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BARLEY

For 2001-2002, world feed barley prices are expected to remain similar to 2000-2001 due to a continuation of high world coarse grain supplies. In Canada, average yields are expected to be lower than last year due to dry soil moisture conditions in Alberta and western Saskatchewan and domestic feed barley prices are expected to increase slightly from 2000-2001. Malting barley prices are expected to be marginally lower than in 2000-2001 due to increased world supplies, with two-row malting barley prices expected to decline more than six-row malting barley prices. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for barley.

DEVELOPMENTS IN THE CANADIAN BARLEY INDUSTRY

The Canadian barley market has undergone significant changes throughout the 1990s as producers have diversified in response to low international prices, foreign subsidies, and increased rail freight rates to export markets. Domestic feeding of barley has increased while exports of feed barley have declined, and exports of processed malt and malting barley have increased due to growing international demand. The trends of expansion of the domestic livestock sector and increasing malting barley exports are expected to continue over the next decade.

Domestic barley feeding has increased from 7.3 million tonnes (Mt) in 1990-1991 to 10.1 Mt expected for 2000-2001. Domestic feed use now represents about 75% of all barley produced in Canada, compared with about 55% in 1990-1991. Much of the growth in domestic feed barley demand has come from the cattle industry, as cattle inventories in western Canada have increased from 7.3 million head (Mhd) on January 1, 1990, to 9.3 Mhd on January 1, 2001. The hog industry in western Canada has also expanded, with total hog inventories increasing from 4.0 Mhd to 4.9 Mhd over the same period.

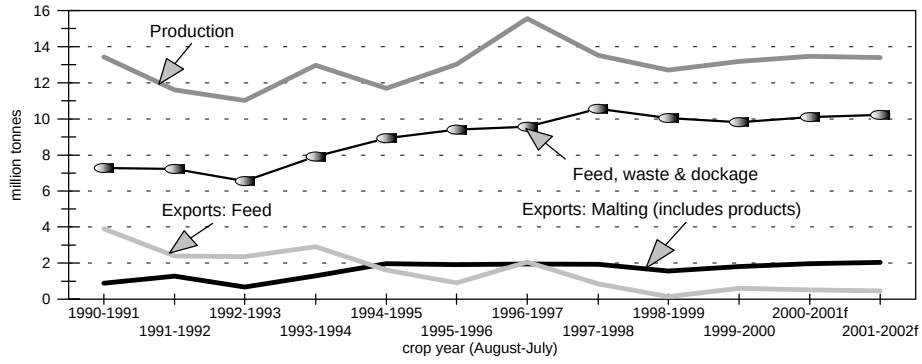
Canadian malting barley markets have approximately doubled over the past decade. Exports of malting barley have grown from 0.6 Mt in 1990-1991 to a level of 1.3 Mt expected for 2000-2001, while exports of processed malt have expanded from 0.3 Mt to about 0.7 Mt (in grain equivalent) over that period. Canadian exports of malting barley are now greater than exports of feed barley, as exports of feed barley have declined significantly. Feed barley exports in 1990-1991 were 3.9 Mt and accounted for nearly 30% of production. Feed barley exports are forecast to account for less than 5% of production in 2001-2002, at about 0.5 Mt.

FEED BARLEY: 2000-2001 SITUATION

World corn prices strongly influence the price of barley, as corn represents about 70% of world coarse grain production. In 2000-2001, world corn prices have remained at very low levels as the United States (U.S.) had one of the largest corn crops on record, slow export sales, and a stocks-to-use ratio of about 20%. This ratio compares with the ten year average of about 16% and the ten year low of 5% in 1995-1996. Although coarse grain prices have been low, the premium for barley over corn in world markets has remained near historical highs. Drought in the Middle East and North Africa, tightening world stocks of barley, and the lack of export subsidies by the European Union (EU) have supported feed barley prices.

In **Canada**, domestic feed barley prices increased from 1999-2000 and have been strong relative to the world market, as drought in southern Alberta and southwestern Saskatchewan reduced production. Domestic feed demand has remained strong while exports of feed barley have remained low due to the relatively strong domestic market. Carry-out stocks are forecast to increase marginally from 1999-2000.

CANADA: BARLEY



f: forecast, AAFC, June 2001
Source: Canadian Grain Commission

Canada

CANADA: BARLEY SEEDED AREA BY VARIETY

	MANITOBA			SASKATCHEWAN			ALBERTA			TOTAL PRAIRIES		
	1999 -2000	2000 -2001	2001 -2002f	1999 -2000	2000 -2001	2001 -2002f	1999 -2000	2000 -2001	2001 -2002f	1999 -2000	2000 -2001	2001 -2002f
	thousand hectares											
Two-Row Designated	57	92	90	903	1,057	1,094	713	951	974	1,673	2,099	2,159
Six-Row Designated	236	282	276	375	557	495	100	85	68	710	925	839
Feed	100	95	93	385	407	433	1,063	1,127	1,201	1,548	1,628	1,728
Hulless	36	37	37	57	43	41	46	22	23	139	103	101
Total	**429**	**506**	**496**	**1,720**	**2,064**	**2,063**	**1,922**	**2,185**	**2,266**	**4,071**	**4,755**	**4,826**

f: AAFC forecast, June 2001
Source: 2000-2001 Canadian Wheat Board Variety Survey and Statistics Canada

The provisional duty on imports of U.S. corn into western Canada imposed by the Canada Customs and Revenue Agency in November 2000 did not have a significant impact on domestic barley prices. Although feed barley prices increased over the year, the increase appears to have been related to the drought in southern Alberta, as well as price movements on world coarse grain markets. The duty was removed on March 7, 2001 and prices have remained at levels similar to those seen while the duty was in place.

In 2000-2001, the **EU** had very good barley yields, with production increasing to 52 Mt from 49 Mt in 1999-2000. However, domestic consumption increased and EU carry-out stocks decreased for the second consecutive year. The effect of the outbreak of Foot and Mouth disease (FMD) in the EU on feed requirements is not yet clear. Restricted livestock movement and reduced commercial slaughter as a result of FMD may have increased EU feed demand in the short term, however, livestock has been slaughtered to control the disease, possibly offsetting the increase.

EU export subsidies were not used in 2000-2001 (June-May) due to weakness in the value of the European currency against the U.S. dollar, budget restrictions, and increased domestic demand. Government expenses related to mad cow disease and FMD used up part of the EU agricultural budget, and the EU had to provide emergency funding to help address the situation. Subsidy limits under World Trade Organization commitments were also a consideration, as well as preparation for expansion of the EU.

Australian barley production also increased considerably in 2000-2001, as area seeded to barley increased from 1999-2000. The increased production provided Australia with increased exportable supplies. However, lower EU exports more than offset the increase in Australian exports, and helped world feed barley prices to remain at a significant premium to corn.

World barley trade is forecast by the United States Department of Agriculture (USDA) at about 18 Mt, slightly lower than 1999-2000. Saudi Arabia and Japan continue to be the main importers of feed barley, with barley imports estimated at 5.0 Mt and 1.6 Mt, respectively.

World barley prices have increased slightly from 1999-2000, with Pacific Northwest U.S. feed barley prices averaging about US$110 per tonne (/t) to-date, compared to US$105/t in 1999-2000. Domestically, the price of feed barley {No. 1 Canada Western (CW) delivered Lethbridge} has averaged about $125/t, up from $110/t in 1999-2000. The Canadian Wheat Board Pool Return Outlook (CWB PRO) for No.1 CW Feed Barley for 2000-2001 is currently $141/t in-store Vancouver/St. Lawrence (I/S VC/SL), up from $135/t in 1999-2000.

FEED BARLEY: 2001-2002 OUTLOOK

In 2001-2002, coarse grain prices are expected to remain similar to 2000-2001 as

CANADIAN WHEAT BOARD PRODUCER PRICING OPTIONS

Guaranteed Delivery Contract with Early Payment Option for Feed Barley
For 2000-2001, the CWB provided farmers with the Guaranteed Delivery Contract with Early Payment Option, which guaranteed delivery on contracted feed barley by December 31, 2000.

Farmers could also choose to receive early payment for barley offered under this contract. Farmers who chose the Early Payment option could lock in an early payment value and receive this payment shortly after delivery. The early payment value was calculated as 90% of the CWB PRO, less all usual deductions and less a further discount for the time value of money, risk, and administration. Farmers who chose the early payment option remained part of the feed barley pool and remained eligible for future payments.

About 1,650 farmers committed 0.3 Mt of feed barley to the CWB under this option. This compares with AAFC's forecast for feed barley exports of about 0.5 Mt for the 2000-2001 crop year.

Fixed Price Contract
The CWB is offering a fixed price contract (FPC) for feed barley for the 2001-2002 crop year. Under the FPC, farmers can lock in a fixed price for all or a portion of their feed barley (minimum 20 tonnes) prior to the beginning of the crop year, then receive full payment for this quantity of grain immediately after delivery. Delivery on the contract occurs under regular CWB delivery opportunities available to all farmers. The FPC is kept separate from the feed barley pool account so that returns to the pool are not affected. Farmers can still deliver to the traditional CWB feed barley pool to receive the pooled price, as they may have done in the past.

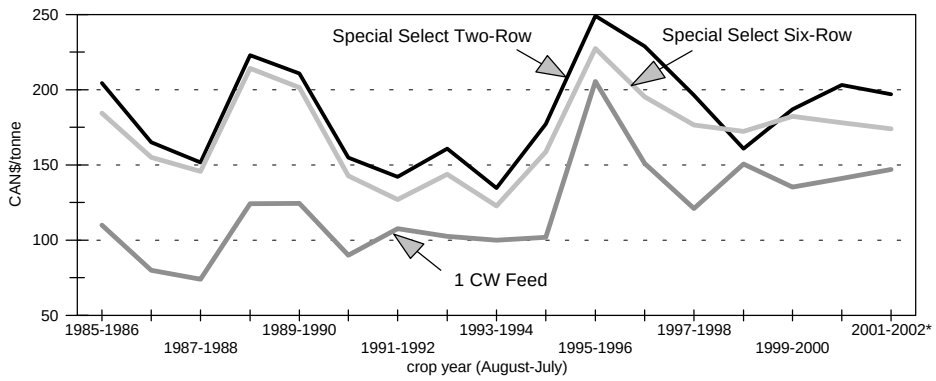
WINNIPEG COMMODITY EXCHANGE (WCE)

Feed Barley Futures Contract
Feed barley is traded on the WCE. This futures contract helps farmers and industry manage barley price risk and encourages public price discovery. The pricing point of the contract is basis buyers' facilities in Lethbridge, Alberta. The WCE also offers options on this futures contract, and reports daily feed barley cash prices for Lethbridge delivery.

U.S. corn supplies are forecast by the USDA to decline only marginally. U.S. corn production is forecast to decrease, but much of the decrease is expected to be offset by higher carry-in stocks. Carry-out stocks are forecast to decrease slightly but remain burdensome, and will prevent world corn and barley prices from increasing considerably. However, world carry-out stocks of barley are expected to tighten further and reach their lowest levels since 1995. This should result in a continuation of substantial premiums for feed barley relative to corn on the world market.

In **Canada**, barley production is forecast to decrease marginally from 2000-2001, as lower yields are expected to more than offset increased area seeded. Alberta and Saskatchewan have experienced dry conditions, and yields in those provinces are expected to be lower than last year. Domestic demand is expected to remain strong, as poor pasture growth in Alberta and Saskatchewan and reduced supplies of feed wheat are likely to result in a slight increase in feed barley consumption. Feed barley exports are expected to remain at historically low levels, as the strong domestic demand is forecast to reduce the amount of barley available for export. Carry-out stocks are forecast to decrease and provide support for domestic prices.

CANADIAN WHEAT BOARD: BARLEY PRICES



Note: Basis prior to 1995-1996: In-store Vancouver/Thunder Bay; 1995-1996 to present: In-store Vancouver/St. Lawrence.
Source: CWB Annual Report, * CWB Pool Return Outlook, May 2001

For 2001-2002, **EU** barley production is forecast to decline slightly to about 50 Mt, as increased seeded area is expected to be more than offset by lower yields. EU carry-out stocks are forecast to decrease by 1.4 Mt, to 9.7 Mt, which should provide some support for world feed barley prices. This will be the lowest carry-out stocks in the EU since 1996, and is likely to prevent EU subsidies on barley exports. The intervention price offered for barley in the EU will fall by 7.5% from current levels to 101 Euros/t (about US$90/t) in compliance with Agenda 2000, and is expected to encourage domestic consumption.

For 2001-2002, **Australian** barley production is forecast to increase, as area seeded to barley is expected to increase, while yields are expected to improve slightly as parts of the country recover from dry conditions last year. Increased supplies in Australia will partly offset lower supplies in the EU.

World trade is forecast by the USDA to decrease slightly from 2000-2001 to 17.7 Mt. However, feed barley imports by Saudi Arabia and Japan are forecast to be the same as in 2000-2001.

Pacific Northwest (PNW) feed **barley prices** are expected to average US$110/t in the 2001-2002 crop year, or about US$20/t over PNW corn prices. Slightly stronger prices are expected to be realized in the Canadian domestic barley market as a result of tightening supplies and decreasing carry-out stocks. Agriculture and Agri-Food Canada is currently forecasting Lethbridge 1CW feed barley prices to increase from last year to $115-145/t. The CWB feed barley PRO for 2001-2002 is up $6/t from 2000-2001, at $147/t I/S VC/SL.

MALTING BARLEY: 2000-2001 SITUATION

In 2000-2001, the quality of the **world barley** crop was below average in the major barley exporting countries. In Canada, drought in southern Alberta reduced yields and increased protein content, reducing supplies of malting quality barley in that province. Parts of Saskatchewan and Manitoba received excess moisture which promoted fusarium development and downgraded quality. In the EU, barley quality was below average due to late season rains, which reduced the available supplies of malting quality barley. Quality was also affected in Australia, as dry weather affected parts of the country during the summer, then was further influenced by rain during the harvest season.

As a result, relatively strong **world prices** have been observed for malting barley compared to feed. The premium, for malting barley over feed barley, as indicated by the CWB PRO for Special Select Two-Row Designated Barley (SS2R), is larger than it has been for the previous two years. For 2000-2001, the CWB PRO for SS2R barley is $203/t I/S VC/SL, versus $187/t in 1999-2000. The CWB PRO for Special Select Six-Row Designated Barley (SS6R) is $178/t I/S VC/SL, versus $182/t in 1999-2000.

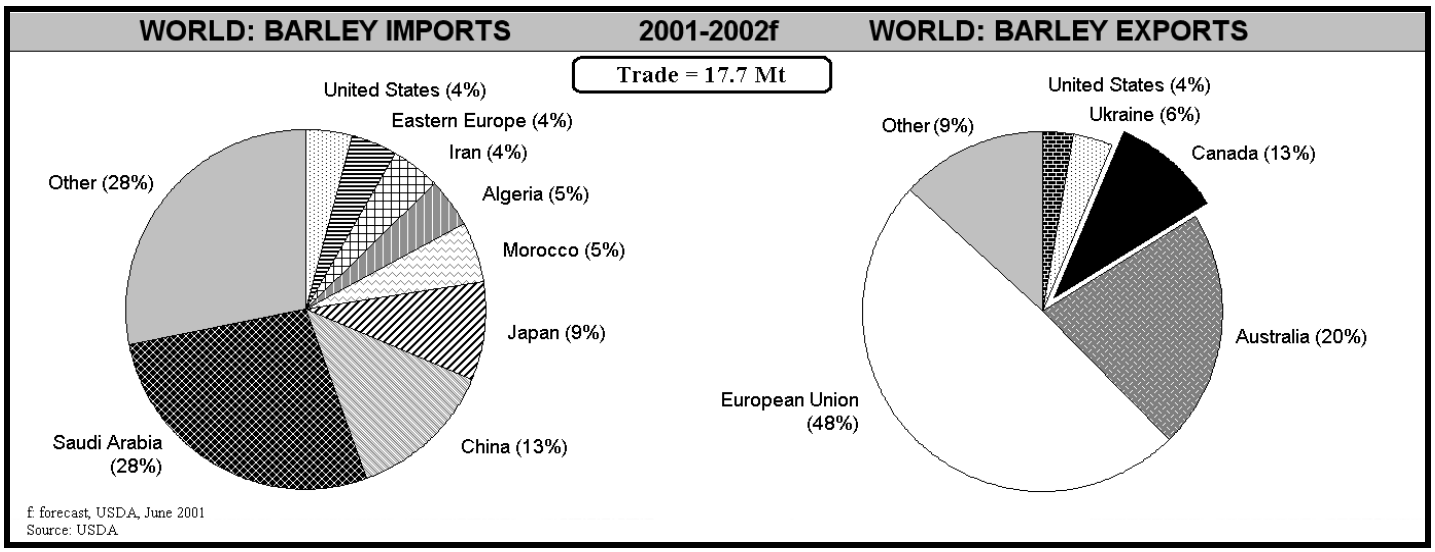
MALTING BARLEY: 2001-2002 OUTLOOK

World supplies of malting barley are expected to increase from 2000-2001 as weather conditions are expected to improve from the unusually difficult harvests observed in the major malting barley exporting countries last year. Although world supplies of malting barley are expected to increase, most of the impact will be on two-row prices rather than

CANADA: BARLEY SUPPLY AND DISPOSITION

August-July crop year	**1999 -2000**	**2000 -2001f**	**2001 -2002f**
Harvested Area (Mha)	4.1	4.6	4.8
Yield (t/ha)	3.2	3.0	2.8
		.....million tonnes.....	
Carry-in Stocks	2.8	3.0	3.1
Production	13.2	13.5	13.4
Total Supply	**16.0**	**16.5**	**16.5**
Feed, Waste & Dockage	9.8	10.1	10.2
Food, Seed & Other	0.8	0.8	0.8
Total Domestic Use	**10.6**	**10.9**	**11.0**
Feed	0.5	0.5	0.5
Malting	1.2	1.3	1.3
Malt	0.7	0.7	0.7
Total Exports	**2.4**	**2.5**	**2.5**
Carry-out stocks	**3.0**	**3.1**	**3.0**
Feed Barley Price ($/t)	110	120	115
Lethbridge 1CW		-130	-145
Harvested Area (Mac.)	10.1	11.2	11.8
Yield (bu/ac.)	60	55	52
Production (Mbu)	606	619	615
Feed Barley Price ($/bu)	2.39	2.61	2.50
Lethbridge 1CW		-2.83	-3.16

f: forecast, AAFC, June 2001
Source: Statistics Canada



six-row prices due to the tightening balance in the U.S., which primarily consumes six-row malting barley.

In **Canada**, malting barley production is expected to be similar to 2000-2001. Increased area seeded to two-row barley is forecast, as intended barley area in Alberta is 4% higher than last year. Slightly lower barley area is intended in Manitoba, suggesting that six-row barley production may decrease. However, most of the decline in Manitoba barley area is likely due to lower feed barley area rather than lower malting barley area. Domestic use of malting barley is expected to remain similar to 2000-2001. Exports are expected to increase as lower intended production in the U.S. should support exports, while demand from China is forecast to remain strong. China is Canada's second largest export customer, only slightly behind the U.S., and is the largest importer of Canadian two-row malting barley. Increased competition into Chinese malting barley markets, primarily from Australia, may limit growth of Canada's exports to that market. Canadian exports of malt products are forecast to increase slightly, consistent with the trend of the past several years.

In the **U.S.**, supplies of barley are forecast to be lower than in 2000-2001. U.S. farmers reduced plantings by about 0.5 million acres (Mac.) this spring, to 5.3 Mac. Intended area in North Dakota, the largest barley producing state, has fallen dramatically from 1.9 Mac. to 1.6 Mac. Assuming average yields of 60 bushels per acre, production in this state could fall by 18 million bushels, or about 0.4 Mt. This impact could be particularly important to Canadian six-row malting barley growers, as North Dakota accounts for most U.S. six-row malting barley production. As well, there is potential for lower production in Montana, the largest two-row barley producing state. Intended area in Montana is down 4% to 1.2 Mac., and dryness in that state is becoming an important factor. U.S. carry-in stocks are also slightly lower than they were in 2000-2001. The lower U.S. production and lower carry-in stocks are expected to result in increased Canadian exports to the U.S., which should support malting barley prices.

Loan Deficiency Payments (LDPs) are expected to remain important to U.S. barley growers. So far in 2000-2001, 70% of the U.S. barley crop has received LDPs averaging US$0.27/bu.

In the **EU**, quality of the barley crop is expected to improve from last year. This is expected to result in increased competition in the two-row malting barley market and pressure prices. However, total barley production in the EU is forecast to decrease and may provide some support for two-row malting barley prices, especially if the EU experiences difficult harvest weather in 2001-2002.

In **Australia**, production is forecast to increase by about 0.4 Mt (about 7%) as producers respond to relatively strong returns for malting barley. Australian malting barley production is very important to the Canadian malting barley industry, as Australia is the largest supplier of two-row malting barley to China. Competition in Asian markets is expected to remain strong due to the increased Australian production, and malting barley prices may be pressured over the course of the season as Australian barley moves onto the world market.

The potential for increased competition from the EU and Australia into two-row markets is expected to reduce the premium for two-row malting barley over feed barley for Canadian farmers, and two-row prices are expected to decrease slightly from current levels. Although six-row malting barley prices are forecast to decline slightly, six-row prices appear to have some potential for upward movement, particularly if weather problems continue to negatively affect U.S. crop development. The May CWB PRO for 2001-2002 for SS2R is $197/t I/S VC/SL, down $6/t from the 2000-2001 PRO. The CWB PRO for SS6R is $174/t I/S VC/SL, down $4/t from 2000-2001.

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