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## Wheat Letter

**March 18, 2010**

U.S. Wheat Associates is the industry's market development organization working in more than 100 countries on behalf of America's wheat producers. The activities of U.S. Wheat Associates are made possible by producer checkoff dollars managed by 19 state wheat commissions and through cost-share funding provided by USDA's Foreign Agricultural Service. For more information, visit [www.uswheat.org](http://www.uswheat.org) or contact your state wheat commission. Original articles from *Wheat Letter* may be reprinted without permission; source attribution is requested.

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### **PDF Edition:**

**Online Edition:**     **[Wheat Letter - March 18, 2010](#)**

### **1. Trade Takes Center Stage**

Trade has been at the top of the U.S. wheat industry's agenda in recent weeks. At first glance, the World Trade Organization (WTO) dispute between Brazil and the United States and threats to public funding for wheat export promotion may appear to affect only U.S. producers. There is, however, potentially negative impact on importers that U.S. Wheat Associates (USW) is working to minimize. On a more positive note, President Obama's new pro-trade initiative and recently introduced legislation to unique U.S. trade restrictions on Cuba stand to benefit U.S. wheat buyers and sellers alike.

**WTO Cotton Case Threatens U.S. Wheat Exports.** Brazil won a WTO dispute in 2005 against the U.S. on the use of various cotton subsidies and recently issued a list of 102 U.S. products, including wheat, on which it intends to apply retaliation. A WTO arbitration panel also determined that, in some cases, the United States did not follow WTO rules for use of the U.S. Export Credit Guarantee Program (GSM-102). As a result, the WTO is allowing Brazil to apply retaliation measures against the use of the program for all U.S. agricultural commodities.

U.S. wheat purchases using GSM-102 funds have not been out of compliance with WTO rules. While reforms to the program have increased premiums to some borrowers and shortened

repayment terms, many U.S. wheat customers still appreciate and welcome the program. In fact, Brazil and many other importers used \$693.5 million in GSM-102 export credit guarantees to purchase U.S. wheat in fiscal 2008/09. Buyers quickly took advantage of the program when the U.S. Department of Agriculture (USDA) released its first round of funding for fiscal 2009/10. USDA also released a second tranche of funds last week (<http://www.fas.usda.gov/excredits/exp-cred-guar.asp>).

The effect of Brazil's retaliation on GSM-102 is likely to hurt wheat buyers in other countries. While the final impact on GSM-102 from this case is unknown, the risk that further changes to the program will render it ineffective for U.S. wheat importers is a real concern.

In addition, Brazilian wheat buyers will likely no longer have a viable, cost-effective option to import U.S. wheat when, as announced, import duties on U.S. wheat increase from ten percent to 30 percent in early April.

The U.S. wheat industry strongly encourages the U.S. government to negotiate a settlement that softens the impact on wheat buyers and U.S. wheat producers.

**MAP Under Fire.** USW activities proven to help buyers get the most value possible from U.S. wheat imports are at risk again as several groups lobby Congress to eliminate the USDA/Foreign Agricultural Service Market Access Program (MAP). A popular talking point touted by MAP opponents is that it provides funding for well-heeled corporations. In the case of the wheat industry, this could not be farther from the truth. Private exporter companies are not members of USW; we are the only wheat group using the program and we represent U.S. wheat producers.

USW has used MAP and the Foreign Market Development programs to help build economic capacity in dozens of countries around the world -- for example, a thriving Moroccan dairy cooperative supported by the U.S. Grains Council and a dynamic milling industry in Nigeria (now that country's second largest commercial sector) supported by USW. MAP benefits U.S. stakeholders, too. A recent economic analysis commissioned by USW indicates that the entire wheat industry and broader U.S. economy sees \$115 in gross return for every dollar that producers and the U.S. government invest in wheat export promotion. MAP is, in fact, a very effective public-private partnership for U.S. wheat producers and their customers around the world.

**Promising Trade Initiative.** Affirming the call in his State of the Union address to double U.S. exports in five years, President Obama last week outlined initial steps toward achieving that goal. The U.S. wheat industry looks forward to working with the Administration to build new opportunities for both our producers and our international customers.

President Obama announced a National Export Initiative, including an Export Promotion Cabinet made up of federal agency leaders, and re-launched the President's Export Council that will advise the Administration on trade. The initiative will include accelerating United States participation in the Trans-Pacific Partnership (TPP) talks now underway in Australia. The United States, Australia, Peru, and Vietnam are seeking to join the TPP, which already includes Chile, Singapore, New Zealand, and Brunei.

The President also noted that the Administration would seek to “strengthen relations with key partners, specifically South Korea, Panama, and Colombia, with the goal of moving forward with existing agreements in a way that upholds our values.” Jim Wiesemeyer, Senior Vice President with Informa Economics, and others have suggested that the Administration is not likely to resubmit pending free trade agreements to Congress before the November election.

**Breaking Barriers to Trade with Cuba.** The Travel Restriction Reform and Export Enhancement Act, introduced recently by Committee Chairman Collin Peterson (D-Minn.) and Rep. Jerry Moran (R-Kan.) would significantly ease the current restrictions on U.S. trade with Cuba. Kansas wheat producer and President of the National Association of Wheat Growers (NAWG) Jerry McReynolds voiced strong support for the bill last week at a House Agriculture Committee hearing in Washington, DC. NAWG, USW and other supporters believe the bill would be a catalyst of opportunity for significant new wheat sales to Cuba and a real economic boost in the U.S. heartland. McReynolds said he recognizes “that many are tied to maintaining our current policy toward Cuba at all costs. My question to them is this: to what end? If the goal in maintaining our policy is to encourage change in the nation, perhaps it is time to re-evaluate the means to achieving that end,” he said. “Let’s start on a small, incremental scale by re-evaluating the restrictions placed on agricultural trade and travel.” Read more at <http://www.wheatworld.org/2010/03/nawg-president-testifies-on-importance-of-trade-with-cuba/>

## 2. Can Wheat Producers Keep Pace with Growing Global Demand?

U.S. wheat export demand is steady for the second straight month in a growing world market according to USDA’s March World Agricultural Supply and Demand Estimates (WASDE) report. Producers around the world have responded to growing demand by producing record crops recently. As a result, USDA forecasts that global ending stocks for 2009/10 (June-May) will be 196.8 million metric tons (MMT) up 60 percent from a recent low of 123.3 MMT in 2007/08.

Significantly, though, the March WASDE report calls for world wheat demand to grow again this year. Falling wheat prices since the supply-induced shock of 2007/08 are partly responsible, but global demand is growing with population and income in developing countries. Since 1980, in fact, wheat imports by developing countries have grown from 50 MMT to 125 MMT. U.S. Wheat Associates Vice President of Overseas Operations Vince Peterson recently told reporters that at some point only a few years away, demand is likely to exceed production again.

“We know U.S. producers are planting less wheat on average every year,” Peterson said, “mainly because crops like corn, soybeans, and other oilseeds offer more income.” Melvin Brees, economist at the [University of Missouri Food and Agriculture Policy Research Institute](#) (FAPRI) told U.S. farm editors this week that FAPRI projected breakeven prices for this year at \$5.17 per bushel for winter wheat, \$3.02 for corn, and \$6.42 for soybeans. Compare those numbers with today’s September/August closing futures prices of about \$5.17 for U.S. hard red winter, \$3.96 for corn, and \$9.63 for soybeans.

“The trend down exists everywhere wheat is grown, not just in the United States,” Peterson said. Unless technology can drive wheat yields up, he added, supply will fall and prices will rise again. A link to a summary and short video about Peterson’s presentation is posted at [www.uswheat.org](http://www.uswheat.org).

For 2009/10, USDA held its U.S. wheat export forecast steady at 825 million bushels (22.5 MMT), which included a 10 million bushel (272,800 MT) increase in hard red winter (HRW) exports offset by the same decrease for white wheat. Commercial U.S. HRW sales for 2009/10 are up 19 percent over 2008/09 to North Asia, up 14 percent to Sub-Saharan Africa, and significantly up in North Africa following recent sales to Morocco. U.S. durum and soft white wheat sales this marketing year are also outpacing 2008/09 (see the USW Price Report at <http://www.uswheat.org/reports/prices>). USDA forecasts total U.S. wheat exports to end 2009/10 18.5 percent lower than in 2008/09, reflecting greater exportable world supplies.

There is an old America saying that has become a metaphor for taking advantage of a bargain: “Get ‘em while they’re hot.” With a large supply of very good to excellent quality old crop wheat in storage and winter wheat breaking dormancy in the southern plains, for now at least, U.S. wheat is hot.

### **3. MGEX Contract Now Neutral on Transgenic Wheat Delivery**

The Minneapolis Grain Exchange, MGEX, announced March 3 that it will eliminate a contract rule that restricted the delivery of hard red spring (HRS) wheat with biotechnology traits, effective with the March 2012 contract. This returns MGEX to a neutral position regarding the potential delivery of transgenic wheat and positions MGEX in line with the other two major U.S. grain futures exchanges on the topic of transgenic wheat. Today, USDA certifies that “there are no transgenic wheat varieties for sale or in commercial production in the United States...”

“MGEX offers products that can be used as risk management tools,” said the exchange's President & CEO Mark G. Bagan. “Any impractical restriction upon deliverable wheat supplies will only harm the majority of market participants who rely on the HRSW contract for price discovery and risk transfer. The commercial marketplace will sort through the issues should transgenic wheat enter into the supply chain.” Bagan added that the change action is rooted in the best interest of the exchange's market participants but does not endorse or oppose the possible use of transgenic wheat varieties.

### **4. Weather Concerns Intensify in Wheat Country**

U.S. weather conditions are becoming more important by the day as winter wheat breaks dormancy and spring wheat and durum producers start watching their fields and calendars to guide their seeding decisions.

There is plenty of soil moisture in most of the heartland HRW production area, so the concern

there is cold temperatures. Many wheat producers in the central and southern plains are telling USW that their HRW crop is in very good shape, but it has a long period of vulnerability ahead.

In the northern plains, the immediate concern is flooding from rapid snowmelt especially along the Red River in eastern North Dakota and northwestern Minnesota.

AccuWeather.com long-range expert meteorologist Joe Bastardi expects wintry episodes across the plains will break off during the first or second week of April. Whether flooding problems continue well beyond that point is uncertain at this time. If the current wet conditions hold on, there could be delays in soil preparation work for crops in the northern plains this spring.

Conditions in the Pacific Northwest remain dry for the soft white, hard white, and HRW there. Tammy Dennee, Executive Director of the Oregon Wheat Growers League, recently told the Capital Press that growers are watching their rain gauges and paying close attention to weather forecasts. However, it is probably too soon for much concern.

"We're still a long way until harvest," she said. "Wheat is an incredibly hardy crop, and it would be too early for us to sound an alarm regarding crop loss."

Click here for a look at state-by-state conditions:

[http://www.nass.usda.gov/Publications/State\\_Crop\\_Progress\\_and\\_Condition/](http://www.nass.usda.gov/Publications/State_Crop_Progress_and_Condition/).

## 5. Wheat Industry News

- **NCI Short Courses.** Northern Crops Institute, Fargo, ND, has released its 2010 schedule of wheat and flour processing short courses: April 13-15, [Pasta Production and Technology](#); May 17-21, [Advanced Grain Procurement Strategies](#); June 15-17, [Basics of Wheat and Flour Quality](#); July 12-16, [Pasta: Raw Materials and Processing Technology](#); and Sept. 20-29, [Grain Procurement Management for Importers](#). For more information, please visit [www.northern-crops.com](http://www.northern-crops.com) and follow the education link.
- **“Bake and Take” Day.** The fourth Saturday in March is [“Bake and Take Day”](#) in the United States and creates an opportunity for folks to show kindness to friends and neighbors by sharing homemade baked treats. This event, sponsored by stakeholders in the U.S. wheat, flour, and baking industries, began in 1970 as a community service project of the “Kansas Wheathearts,” an auxiliary organization of the [Kansas Association of Wheat Growers](#). They set out to share baked goods with family members, friends, neighbors, and those in need, generating goodwill in the community. The idea of a community member sharing a favorite recipe with someone special became so successful the Kansas Wheathearts created national Bake and Take Day in 1973.
- **USW Board Team Hits the Road.** USW Board members will leave the United States soon to visit milling customers and grain marketing officials in Europe, Egypt, Algeria, and Morocco. Look for news from the Team during the trip at [www.uswheat.org](http://www.uswheat.org). The Board Team includes: Dighton, KS, wheat producer and 2007/08 USW Chairman Ron Suppes; Ipswich, SD, wheat grower and in-coming USW Secretary-Treasurer Darrell Davis; USW

Past Chairman Michael Edgar of Yuma, AZ; and USW Market Analyst Chad Weigand.

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