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Incentives and Plant Breeding Breakthroughs to Reduce Soy Imports

Report Categories:
Oilseeds and Products
Biotechnology
Biotechnology and Other New Production Technologies
Grain and Feed

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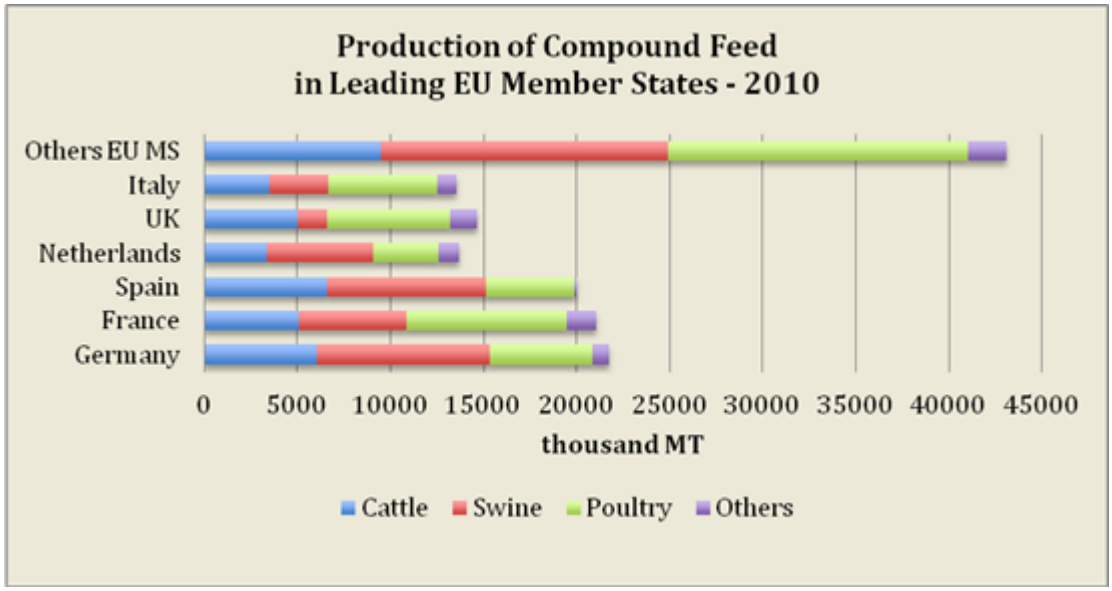
Report Highlights:
France ranks above average in being protein-independent for the feed sector among European Union (EU) Member States. While soybean meal consumption has remained relatively stable at 4 million metric tons (MT) annually over the past 25 years, use of rapeseed meal has increased from minor levels to more than 2 million MT annually, all domestically sourced as a by-product of France's biodiesel industry.

Farmer unions have repeatedly called for increasing independence in protein feeds, but under the current policy conditions and with no major genetic breakthroughs for domestic soybean or pea

production, France is expected to continue to be a major consumer and importer of soybean meal in the future.

General Information:
Leading Producer and Consumer of Animal Feed

As a major livestock, poultry and dairy producer in the European Union (EU), France consumes large quantities of feed. In fact, France is the EU's leading producer of compound feed with Germany and Spain, with 15 percent of the EU total production in each of these three Member States.

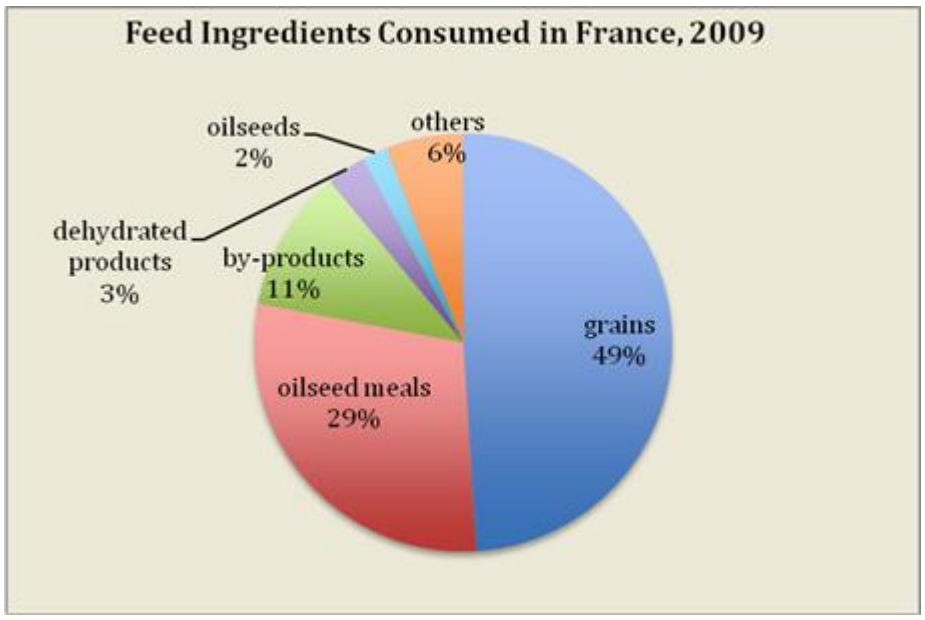


Source: European Feed Manufacturers Federation (FEFAC)

In 2010, France's compound feed production totaled 21.5 million MT. In 2011, preliminary estimates indicate that France's production of compound feed was marginally lower than in 2010.

Snapshot of Feed Ingredients Consumption

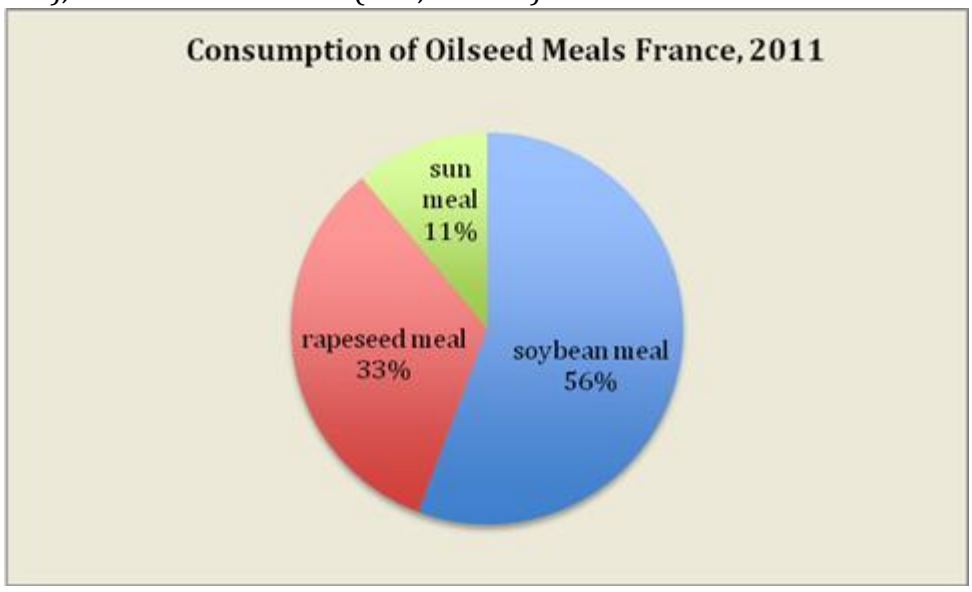
Compound feed consumed in France includes mainly grains and oilseed meals. While grains (mainly wheat, corn, and barley) are domestically sourced, half of the oilseed meals (namely, soybean meal) are imported.



Source: France's compound feed industry organization (Coop de France Nutrition Animale and National Syndicate for Feed Industry – SNIA)

Note: By-products mainly include those from the milling (5 percent), starch (2 percent), and biofuels (2 percent) industries.

In MY 2010/11, approximately 7 million MT of oilseed meals were consumed in France annually. They mainly consisted of soybean meal (4 million MT), followed by rapeseed meal (2.3 million MT), and sunflower meal (800,000 MT).



Source: French Crushers Federation

Main Drivers in Favor of Soybean Products Imports

Over the past decades, the oilseeds industry has repeatedly complained about France's dependence on imported products for protein-rich ingredients in animals feed. The high demand of the livestock, dairy, and poultry industries and the grains and soybean meal basic formulation of compound feed are not the only factors favoring high consumption of soybean meal. In addition, the ban of meat and bone meals in animal feed in place since the bovine spongiform encephalopathy (BSE) crisis in 1996, and the limited domestic production of soybean products and substitutes are also major drivers in favor of soybean products imports.

The incorporation of grains has been favored by the Common Agricultural Policy (CAP) since its first reform in 1992, which pressured grain prices down. The use of grains in animal feed increased from 30 percent in 1991 to 50 percent currently. In addition, grain consumption in animal was been favored by the development of the swine and poultry industries in France, which are large consumers of grains. One should note that grains are not only a source of energy, but also a source of proteins in animal feed rations.

Protein Rich Ingredients in Animal Feed: Soybean Meal and Rapeseed Meal Dominant

<u>Soybean Meal and Rapeseed Meal</u>

France is less dependent on imported soybean products than most of the other EU Member States, as domestically-sourced rapeseed meal has increasingly, but still partially, replaced soybean meal in animal feed. Overall, soybean meal accounted for 55 percent of total meal consumption in MY 2010/11, relative to total EU consumption of 64 percent. At the same time, France's rapeseed meal consumption was significantly higher (33 percent), than the total EU (26 percent).

Soybean meal currently dominates the protein market for feed in France, with 4 million MT consumed annually. The large majority of it is imported as such (3.5 million MT imported annually), mainly from Brazil (70 percent), and 80 to 90 percent consists of biotech products, and labeled as such. France's imports of soybeans are relatively low (600,000 MT per year), and the leading supplier is the United States, with a 30 percent market share. Domestically grown soybeans are marginal relative to imported products, with 100,000 MT produced per year. Domestic production is non biotech and more than half is for the food market.

Rapeseed meal is the second largest source of plant protein consumed in feed in France, with more than 2 million MT consumed per year. Most of it comes from domestically grown rapeseed for biodiesel, and crushed in France or in neighboring Member States.
The use of rapeseed meal in animal feed has been favored by the development of the biodiesel industry in France since 1993. France is now the EU's second largest producer and consumer of biodiesel after Germany, which 80 percent is from rapeseed oil.

France has adapted and developed its crushing capacity to the development of its biodiesel industry. While in the early 1990's, soybeans were the main category of oilseeds imported and

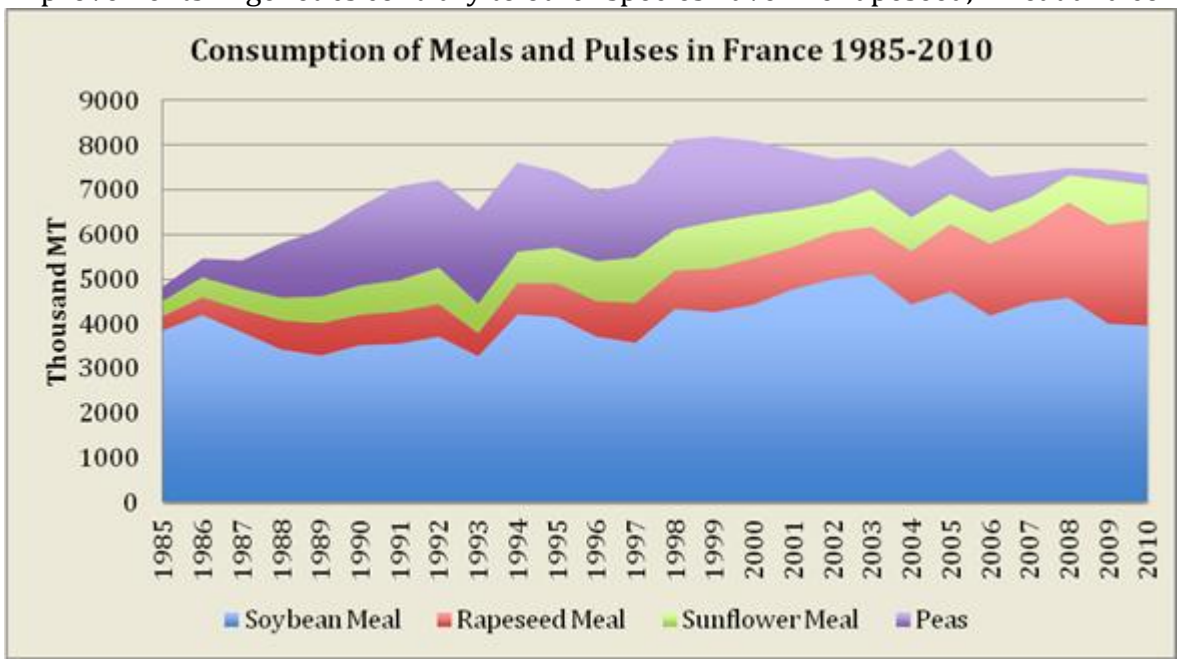
crushed in France, there are currently only two plants remaining. The others are specialized into rapeseed and sunflower seed crushing. In MY 2010/11, rapeseed accounted for 70 percent of total France's crush, while it represented 54 percent of the total EU crush.

Peas

The use of protein seeds (mainly peas) in animal feed benefitted from specific policy incentives from the CAP until 1999, when these payments were reduced. The graph below indicates a strong correlation between the existence and level of these payments and the quantities of peas used in animal feed in France.

In France, coupled payments of 55 euros per hectare were maintained in 2010 and 2011, and a total budget of 39 million euros for the total acreage of peas, faba beans and lupins was attributed annually, to boost the domestic production of non-biotech sources of proteins and reduce the trade deficit in protein seeds. Despite these incentives, France's consumption of protein seeds in animal feed declined from 2 million MT in the early 1990's to 300,000 MT currently, close to the 1980's levels.

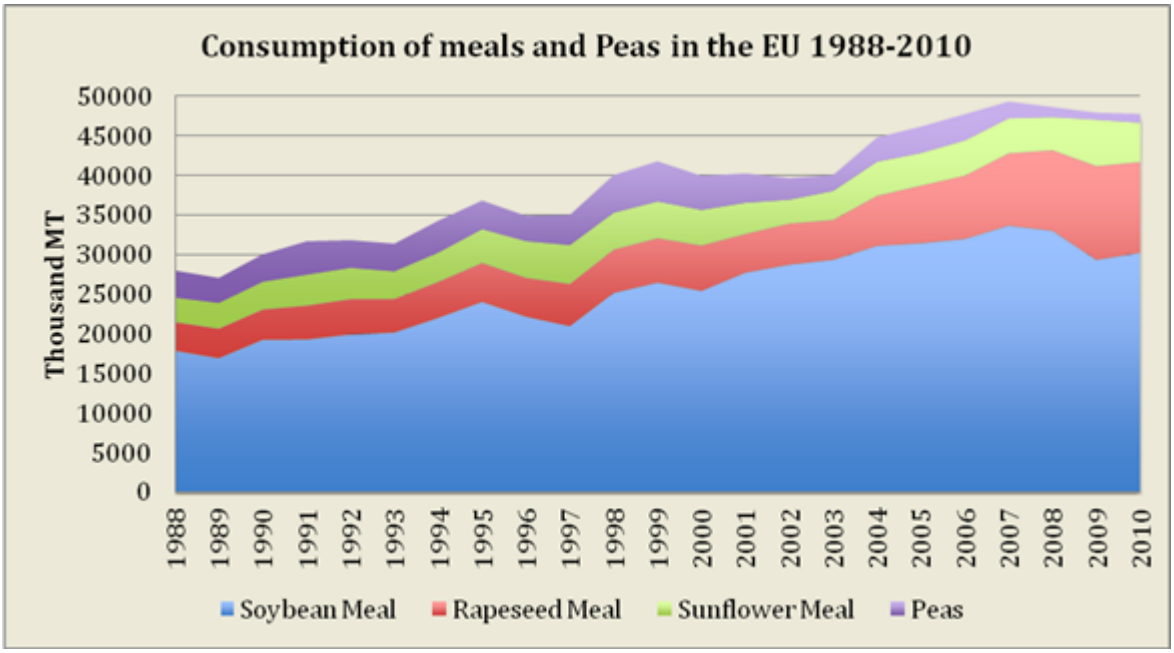
Little or minor CAP incentives, combined with a higher profitability for farmers to grow wheat, corn, and rapeseed on the same land as pulses negatively impact domestic pea production and use in animal feed. The low profitability of peas production results from various factors, including the low predictability of yields. The varieties currently on the market haven't benefitted from major improvements in genetics contrary to other species have like rapeseed, wheat and corn.



Source: French Crushing Industry and Pulses Producers Organization

The graph below indicates that the same trend was observed in the EU. Since the 1980's, soybean meal has remain dominant. The share of rapeseed meal has increased since the 2000's, and the

share of peas was higher when specific subsidies were significant, which is no longer the case.



Source: FEDIOL
Note: 1988-1994: EU-12
1995-2003: EU-15
2004-2005: EU-25
2006-2010: EU-27

Farmer Organizations' Modest Recommendations to Expand Domestic Production

The oilseeds and pulses producers recently met at the French National Assembly to lobby Parliamentarians on ways and objectives to increase production of soybeans, peas, linseed, and alfalfa.

Overall, these farmer organizations regretted the specific coupled payments protein seeds benefitted from in the 1990's under the CAP, which favored the incorporation of peas in animal feed. Now that European authorities have decided to fully decouple payments for protein seeds production, there is no driver left for farmers to grow peas.

Farmer groups asked to recouple the payments under the first pillar of the CAP, and to make protein seeds benefit from the second pillar of the CAP given the environmental benefits of their cultivation (reduced nitrogen fertilization, lower green house gas emissions, and increased biodiversity).

Finally, the farmers asked for increasing funding of research and development programs on protein seeds to result in new varieties to secure higher plantings.

More specifically, they aim to:

- Increase soybean production from currently 50,000 hectares (ha) to 150,000 ha, although maintaining their niche market for non-biotech feed and food;
- Increase peas, faba beans and lupins acreage from 400,000 ha to 500,000 ha, mainly expanding markets for peas in swine rations;
- Prevent alfalfa production for dehydration, now covering 65,000 ha, from declining further, valuing its environmental benefits;
- Increase linseed acreage to rise from 16,000 ha to 50,000 ha, targeting food markets.

Genetics and Plant Breeding would Significantly Increase in France's Production of Soybeans and Peas

Pea varieties available for the farmers have not benefitted from the extensive research and plant breeding programs that grains and oilseeds have witnessed. As a result, the uncertainty in yields for peas remains high, currently, making farmers reluctant to grow these crops.

As a result, oilseeds and pulses farmer organizations, as well as Parliamentarians, called for intensifying varietal research on peas, both from the public (National Institute for Research in Agriculture - INRA), and the private sector (seed industry).

Although oilseeds and pulses farmer associations didn't call for having access to biotechnology in soybeans, several of their members as well as Parliamentarians denounced the inconsistency of the French and EU policy to approve imports but ban cultivation of biotech crops. Some Parliamentarians considered that they "won't be able to refuse innovation for a very long time."

There are many, among French farmers, who openly say they would be happy to grow biotech herbicide-tolerant soybeans if they were approved for cultivation in France. Some even go as far indicating the potential acreage of 300,000 ha of soybeans including herbicide tolerant varieties, which is twice as high as the target indicated by the oilseeds and pulses growers associations.

Conclusion

Introducing biotechnology in soybean plant breeding would be a more powerful tool to increase France's independence in plant proteins for animal feed than the tools currently envisioned by oilseeds and pulses farmer associations. However, such a decision would require policy makers to act despite the public opinion usually perceived as hostile for biotechnology.

The President of the leading French farmers Union (FNSEA) recently stated at the annual congress of the French crop growers, that the public opinion is hostile to agricultural biotechnology because it is "formatted as such" by opinion-makers. He also wondered whether the public opinion is making the law or not.

The President of FNSEA opined that discussions and decisions regarding biotech crops need to be

science-based and rigorous, and that therefore the socio-economic committee of the High Biotech Council has no reason to be maintained.

The uncomfortable position of the French government on the approval of the biotech MON810 corn has shown how political the agricultural biotech issue remains, and how irrational political decisions are, whatever the science and the law. To date, France's national ban on this product is declared illegal by both the European Court of Justice and France's administrative council Conseil d'Etat, for both scientific and legal reasons, but the French Government claims the ban will be reinitiated.

Consequently, France is expected to continue to be a major consumer and importer of soybean meal in the future, speculating that no major political decision is made in favor of developing biotech protein rich crop varieties adapted to France's agronomical and economical conditions.