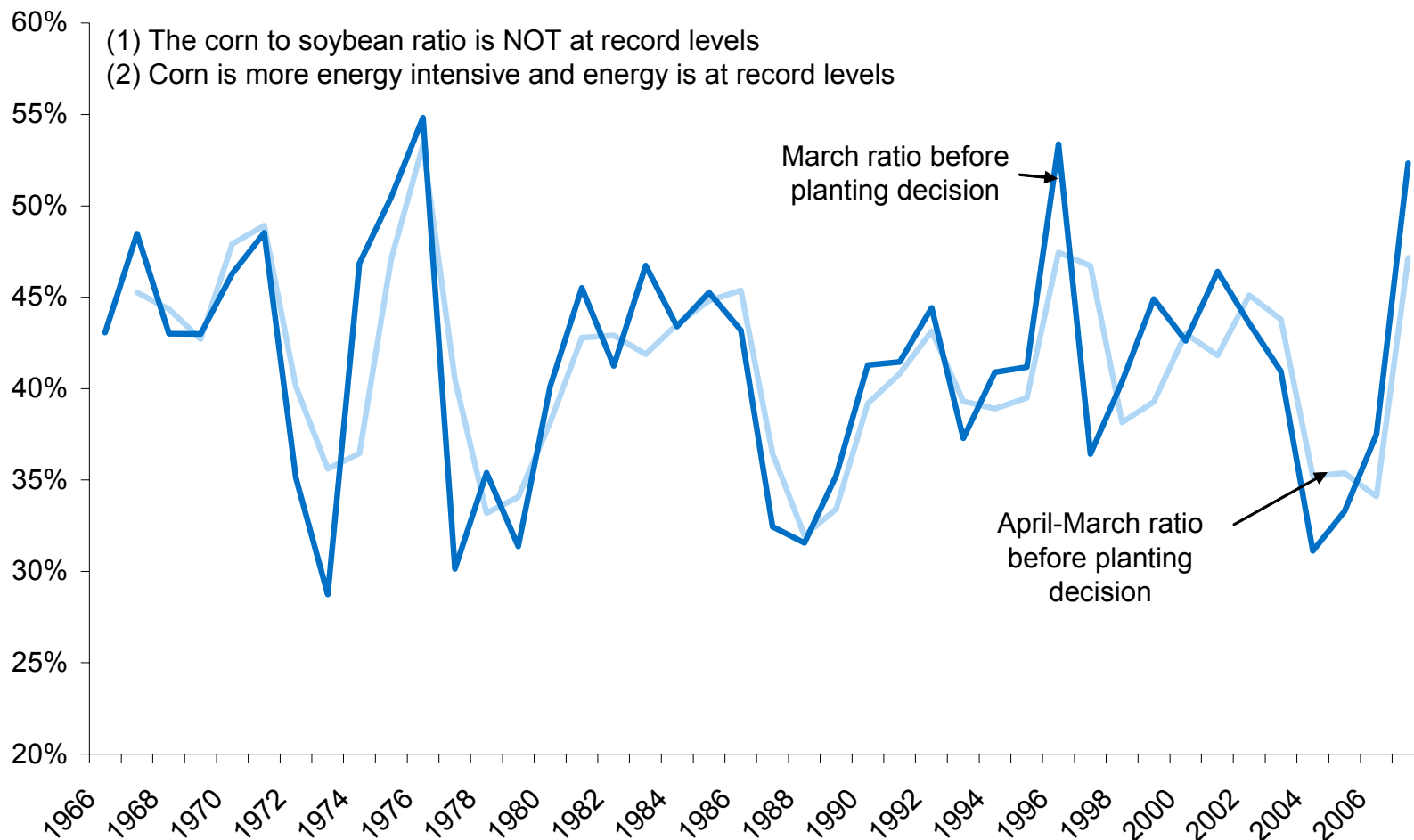
Million acres



Source: USDA.

Corn-to-soybean ratio is high, but not at record levels

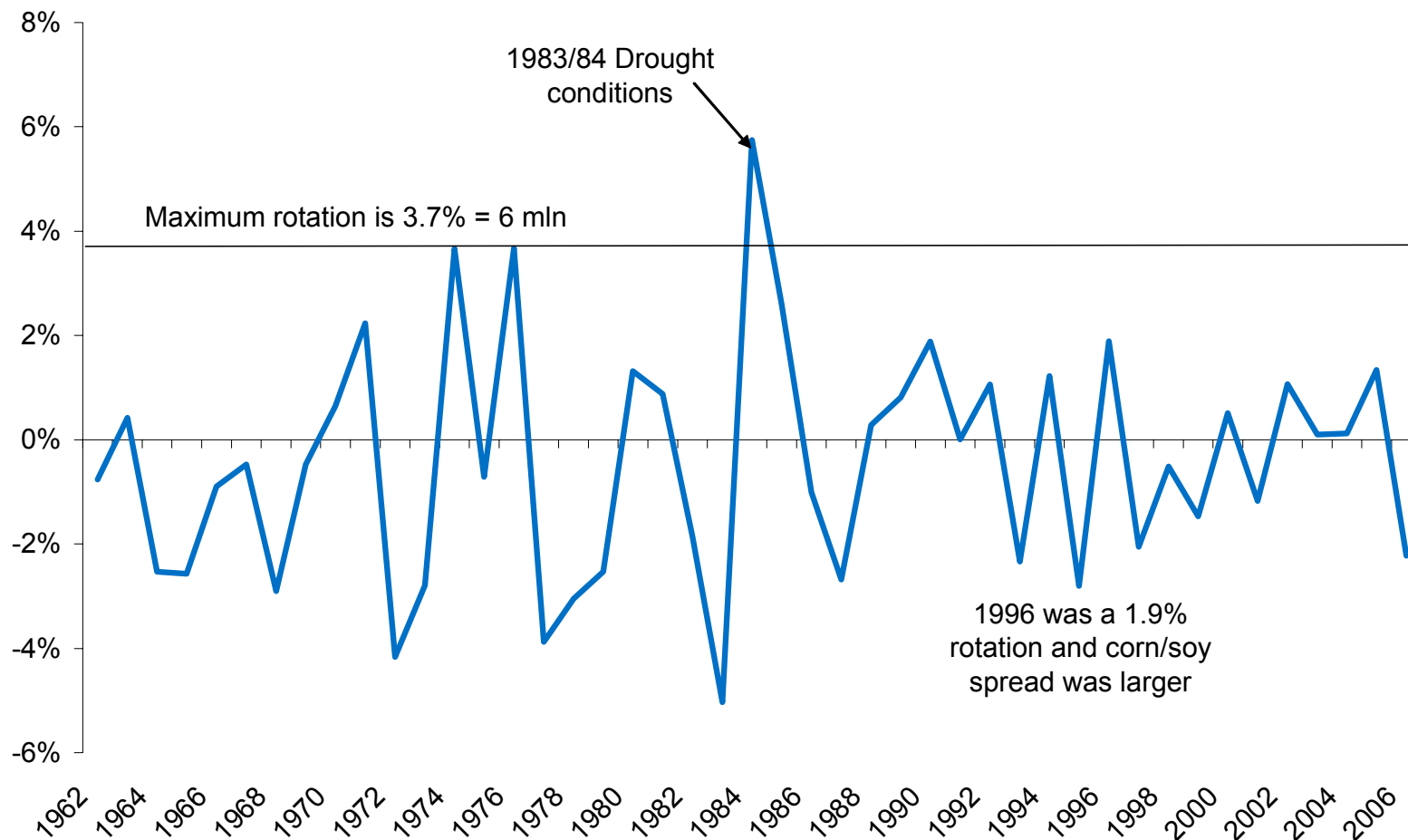
Corn-to-soybean price ratios



Source: CBOT.

Controlling for weather, maximum crop rotation is near 6 million acres

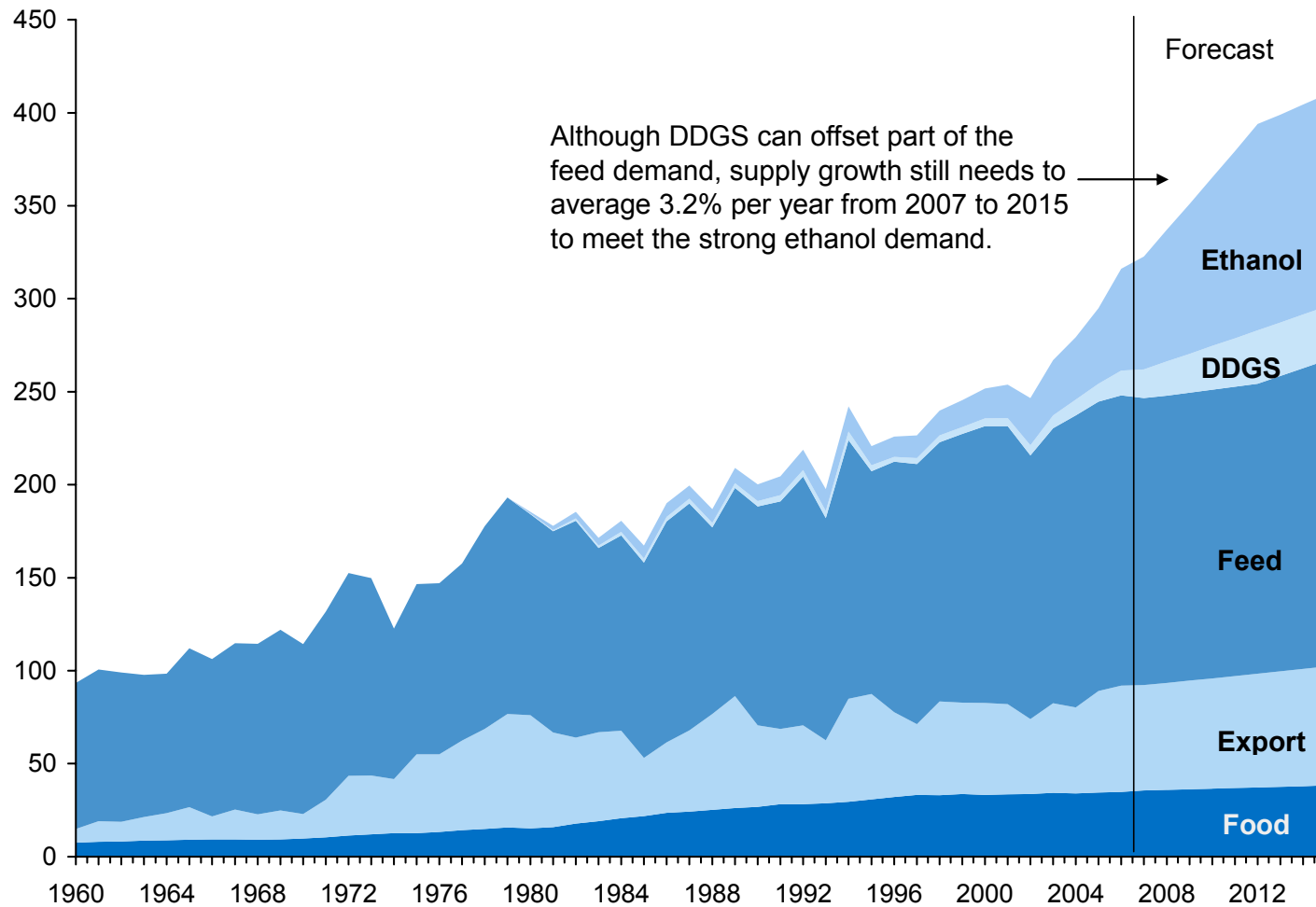
YOY change in corn's share of total corn and soybean acreage planted



Source: USDA.

In the US, corn supply growth needs to average over 3% per year through 2015 to meet demand

Million metric tons



Source: USDA and Goldman Sachs Commodities Research.

US corn balance remains very tight during the next crop year even with a 9 mln increase in acreage planted (which is 1.1X harvested acreage)

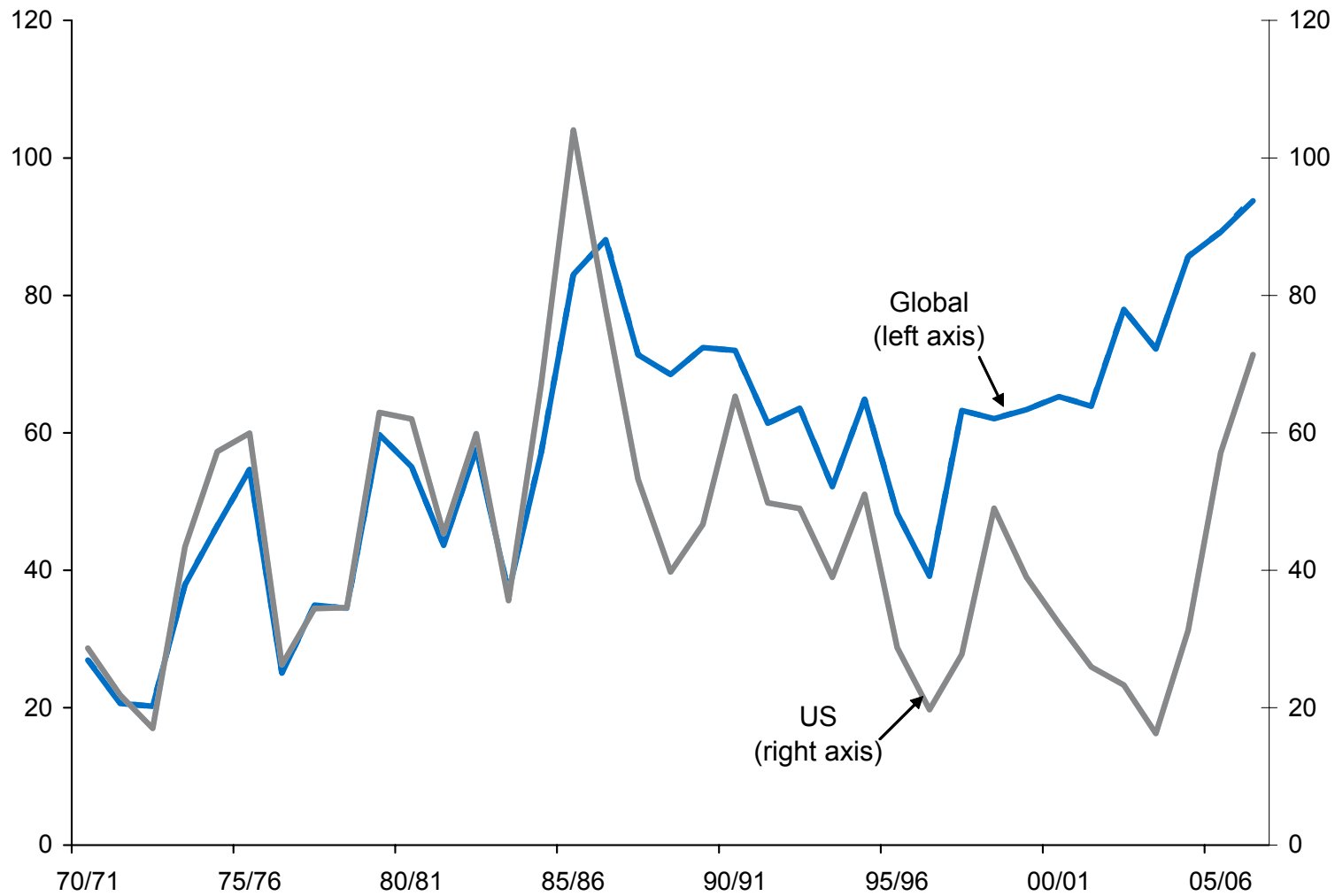
Bushels except where noted.

	History		GS	USDA
	2005/06	2006/07	2007/08	2007/08
Total demand	11655	12268	13106	13132
Fuel demand	1636	2145	2789	3200
Ethanol (mln gal)	4499	5900	7669	8800
Feed demand	6537	6494	6659	6602
Food demand	1344	1389	1395	1405
Net export demand	2138	2239	2262	1925
Total supply	11508	11053	12916	12849
Production	11111	10532	12239	12072
Acreage (mln acre)	75.1	70.6	78.2	78.8
Yield (bu/acre)	147.9	149.1	156.4	153.1
DDGS supply	397	521	677	777
Inventory draw (-)	-147	-1215	-190	-283
Inventory	1967	752	562	468
Days of coverage	63.8	23.4	16.5	13.8
Acreage gap (-)	-1.0	-8.1	-3.0	-4.6
Acreage demanded (mln acres)	76	79	196	199
Acreage supplied (mln acres)	75	71	193	195

Source: USDA and Goldman Sachs Commodities Research.

Soybean inventories remain at historically high levels...

Days of forward coverage



Source: USDA and Goldman Sachs Commodities Research.

... but soybean inventories are likely to draw for the first time in years during the next crop year

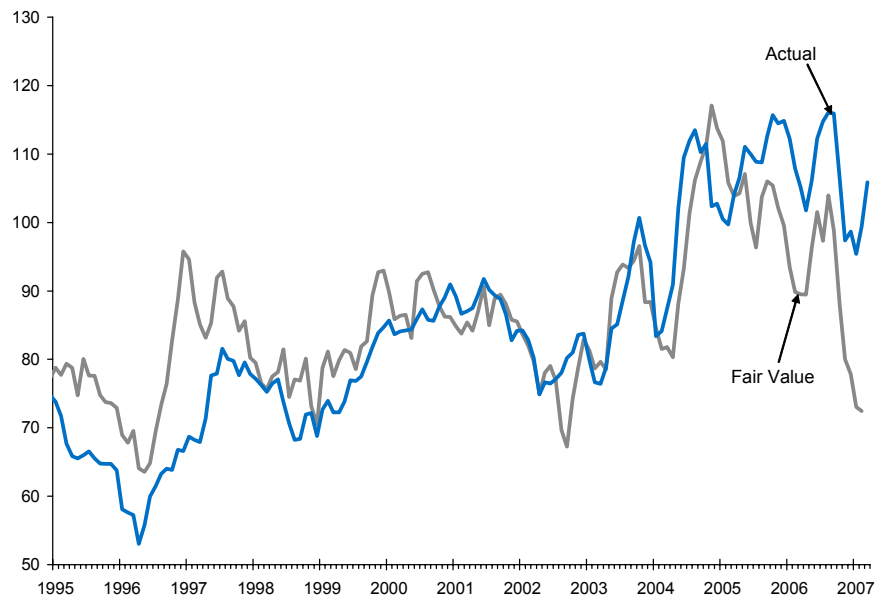
- Soybeans have the most leverage to the BRICs feed demand story (see slide 9)
- Biodiesel technologies that use soybeans are extremely land intensive, the least efficient food crop (see slides 14 and 16)
- GMO penetration is the greatest for soybeans suggesting there is not a lot of room left to improve the yields (see slide 20)
- Crop rotation from soybeans to corn will likely create shortages in the United States during the next crop year (see slide 26)

**Livestock implications:
more cattle will likely be to pasture**

Live cattle prices will likely trade at parity to feeder cattle prices

Significant downside risks to feeder cattle prices

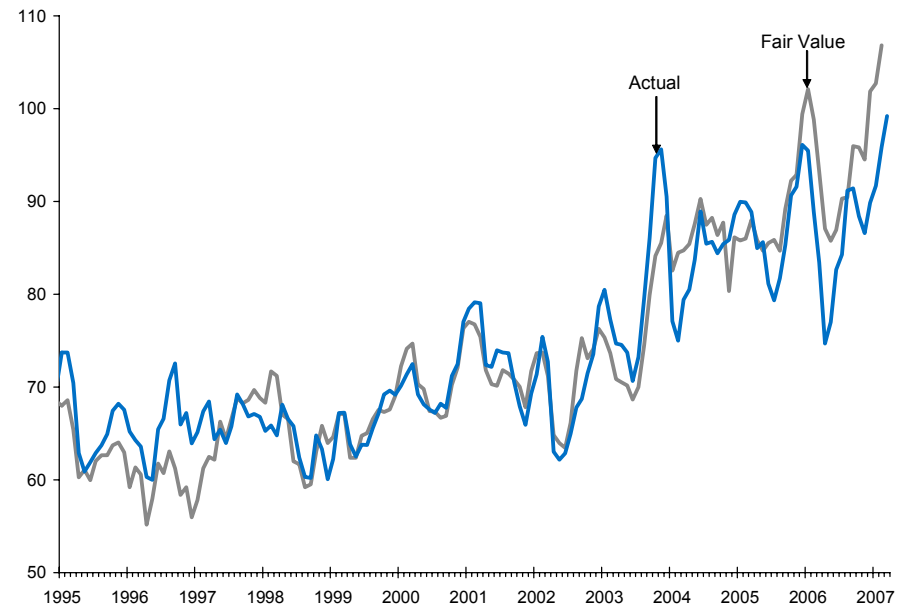
Cents/lb



Source: Goldman Sachs Commodities Research estimates.

Significant upside risks to live cattle prices

Cents/lb



Source: Goldman Sachs Commodities Research estimates.

**Biofuel and energy implications:
the outlook for diesel remains very strong**

Calculating the fair arbitrage value to the oil market for ethanol and biodiesel fuels

Ethanol fair arbitrage value to motor gasoline

Illustrative premium calculation based on Chicago pricing

Attribute	Conventional Motor Gasoline	Fuel Ethanol	Value per Unit (cpg)	Ethanol Premium/Discount
Energy Content (Btu/gal)	125,071	84,262	0.001	-60
Octane Number* (R+M/2)	87	115	2	56
Average RVP** (psi/gal)	11.0	18.0	-3	-21
Tax Credit (cent/gal)	0	51	n/a	51
Ethanol Premium to Motor Gasoline (cent/gal):				26

* The octane value is determined by the spread between gasolines grades, the value is 1% of the gasoline price.

** We use an average RVP level, but it varies considerably on a seasonal basis.

Biodiesel fair arbitrage value to ultra low sulfur diesel

Illustrative premium calculation based on German pricing

Attribute	Rotterdam 10 ppm Gasoil	Vegetable Oil Biodiesel	Value per Unit (\$/MT)	Biodiesel Premium/Discount
Energy Content (mBtu/MT)*	43,455	37,102	0.015	-228
Cetane Number**	42	57	0	0
Tax Credit (\$/MT)	0	733	n/a	733
Biofuel Tax (\$/MT)***	0	-139	n/a	-139
Biodiesel premium to 10 ppm Gasoil (\$/MT):				366

* The energy differential is based upon the end-use pump price as the consumer price determines this discount.

** Europe is long cetane so its value is close to zero.

*** Biodiesel taxes in Germany are scheduled to increase to €0.45/l by 2012, making the subsidy zero.

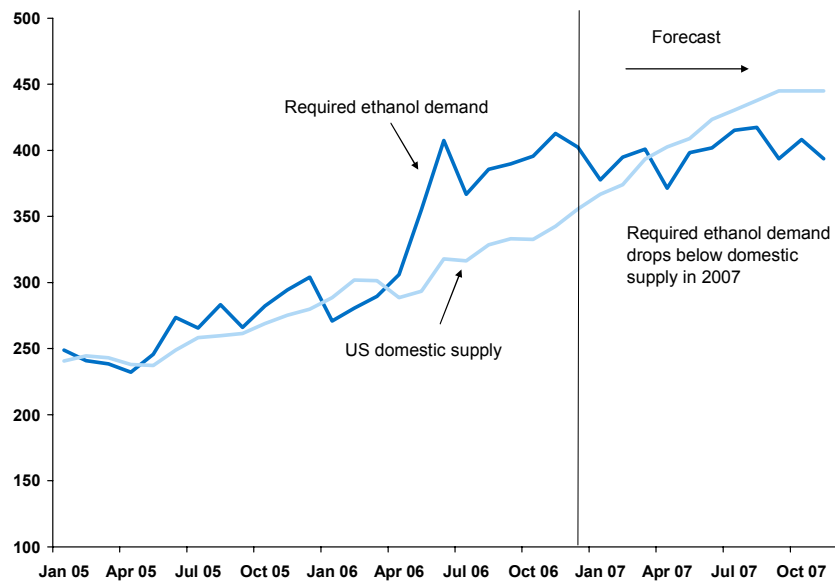
Source: Goldman Sachs Commodities Research.

Source: Goldman Sachs Commodities Research .

US ethanol balance begins to ease in 2007

US ethanol production is catching up with domestic demand

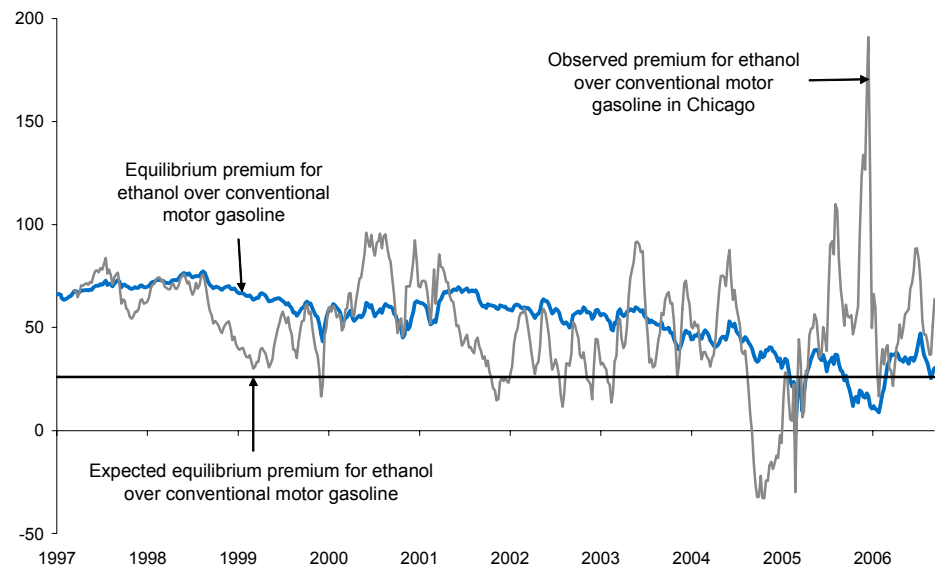
Thousand b/d



Source: IEA and Goldman Sachs Commodities Research.

Actual premium of ethanol over gasoline still remains above fair value levels

Cents/gal

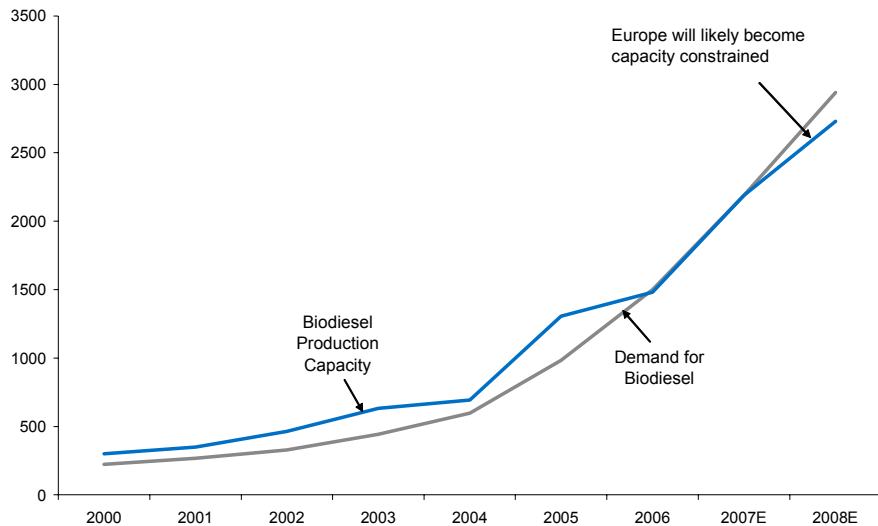


Source: CBOT, Platts and Goldman Sachs Commodities Research .

Biodiesel likely to become supply constrained by 2008

European biodiesel capacity constraint is likely to become binding in late 2007 and early 2008

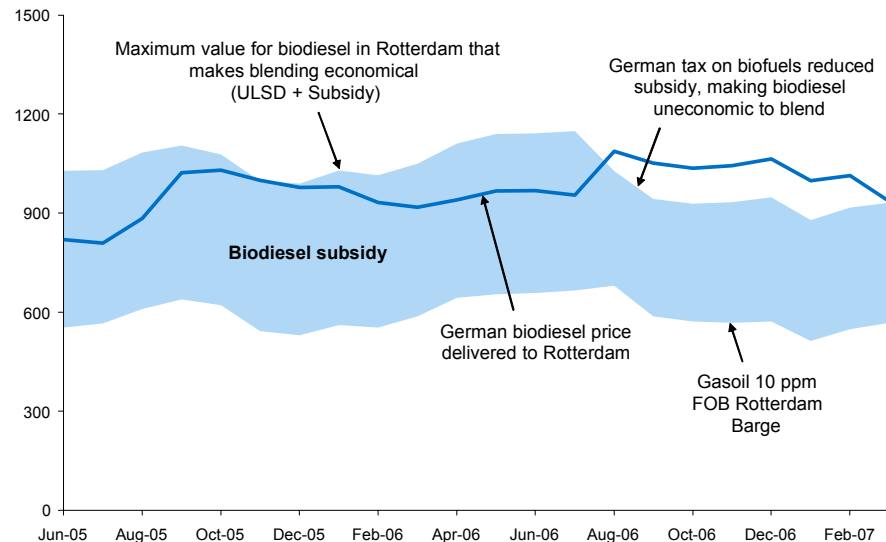
Million gallons per year



Source: F.O. Licht, A.Lipw, USDA and Goldman Sachs Commodities Research.

Biodiesel prices are converging back to fair value

\$/mt



Source: Platts, UFOP and Goldman Sachs Commodities Research.

EU-25 plus US market impact: ethanol supplies will likely meet 255% of Atlantic Basin gasoline demand growth

In thousand b/d except where noted

Commodity	Biofuel Supply			Biofuel Supply Losses		Net Impact	EU-25 plus US Market Impact				
	2005 Biofuels	2010 Biofuels	Growth in Biofuels	Energy Input	Efficiency Loss	End-Use Product	2005 Demand	2010 Demand	Long-Run Growth	Growth to 2010	Bio Share of Growth
Total Products	353	1174	821	-47	-168	606	35152	37572	1.3%	2420	25%
LPG	0	0	0	-9	0	-9	2826	2933	0.7%	107	-8%
Motor Gasoline	279	825	546	-4	-137	405	11633	11792	0.2%	159	255%
Jet Fuel	0	0	0	0	0	0	2790	3112	2.2%	322	0%
Diesel/Gasoil	74	349	275	-34	-31	210	9744	11488	3.3%	1744	12%
Residual Fuel Oil	0	0	0	0	0	0	2726	2560	-1.3%	-166	0%
Other Petroleum	0	0	0	0	0	0	5433	5686	0.9%	253	0%
US Natural Gas (mmcf/d)				-772	0	-772	60137	64785	1.5%	4648	-17%
EU Natural Gas (Bcm/y)				-9	0	-9	547	619	2.5%	72	-13%

Source: Goldman Sachs Commodities Research .

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