



3103 10th Street, North • Suite 300 • Arlington, VA 22201
Tel: (202) 463-0999 Fax: (703) 524-4399

Wheat Letter

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U.S. Wheat Associates (USW) is the industry's market development organization working in 90 countries on behalf of America's wheat producers. The activities of U.S. Wheat Associates are made possible by producer checkoff dollars managed by 18 state wheat commissions and through cost-share funding provided by USDA's Foreign Agricultural Service. For more information, visit www.uswheat.org or contact your state wheat commission.

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1. Marketing Choice in Australia Creates Opportunity

July 1, 2008, will mark the end of an era and the beginning of a new opportunity for wheat buyers and wheat producers in Australia and around the world. This week, the Australian legislature passed new laws that allow individual producers and grain companies, including AWB Limited, to compete openly in the export market for the first time since 1939.

The new system will give Australian wheat producers more choices and often better prices as buyers compete for their wheat. International wheat buyers will also benefit as multiple sellers compete for their business. The change to a more open market should encourage innovation and transparency. Yet change is never easy and many producers in Australia remain very concerned about the shift to market competition and the challenge of pricing, hedging and selling their grain harvest themselves. To be sure, there is much yet to be learned from this change by producers, grain companies and buyers as well as by competitors like the U.S. and Canada.

"We are confident the entire global wheat supply chain will benefit from this significant change because the market will now respond more rationally to economic signals rather than react to trade distorting monopoly decisions," said Alan Tracy, President, [U.S. Wheat Associates](http://www.uswheat.org) (USW). He added that while the U.S. and Australia compete head-to-head in wheat export markets, the U.S. wheat industry has opposed the export monopoly but never Australian producers. In fact, Tracy said, "We believe that if the market is allowed to work, both wheat producers and buyers benefit. U.S. wheat producers look forward to competing openly on the basis of quality, value and reliability. Perhaps we can find ways to join with Australian producers in boosting the global demand for wheat from both origins."

Belief in the value of open competition is a conviction many wheat producers in western Canada also share. Unfortunately change there seems to be coming more slowly with the Canadian Wheat Board (CWB) fighting tooth and nail for its monopoly control. The short supplies of 2007/08 also fostered a bias for protectionism in a number of major wheat exporter nations that greatly contributed to the run-up in world prices. "The shift to more liberalized wheat trade around the world will continue," Tracy suggested. "The world clearly needs more wheat and the best way producers can effectively meet this growing need

is through open competition and the free flow of trade.”

The Australian government issued a statement about wheat marketing reform on June 23. [Click here to read the full statement.](#)

2. U.S. Falling Behind in Trade with the Americas

by Rebecca Bratter, USW Director of Policy

The forecast for free trade with the U.S. is partly to mostly cloudy at best these days. The Doha Round of talks at the [World Trade Organization](#) is bogged down by details delaying agreement on final modalities. Of the four [free trade agreements](#) (FTAs) on the U.S. docket this year, the U.S. Congress ratified one with Peru, used an obscure mechanism to delay indefinitely the passage of the Colombia FTA and is not close to consideration of the South Korea and Panama agreements. The U.S. trade policy agenda seems to have come to a screeching halt in an atmosphere of partisan politics.

At the same time, however, Canada’s trade agenda remains fluid and seems to be stepping into the void left by U.S. inertia. Earlier this month, Canada signed an historic FTA with Peru and is set to sign a similar agreement with Colombia. Canada is also considering resurrecting negotiations for an agreement with four Central American countries. There has even been a suggestion in some trade circles that Canada may eventually take the lead in the drive to re-create the Free Trade Area of the Americas.

Could Canada eventually eclipse the U.S. in trade with Latin America? Canada is the second largest economy in the Americas and is among the countries most open to international trade and investment. Trade with Latin America and the Caribbean, however, represents less than five percent of Canada’s overall foreign trade. The U.S. will always remain a key player in Latin American affairs but the current political climate in the U.S. coupled with Canada’s positive image in the hemisphere puts the U.S. at a disadvantage. Canada is now exploring or negotiating more bilateral deals with other countries in Central America, the Andean Community and the Caribbean. These agreements could serve as a firm base for broader multilateral negotiations.

In wheat trade specifically, Canadian wheat imports to Colombia would have duty-free access immediately upon enactment of a Canada-Colombia FTA while U.S. wheat imports would remain subject to tariffs—unless the U.S.-Colombia FTA is ratified. By importing an average of about 600,000 MT of U.S. wheat annually, Colombia is currently our second largest export market in South America. Our partnership with Colombian buyers is long-standing and remains strong but will likely not be enough to prevent losses to the CWB based on price factors alone.

The U.S. can and will fall behind in wheat trade with Latin America if our approved trade agreements are left to dangle in our political wind. The U.S. wheat industry firmly believes passage of the pending FTAs, starting with Colombia, is a top priority. Our ability to fully serve our loyal partners in the region depends on it and the industry will continue to take every possible opportunity to advocate for these agreements.

3. Buyers Conference Attracts Record Participation

About 170 wheat buyers, millers and wheat food manufacturers travelled to Austin, TX, last week to learn about the U.S. and global wheat situation at a Latin America and Caribbean Buyers Conference sponsored by USW with additional support from several state wheat commissions. This biennial event typically attracts about 100 participants, but market conditions this year boosted attendance to a record level.

This conference provides a proven successful forum for buyers to interact with the grain trade and wheat producers to discuss U.S. wheat crop progress, wheat supply and demand, and other marketing issues and opportunities. The program included a wide range of respected experts speaking specifically about U.S. wheat class quality and production as well as such issues as biofuels and transgenic wheat

development ([click here to see the conference agenda](#)). As one of the participants put it: "Most of the subjects covered during the meeting were quite important, well presented and on target with the needs of the people attending the meeting."

USW appreciates the important support for the 2008 Latin American and Caribbean Buyers Conference provided by these sponsors: the Arizona Grain Research and Promotion Council; the [California Wheat Commission](#); the [Minnesota Wheat Research and Promotion Council](#); the [Montana Wheat and Barley Committee](#); the [North Dakota Wheat Commission](#); [Texas Wheat](#); and the [Washington Wheat Commission](#).

4. International Competition Builds After Quick Export Sales Start

by Joe Sowers, USW Senior Market Analyst

[Export sales](#) of U.S. wheat have started the 2008/09 marketing year much faster than normal. As the first exported supplies harvested in the Northern Hemisphere, U.S. wheat typically has an advantage in international markets into August. But because many other producers restricted exports to keep domestic prices low in 2007/08, they still have wheat to sell and that is keeping the pressure on export prices.

Total sales of all U.S. wheat classes to date in 2008/09 are 8.6 MMT. That is 45 percent higher than at this point last year, 68 percent higher than the ten-year average and the highest level since 1996. Sales of all major U.S. wheat classes are stronger than normal with hard red winter (HRW) leading the way with sales of 4.1 MMT, which is more than 110 percent higher than last year and the ten-year average. Sales of HRW to Iraq currently total 1.2 MMT compared to 300,000 MT by this time last year. Sales to Brazil exceed 500,000 MT largely because Brazil cannot rely on adequate supplies from Argentina where a political dispute has limited exports. Last year, U.S. wheat exports greatly exceeded USDA's early export estimates. We have yet to see if that situation will repeat itself in 2008/09.

The demand for soft red winter (SRW) has also been strong with export sales currently 38 percent higher than last year and 141 percent higher than the ten-year average. The outlook for SRW export sales, however, is a concern. Because SRW is harvested before wheat in Russia and Ukraine, it often has an advantage during June, July and August in North African markets. The supply situation in those countries is not typical this year as all of the Black Sea exporters began restricting exports last winter to protect domestic supplies and control price inflation, leaving their export customers scrambling for supplies elsewhere. As a result, these exporters currently have more wheat to sell than they might have had. Recent tenders in Egypt show U.S. SRW priced about \$30 per MT above Black Sea supplies on a delivered basis due to a \$45 per MT differential in freight rates.

The decreased export demand just as the SRW harvest gets into full swing has depressed export basis to record lows. Currently SRW (FOB basis) at Gulf ports is \$1.20 per bushel below Chicago July delivery futures. The previous low had been \$0.15 per bushel below futures with the basis averaging \$0.34 per bushel over the Chicago futures in the past ten years.

With export demand for SRW expected to be limited this summer for a crop that may be 60 percent larger than last year at the same time corn prices are at record levels, increased wheat feeding is expected. In fact, the BNSF Railway Company this month released a new freight rate for wheat originating in Illinois, one of the largest SRW producing states, with a destination in the western Kansas feedlot region. SRW prices climbed through mid-week supported by statements by Japanese and South Korean importers that they may switch from corn to wheat for feed into 2008/09.

5. Transgenic Advancements Shared at BIO 2008 Conference News

Australian researchers at the [BIO 2008 Conference](#) in San Diego, CA, this week shared early trial results from genetically modified wheat lines showing that two lines exceeded yields of conventional varieties by 20 percent. In addition, the Biotechnology Industry Organization announced that the Excellence Through

Stewardship (ETS) program, developed to meet product stewardship objectives and to provide a strong quality management program for biotech plants and plant products, will begin operating as a BIO affiliate.

The Australian research trials were conducted in the state of Victoria by the Victorian Department of Primary Industries. The project leader, Dr. German Spangenberg, said analysis of the crop, grown last year and harvested early this year, confirmed increased crop yields and maintenance of grain size.

"Twenty-four lines of genetically modified wheat were tested and, of those, seven were identified as providing higher yields under drought stress," Dr. Spangenberg said. "Two lines exceeded the yield of the control experimental variety by 20 percent."

Victorian Premier John Brumby announced the results at BIO 2008 and said the promising initial results suggest that these genetically modified wheat lines may be part of the solution to help farmers maintain and improve their crop yields in a changing global environment. He noted that 35 percent to 50 percent of wheat-producing areas around the world are under drought risk.

BIO strongly advocates for the highest, science-based principles within the ever-growing plant biotechnology industry and its President and CEO, Jim Greenwood, said that the ETS program "helps reinforce our commitment to enhancing stewardship and quality management." Jane Stautz, newly appointed Chair of the ETS Board of Directors said that stewardship is an essential element in a partnership between government and the private sector.

"Through the guidance offered in the ETS program, industry groups are able to not only better comply with science-based regulations, but to also demonstrate responsible management and accountability with the added benefit of enhancing stakeholder and consumer confidence," Stautz said.

Click here for more information about the [Excellence Through StewardshipSM](#) program.

6. Wheat Industry News

- **Trade, Education Teams in U.S.** Wheat harvest is a busy time for everyone in the industry. Wheat buyers love to come to the U.S. at harvest time and there are four Teams hosted by USW and several state wheat commissions currently here learning about the U.S. wheat production, crop quality and export system. These teams include: a Brazilian Team of five professionals that represent about 60 percent of all the wheat imported by that country, led by USW Assistant Regional Director, South America, Miguel Galdos-Tanguis; a Nigerian Team of eight milling executives and technical managers led by USW Assistant Regional Director, Sub-Saharan Africa, Gerald Theus, and USW Marketing Consultant, Nigeria, Muyiwa Talabi; a South African Crop Assessment Team of four milling professionals representing 85 percent to 90 percent of the milling capacity in that country, led by USW Milling Consultant, Cape Town, Jim McKenna; a Middle Eastern Grading and Inspection Team including six Iraqi and two Egyptian professionals focused on learning about the Federal Grain Inspection Service's grading and inspection protocols, led by USW Special Projects Manager, Cairo, Hershman Hassanein.
- **Call for FFI Leader Award Nominations.** The [Flour Fortification Initiative](#) (FFI) is seeking peer nominations for its Leadership Award recognizing individuals for outstanding work accomplished on behalf of flour fortification. Award nominees may be from any sector and more than one award may be given. As flour fortification is or should be an inherent objective of most constituencies central to FFI—government health organizations, non-governmental agencies, disability groups and, to a lesser extent, the medical community—special consideration may be extended to the private sector. The FFI Executive Committee and staff will serve as the selection committee. Written nominations using [guidelines](#) posted on the FFI Web site should be submitted as soon as possible to Vilma Tyler, FFI Program Manager, at vt Tyler@sph.emory.edu. FFI is a network of individuals and organizations working together to make micronutrient fortification of flour produced by large roller mills standard practice. Its mission is to stimulate interaction and partnership between the public and civic sectors

and the grain and flour industries to inform and encourage these industries to make fortification of flour a normal part of large roller mill flour production.

- **Secretary Schafer to Speak About Investment in Africa.** U.S. Secretary of Agriculture Ed Schafer will deliver the keynote address at The Corporate Council on Africa (CCA) 2008 U.S.-Africa Agribusiness Forum during the event's closing luncheon tomorrow, Friday, June 27. His address will focus on growing U.S. agribusiness investments in Africa, and mutual benefits for the U.S. private sector and African public and private sectors. "Secretary Schafer's presence sends a clear message about the importance the U.S. government attaches to African agribusiness opportunities," said CCA President Stephen Hayes. He also said Africa has the potential to help resolve the world food challenges and other global agriculture issues, and U.S. businesses can play a significant role in these resolutions. For more information on the 2008 U.S.-Africa Agribusiness Forum, visit www.africacncl.org.
- **Dole, McGovern Win World Food Prize.** Former U.S. Senators Robert Dole and George McGovern have been selected to receive the 2008 World Food Prize for their inspired, collaborative leadership that has encouraged a global commitment to school feeding and enhanced school attendance and nutrition for millions of the world's poorest children, especially girls. Since 2000, the McGovern-Dole international school-feeding program has provided meals to feed more than 22 million children in 41 countries and boosted school attendance by an estimated 14 percent overall and by 17 percent for girls. The success of the McGovern-Dole program has also led to dramatically increased international support for expansion of school-feeding operations in developing countries around the world. As one example, the UN World Food Program's school-feeding operations have nearly doubled since 2001; in 2006 alone, it fed more than 20 million children in 74 countries. The World Food Prize was conceived by Dr. Norman E. Borlaug, and has, since 1986, honored outstanding individuals who have made vital contributions to improving the quality, quantity or availability of food throughout the world. For more information, visit www.worldfoodprize.org.

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Prepared by Steve Mercer

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