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Wheat Letter

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Online Edition: Wheat Letter - January 21, 2010

PDF Edition:

1. U.S. Wheat Planted Area Report is Bullish

By Chad Weigand, USW Market Analyst

The Jan. 12 U.S. Department of Agriculture (USDA) Winter Wheat Seedings report projected a 14-percent decline in winter wheat planted acres, from 43.3 million acres in 2009/10 to 37.1 million acres in 2010/11. That represents the lowest total planted area for wheat in the United States since 1913/14, and could eventually be bullish news for wheat prices. However, futures prices dropped after the report because higher-than-expected corn and soybean production estimates took wheat lower along with the corn and soybean futures.

U.S. producers planted less winter wheat because of poor weather conditions and lower prices. Rains significantly delayed row-crop harvests, which in turn delayed soft red winter (SRW) plantings. USDA estimated SRW planted area fell by 29 percent, to 5.9 million acres, including record-low acreage in Ohio, Illinois, Missouri, and Indiana, the top four SRW-producing states. Illinois suffered its third wettest October on record in the heart of planting season and showed the largest decrease, falling 59 percent from 850,000 acres in 2009/10 to 350,000 acres in 2010/11.

Hard Red Winter (HRW) producers also planted significantly less wheat. USDA estimated HRW

seeded area fell 12 percent from last year, to 27.8 million acres. Kansas, which accounted for approximately 40 percent of 2009/10 HRW production, expects a 700,000-acre reduction, resulting in the lowest HRW seedings since 1957/58. Along with lower wheat prices and poor weather, higher cotton prices contributed to lost wheat acreage in Texas, where seeded area fell 1 million acres to 5.4 million acres.

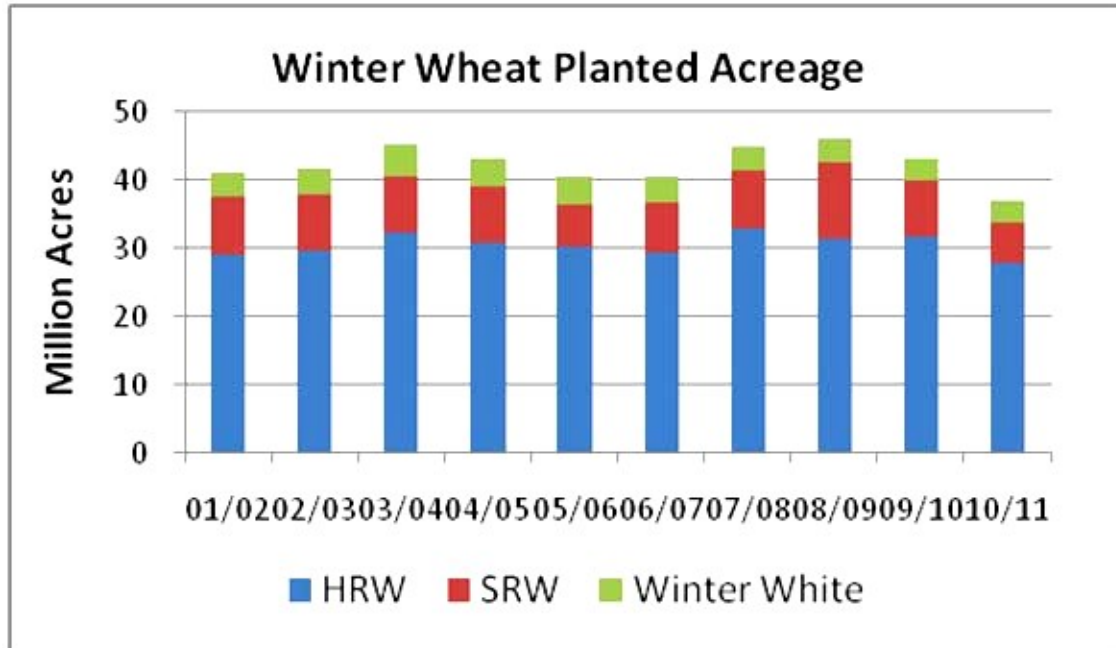
Total white winter seeded area is down by much less than other classes (only one percent from 2009/10). Soft white (SW) acreage was up 50,000 acres in Oregon and 40,000 acres in Idaho, while Washington acreage was unchanged. The Pacific Northwest (PNW) accounted for 87 percent of SW winter production last year. Stronger export demand, higher premiums for club wheat, and lower prices for grass seed persuaded PNW producers to increase wheat plantings.

Durum stocks stored in all positions in December 2009 were up 70 percent from a year ago. With such large stocks, plantings fell by 35,000 acres in Arizona and 65,000 acres in California, resulting in a 33-percent decrease in winter durum acreage.

In the Sept. 17, 2009, issue of [Wheat Letter](#), USW President Alan Tracy noted the potential price risk involved for buyers as the market begins to focus on the 2010/11 production potential. Short-term supply risk is minimal given larger ending stocks in 2009/10, but the decreased winter plantings and the risk of global production problems in 2010/11 still make wheat prices susceptible to an upward swing. It is interesting to see in the table below that total U.S wheat planted area will be down for the second year in a row and HRW acreage started its decline after 2007/08. (The table is posted in color in the Online Version.)

With current prices approximately 20 percent lower than 2009 highs, U.S. wheat remains an excellent value.

To read the USDA Winter Wheat Seeding report, click here:
http://www.usda.gov/nass/PUBS/TODAYRPT/wtry0110_new.pdf.



Source: USDA

2. RR Alfalfa Case Progresses to U.S. Supreme Court

From Reuters and St. Louis Post-Dispatch reports

The U.S. Supreme Court will hear an appeal by [Monsanto Company](#) of lower court rulings that prevent Monsanto from selling its genetically modified Roundup Ready[®] (RR) alfalfa seed. Environmental groups and conventional seed companies sued the USDA in February 2006 to force it to rescind its 2005 approval of RR alfalfa until it did a more extensive environmental study. Monsanto intervened on the government's side in the suit.

The Court's ruling, expected in mid-2010, could be moot if USDA's [Animal and Plant Health Inspection Service](#) (APHIS) completes an environmental impact study (EIS) and gives approval to RR alfalfa before then. The Obama administration opposed Monsanto's appeal for that reason, even though it disagreed with the court-ordered ban.

Groups supporting Monsanto's appeal include the [American Farm Bureau Federation](#) (AFBF), the [Biotechnology Industry Organization](#), the [American Seed Trade Association](#), and the [National Corn Growers Association](#).

News reports claimed Monsanto is fighting the alfalfa injunction, at least in part, because of what the outcome could mean for a similar case involving sugar beet seed genetically modified to resist Roundup and similar crop protection products. Technology providers like Monsanto and many of their customers cite productivity benefits for farmers from such traits, with a long-term goal to [create benefits for processors and, ultimately, for consumers](#).

A federal judge in September ruled that USDA wrongly approved transgenic sugar beet seed

sales in 2005 and ordered the agency to conduct a more extensive EIS.

AFBF said in a brief filed with the Supreme Court that upholding the alfalfa injunction could be a significant setback for agriculture in general.

"The ripple effect of the injunction in this case could spread far beyond genetically-engineered sugar beets," the group said.

To read comments from APHIS about the RR alfalfa EIS, click here:

http://www.aphis.usda.gov/publications/biotechnology/content/printable_version/faq_alfalfa.pdf.

To read the draft RR alfalfa EIS, click here:

<http://www.regulations.gov/search/Regs/home.html#documentDetail?R=0900006480a6b7a1>.

To read the questions presented to the Supreme Court in the case, click here:

<http://origin.www.supremecourtus.gov/qp/09-00475qp.pdf>.

3. Morocco Completes First U.S. Wheat Purchase under FTA Quotas

by Rebecca Bratter, USW Director of Policy

Moroccan buyers recently purchased 200,000 MT of U.S. bread wheat in the first successful tender under the [U.S./Morocco Free Trade Agreement](#) (FTA). Entered into force in 2006, this FTA includes complex rules and guidelines for purchasing U.S. bread wheat and durum under a Tariff Rate Quota (TRQ) system. The terms call for the Moroccan government to hold annual auctions for the quotas, set at 280,000 MT for durum and 320,000 MT for bread wheat. Wheat purchased within the quota enters Morocco at preferential duties that ideally make U.S. wheat more competitive with European and Canadian wheat. Additionally, the quotas increase each year until reaching 340,000 MT of durum and 400,000 MT of bread wheat in year 10. After that, U.S. durum enters Morocco duty free, while a preferential duty remains in place on bread wheat.

Bringing the TRQ system to a functional level has been challenging. Complications interpreting the agreement's language, discussions about applying the system to a marketing year or a calendar year, and two years of suspended duties when wheat prices were at an all time high combined to effectively suspend the FTA's wheat purchase terms.

However, the Moroccan government just concluded its first tender under the system for 150,000 MT of U.S. durum and 200,000 of U.S. bread wheat. Domestic durum stocks are plentiful at this time so the Moroccans bought no durum, but they did purchase the entire bread wheat quota.

When U.S. wheat is price-competitive and demand is strong, the FTA generates positive results for both Moroccan millers and for U.S. producers. USW will continue to work closely with both U.S. and Moroccan government officials to clarify any remaining issues with the TRQ system and extends its thanks to our loyal Moroccan customers.

4. Celebrating a Lasting Agricultural Partnership

Mr. Geoffrey Wiggin, Agriculture Minister Counselor in the Agricultural Affairs Office of the U.S. Embassy in Japan, recently announced the launch of the “Partners in Agriculture” Web site (<http://www.partners-in-agriculture.org>), which highlights the successful public-private partnership between the U.S. government and U.S. agricultural trade organizations in Japan.

The Web site is a cooperative effort of the American Embassy’s Agricultural Trade Office in Japan, the U.S. food industry, the State of Iowa, and the Prefecture of Yamanashi. It is part of the “Partners in Agriculture” celebration in Japan beginning in March 2010.

The Web site notes that “Partners in Agriculture” aims to recognize the success of the USDA Foreign Agricultural Service cooperator program with U.S. farmers and the special agricultural relationship between the United States and Japan. Over the past 50 years, the United States has proudly established itself as the most reliable supplier of high-quality agricultural products to Japan. At the same time, Japan’s purchases have been essential contributors to the health of the U.S. economy.

The indelible link between the Japanese people and U.S. wheat producers began when the Oregon Wheat Growers League (OWGL) organized a trade delegation to investigate opportunities for expanding U.S. wheat sales to Japan in 1949. A variety of marketing and education activities followed and perhaps the most famous were a school lunch program and “Kitchens on Wheels” to promote wheat foods to Japanese consumers from 1956 to 1960.

Over the decades, Japan has purchased significantly more U.S. wheat than any country in the world, importing on average 3.17 million metric tons (MMT) per year, representing about 60 percent of its total wheat imports. Japan’s U.S. wheat purchases represent between ten percent and 15 percent of total U.S. wheat exports every year. This includes significant amounts of U.S. HRS, HRW, and SW to produce bread, noodles, confectionery items, and other commercial products.

“Together, we have accomplished many tasks in order to maintain a reliable and mutually beneficial supply of U.S. wheat for the Japanese people over many years,” USW President Alan Tracy said. “We are confident that our partnership will continue to grow even stronger.”

To read more about the partnership between U.S. wheat producers and the Japanese people at the new Web site, click here: http://partners-in-agriculture.org/success_stories/episode_06.html. Another resource is “The History of U.S. Exports of Wheat to Japan,” a GAIN report from June 29, 2009, by Agricultural Trade Officer Michael Conlon, at <http://www.usdajapan.org/en/reports/History%20of%20US%20Exports%20Wheat%20to%20Japan.pdf>.

5. Responding to Desperate Need in Haiti

U.S. wheat leaders are discussing how the industry can best respond to help ease the suffering in Haiti following the devastating earthquake on Jan. 12.

The USW Food Aid Working Group will take the lead on working with the U.S. government or other organizations to find ways to meet the humanitarian needs of the Haitian government, including distribution of flour and wheat. The Food Aid Working Group's goal is to encourage sustainable food security and global food assistance on behalf of U.S. wheat producers.

Among the businesses destroyed in the earthquake was Haiti's only flour mill, jointly owned by [Seaboard Corp.](#), [Continental Grain Co.](#), and an investor group. Responsible for supplying the country's 9.78 million inhabitants with flour made solely from HRW, the mill also employed more than 200 people with relatively high-paying jobs. To read more from Kansas Wheat, click here: <http://www.kswheat.com/news.php?id=385>. Haiti has purchased an average of 165,000 MT of HRW per year between 2004/05 and 2008/09.

There is an on-going need for cash donations to help meet basic needs for now. We know the generosity of wheat producers, exporters, buyers, millers, and processors will shine through as always. Our thoughts and concerns remain with the Haitian people and those who have rushed so selflessly to their aid.

6. Wheat Industry News

- **USW/NAWG Joint Board Meeting.** The board of directors for USW and the National Association of Wheat Growers will meet separately and in joint session in Washington, DC, Jan. 22-26, 2010. Click here to learn more: <http://bit.ly/5qkm7Q>.
- **Farmer-Friendly ISO Standards.** Farmers can now improve their overall performance and financial results, as well as increase customer confidence and satisfaction with a new standard for implementing an ISO 9001 quality management system for crop production on operations of any size growing all types of food, feed, and non-food crops. Read more at www.iso.org.
- **Reports from Asia.** USW Deputy Director of Policy Shannon Schlecht is traveling with a USW Board Team that completes its face-to-face meetings with customers and USW staff in Asia this week. Schlecht sent several reports and photos from the trip now posted on the USW Web site at <http://bit.ly/6GwSgj>. The Northern Ag Network also posted an interview with one of the producers at <http://www.NorthernAg.net>.
- **Wheat Breeders Visiting EU, North Africa.** A USW Wheat Quality Improvement (WQI) Team of U.S. wheat breeders and quality specialists are about to complete meetings with wheat buyers and technical managers in England, Spain, Italy, and Morocco. WQI Teams gather input on wheat quality from key customers, such as what they specifically like and dislike about each market class, and pass that information to the U.S. wheat research and Extension education communities. They put that information to work to help ensure that new varieties of U.S. wheat will offer producers and their customers the highest value possible. You can see Team photos at the USW Flickr page (<http://www.flickr.com/photos/uswheat>), and we will cover the Team's visit in the next issue of **Wheat Letter**.

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