



JAPANESE TRADING COMPANIES AND THE ASIA-BOUND GRAIN TRADE

INTRODUCTION

In this special report, we will discuss the Asia-bound grain trade. More specifically, we will look at how major Japanese trading companies have been purchasing grain silos, export terminals, and improving infrastructure in supply countries in order to ensure stable access and smooth flow of soybeans from supply to destination markets. We think that this issue is pertinent to discuss because in many ways it foreshadows an increase in sourcing of soybeans from both the United States and Latin America for key Asian markets. This special report will focus on the Japanese market, but will also touch on the Chinese market due to its importance to Japanese trading companies. Below is a table of contents that contains short summaries of the key issues to be covered in this report.

As laid out in the below table of contents, this report will start of by discussing demand, production and supply dynamics in the Japanese market. The subsequent section covers investments made by Japanese trading companies in the US and Brazil, the two leading suppliers to the Japanese market. The last section offers our insight on the opportunities and challenges that could potentially arise from these investments.

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Section 1: Trends in Japanese Soy Demand and Production

In this first section of this special report we start by providing an overview of how soybeans are consumed in Japan, and pertinent information on the domestic and supply situation for the commodity in this market.

In Japan, soybeans are mainly used for food oil and edible purposes, as high protein ingredients in soy-products and for feed. As laid-out in figure 1, in 2011, food oil was the largest end use for soybeans in the market, followed by food beans and then feed. Food beans are raw materials which are later processed into soyfoods such as tofu, natto, miso, soymilk and soy sauce. All food beans used in the market must be non-GMO.

Key soybean suppliers to the market are the US, Brazil, Canada, China and domestic production. Japanese soyfood processors demand high quality beans, especially for soy food products, and thus, favor domestic and US soybeans. As Japan's soy production declines and farmers retire, secure and efficient access to soybeans from America and Brazil will become even more essential to meet domestic demand for the commodity.

Using data from Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF), figure 2 shows the planted area (ha) and production for soybeans in recent years. According to these numbers, in 2011 land allotted for soybean farming was down by 1% to 137,000 acres and production also fell by the same percentage to reach 220,000 tons.

Last year's earthquake, tsunami and nuclear disaster did not result in a great reduction of soybean farmland area. However, as Japan's soyfood manufacturers are still refusing to use soybeans from the country's affected areas, due to radiation related anxieties, 22% or 48,000 tons of Japan's 2011 harvest has been rendered as unusable.

Thus, with an even tighter-than expected domestic supply situation, Japan has become more dependant on imported beans, and requires them to satisfy more than 90%. We think that Japan may well become more reliant on imported soybeans in the coming years, and that this is something driving Japanese trading companies to actively secure supplies in the US and Latin America.

Figure 3 shows the supply and demand situation for soybeans in Japan. Fluctuations in the overall import soybean market, are more representative of instabilities in the global economic system than it is the Japanese soybean demand situation. Japan can only produce between 3 to 7% of the soybean that it needs; thus, the market for imported soybeans will always exist. The US is the leading supplier to the market and has a strong reputation of supplying safe and high quality soybeans. Both Brazilian and Canadian suppliers have been, and are expected to become even more aggressive in their efforts to expand their share of the market in the coming years.

FIGURE 1: SOYBEAN USE IN JAPAN IN 2011

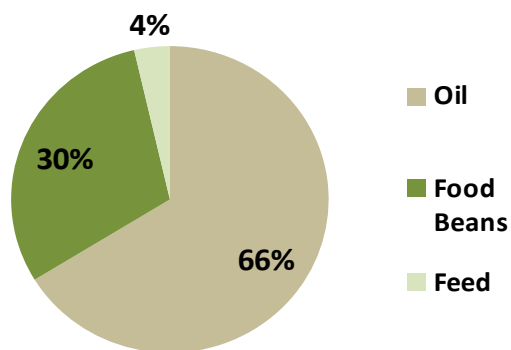
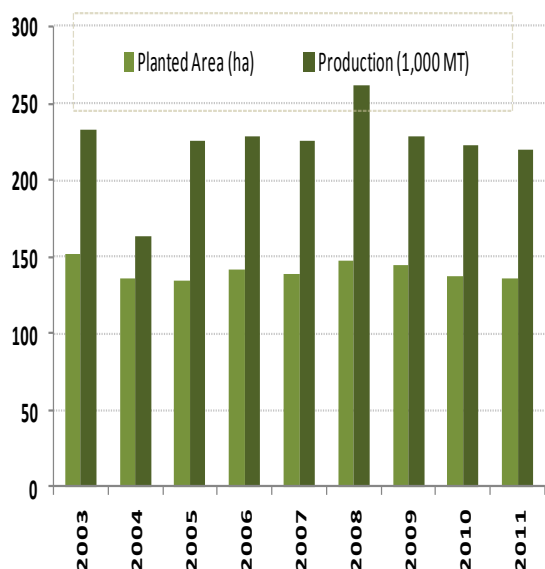


FIGURE 2: SOYBEAN PRODUCTION IN JAPAN IN 2011



SOURCE: MAFF AND USDA

FIGURE 3: JAPAN BEAN IMPORTS 2007 - 2011

Calendar Year	Demand (1,000 tons)				Supply (1,000 tons)				
	Total	Oil	Food	Feed	Import Total	US	Brazil	Canada	China
2007	4,226	3,044	1,045	125	4,161	3,325	367	309	137
2008	3,953	2,802	1,037	114	3,711	2,729	568	325	86
2009	3,593	2,485	993	115	3,390	2,412	570	353	51
2010	3,562	2,473	976	113	3,456	2,467	568	371	48
2011	3,121	2,067	941	113	3,049	1,894	533	355	44

SOURCE: MAFF AND USDA

Section 2: Japanese Trade Companies and the Asia-bound Grain Trade

Asian demand for soy is strong. Japan's need for soybeans for oil, soyfood products and meal may be tighter than expected because of limited domestic supply capacity for the commodity; in China, demand for protein from a growing middle class is bolstering a mounting need for soy for the country's swine, poultry and fisheries. Armed with a strong yen, and focused on what many see as an inevitable growth in demand for key grain commodities from Asia, Japanese trading companies, like Marubeni, are aggressively buying grain infrastructure in supply markets. Buying grain companies and silos in Brazil and the US allows these trading companies to streamline costs, and more effectively capitalize on supplying bullish demand for soybeans, corn and wheat from the Chinese and Japanese markets. The following discussion will analyze demand in China and Japan, and some recent grain chain investments made in first the US, Brazil and two African countries by some of Japan's major trading companies.

In 2009, Marubeni, Japan's largest grain trading company, signed an agreement with Sinograin, China's largest grain company, to help build China's state grain reserves. China imports roughly 55 million tons of soybeans each year. According to the recent reports, Marubeni handles roughly 20% of this volume, or 10 million tons. China has shown rapid growth in demand for grain in recent years, mainly driven by the country's rising demand for protein, especially pork. Estimates hold that this year in China, the average person will consume a record of 39.3 kgs of pork, compared to just 19.7 kgs two decades ago.

Chinese demand is proving to be an opportunity for large trading houses, but it is also driving anxieties in the Japanese market. Japanese domestic soybean supply is tight, and prices have increased as a result. According to the Japan Association of Specialty Agriculture Products (JSPA), from January to July, the average price for auctioned domestic soybeans increased by 50% to reach \$2,179/ton. With supply hit by the fact that soy producers are currently refusing to take in soy from a large portion of Japan's soy farming area, self-sufficiency for a commodity which serves as a raw material for several staple foods, has been called into question.

Large Japanese trading companies see potential in both the Japanese and Chinese market, and have the infrastructure to get grain to both buyers. However, what some of these companies do not have, is secure access to supply.

The general strategy for many of these trading companies, put simply, is to buyout entities at every-step of the distribution chain with the goal of guaranteeing smooth supply and stable prices to key markets in the Asia-Pacific region.

For example, the United Grain Corporation (UGC), the largest export grain elevator on the US' Pacific West Coast, is a wholly-owned subsidiary of Mitsui. Since buying the elevator, Mitsui and UGC have made smaller investments to secure soybean, wheat and corn elevators in the US. Most recently, Mitsui and UGC are reported to have invested \$18 million dollars in building a grain elevator near Bucyrus, N.D in order to bypass middleman and buy grains, directly from growers.

Perhaps the biggest news of this sort came when Marubeni announced its acquisition of Gavilon Holdings in late May this year. The buyout gives Marubeni access to 140 loading sites and a large grain storage and distribution network. One of the prize-assets of the deal was a 45% stake in Kalama, a grain export terminal in Washington state. The remaining shares of the terminal are owned by Mitsui (10%), and ADM (45%). At the moment, the takeover is at a stand-still, and is waiting for regulators to sign-off on the transaction. Should the deal clear the bureaucratic hurdles, Marubeni would gain access to the Nebraska-headquartered company's assets. In addition to Gavilon, Marubeni also owns Columbia Grain, Inc. (CGI), which adds another 42.5 million bu of storage capacity to the Japanese trading company's portfolio.

Another interesting example is the EGT - Export Grain Terminal located in Longview, Washington. EGT is a joint venture bringing together Bunge North America with Itochu, another Japanese trading company, and South Korean shipping giant STX Pan Ocean. EGT is a \$200 million investment, that consolidates a major producer, shipper and trader/distributor in one deal to streamline distribution to Asian markets.

Japanese trading companies have largely focused efforts on dealing with American suppliers as they can provide soybeans that meet quality specifications for food use. However, as this year's US soybean crop is expected to be reduced by the harsh drought that hit the American Midwest this summer, trading companies have been making efforts to strengthen production, storage and distribution logistics in Latin America to meet demand.

As for Brazil, Marubeni has secured soy stocking, processing and transport capacity in Brazilian states of Mato Grosso, Rondônia, Amazonas, São Paulo and Paraná, through its relationships with Andre Maggi Group (AMAGGI), and Molino Canuelas. AMAGGI has a farm acreage of 530,000 acres and an output of 767,000 tons (Soybeans accounting for 457,000 tons) and a "seamless" supply chain including export facilities. In early 2011, Marubeni took full control of Brazil's Terlogs Terminal Maritimi Ltda., a port terminal located in Santa Catarina State.

In 2010 Toyota Tsusho confirmed intentions to work with Nidera, a multinational supply-chain company, to improve access to grain and oilseeds from Brazil and Argentina with an expected procurement quantity of 5 million tons.

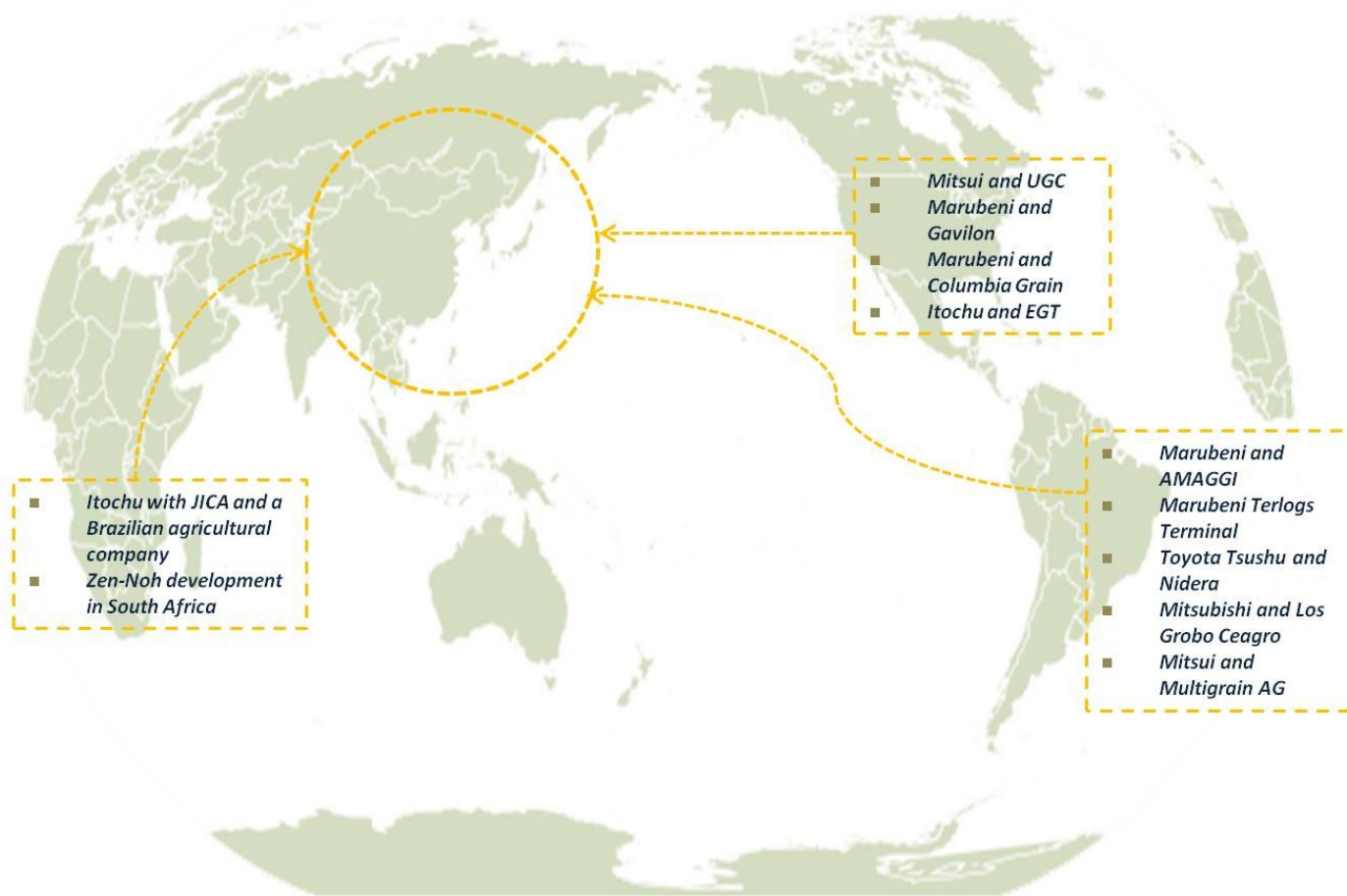
In January this year, Mitsubishi Corp. secured a 20% stake in Brazilian grain trader Los Grobo Ceagro do Brasil SA. This resulted in a substantial increase in the company's shipments of soybeans from the South American country. Ceagro currently operates across the country with a total grain storage capacity of approximately 600,000 tons.

Mitsui has 100% ownership of Multigrain AG, a major Swiss company involved in grain distribution, processing transport, export and marketing in Brazil. When Mitsui purchased the company, it explained that its main objective was to “strengthen agricultural production and grain distribution business in Brazil, which has high potentiality of food supply, and to secure a stable supply of grain from Brazil to Asian and other markets”.

Moving across the Atlantic, Itochu Corporation is working with the Japan International Cooperation Agency and a Brazilian agricultural corporation to try and produce soybeans in Mozambique. The East African country was chosen primarily because of its latitude (8 degrees 15' S and 35 degrees 00' E) which is inline with key Brazilian production regions. Itochu aims to import 100,000 tons a year from Mozambique in ten years time. Some Japanese critics think that sourcing soybeans from African countries may be a little big of a proverbial long-shot, and that sourcing efforts should be focused on the Americas. However, Itochu is not the only one looking at Africa, as the National Federation of Agricultural Co-operative Associations, or Zen-Noh, has been expanding its network for maize procurement in South Africa.

These and other investments by Japanese trading companies indicate the importance which trading companies are placing on investing in the Asia-bound grain trade. As demand continues to grow in Asia, we think that it is likely that large Japanese traders will continue to try to develop supply logistics in key markets like Brazil and the US in order to enhance access to much needed commodities like soybeans. Figure 4 lays out some of the key investments by Japanese trading companies that we discussed in section 2.

FIGURE 4: SNAP SHOT, THE ASIA BOUND GRAIN TRADE



SOURCE: PROMAR CONSULTING

Section 3: Conclusions

In the first section of this report we discussed the general supply and demand situation for soybeans in the Japanese market. We determined that Japan is a major soyfood consuming market, and that manufacturers of tofu, natto, miso, soymilk and soy sauce need affordable imported beans in order to keep their businesses going. We also concluded that, while this demand exists the country's dwindling farming population and shrinking food self-sufficiency is likely to cement a strong demand for imported grains. The US is the leading supplier to the Japanese market, and soybeans are positively-regarded for their ability to provide a safe and high quality product.

The second section of this report discussed how strong demand coming from both China and Japan has been and is likely to continue to drive Japanese trading companies to invest in grain infrastructure in supply markets to improve their access to soybeans and other commodities. Then, we looked at the type of investments which companies like Marubeni, Mitsui and Itochu have been making in the United States and Brazil to improve their grasp on the international grain trade. As Japanese trading companies invest in ports, railways and grain elevators the grain supply chain, moving from the Americas to Asia will become more efficient.

Japanese traders are looking to secure access to raw material supplies in order to meet strong demand from Japanese and Chinese markets; increasing Asian income levels is a huge driver of trade. However, as evident from the type of investments that Japanese trading companies are making, infrastructure connecting demand to supply sources can still be improved. According to an article in Corn and Soybean Digest magazine it still costs more, on a per-ton basis, to move commodities like soybeans and corn domestically than it does to ship them from the Pacific North West to Japan or China. Thus, any kind of investment that enhances the capabilities of storage and or distribution infrastructure makes US export products more competitive. We agree with this point and think that it is mutually advantageous for Japanese traders and American grain suppliers to work together and accomplish this.

The main challenge coming from this trend of investment in supply markets is the fact that Japanese companies are not just investing in the USA. While Japanese trading companies and other major suppliers are investing a lot in infrastructure and trying to improve supply stability in both around the world, American soybeans are considered the preferred alternative and other suppliers still have a long way to go before they can close the gap.