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ITALY: WHEAT AND DURUM

Italy was the third largest market for Canadian durum in 2002-2003. Italy's combined imports of Canadian wheat and durum exceed those of any other country in the European Union (EU). In 2003-2004, low durum production in the EU is expected to enable Canada to increase its wheat and durum exports to Italy to historical high. Over the medium-term, Italian wheat and durum imports from Canada are projected to remain stable as the EU fully decouples most of its farm subsidies from production beginning in 2005. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for Italy's agricultural sector and prospects for trade with Canada.

Wheat Policy

As part of the June 2003 Common Agricultural Policy (CAP) Reform, the EU announced in July 2003, that it will fully decouple most of its farm payments from production between 2005 and 2007. It will merge them into a 'single payment' linked to meeting certain environmental, food safety and animal welfare standards. It is expected that a reduction in area-based payments to EU durum producers over the next three or four years may result in a decrease in EU durum production by 2007, which could potentially create new export opportunities for Canada. In traditional growing areas such as Italy, direct support payments to producers will be reduced from €313 per hectare (CAN$485/ha) in 2004 to €285/ha (CAN$441/ha). The payments will also be fully decoupled from current durum production and be based on historical payments. As a result, EU producers will be able to grow crops other than durum and still receive the subsidy. At the same time, each EU country will have the option of decoupling 60% of the durum subsidy and keeping the rest tied to current production, which would likely keep the area seeded to durum similar to current levels. Also, a new durum quality program is being introduced that will link support payments to recommended agronomic practices, such as certified seed. This is expected to increase the quality of Italian and EU durum and may reduce demand for high quality Canadian durum wheat.

In addition, the EU introduced separate annual import quotas for low and medium quality wheat at the start of 2003 to curb the imports of Black Sea wheat. Canada was given access to 38,000 tonnes (t), the US (United States) 572,000 t and all other countries have an annual 2.37 Mt. An amendment to Regulation 1375/2003 was adopted at the EU Cereals Management Committee on October 30, 2003. This opened up the quota for medium and low quality wheat from other countries to Canada and the US for the balance of 2003, permitting bids for import licenses beginning on November 20, 2003. Exporters in the US and Canada are now able to supply quantities under the other country quota, with delivery by December 31, 2003. Canada has already filled its 2003 quota, but as of October 31, there were about 890,000 t available under the other country quota and 540,000 t under the US quota. All in-quotas carry a preferential duty of €12/t (CAN$18/t) and the after-quota duty is €95/t (CAN$147/t).

SITUATION

Production

Italy produces both soft wheat and durum and is largely self-sufficient. About 65% of Italy's domestic use comes from production with the remaining imported. Soft wheat production occurs predominately in the northern regions of the nation. The region of Emilia-Romagna produces the largest amount of soft wheat, accounting for 20% of the nation's total soft wheat supply. The area around

CANADA: WHEAT EXPORTS TO ITALY

August-July crop year	**1999 -2000**	**2000 -2001**	**2001 -2002**	**2002 -2003**	**2003 -2004f**
	....	....	thousand tonnes	....	....
Wheat*	184	161	218	200	200-300
Durum	152	56	344	351	300-400

* excluding Durum
f: forecast, AAFC, December 2003
Source: Canadian Grain Commission

Canada

this region accounts for the remainder of the total wheat production. Durum is concentrated to the greatest extent in the southern-most regions of Italy. The region of Sicilia produces the most durum in the nation, accounting for 25% of the nation's total durum production. The region of Puglia is a close second, accounting for 23% of the total durum produced. Both soft wheat and durum are planted at the same time, beginning around the first of October and finishing up around the end of November. Soft wheat is harvested around the first of July and running through the end of August. Durum is harvested a little earlier than the soft wheat, beginning around the first of June and ending around the end of July.

For 2003-2004, Italian soft wheat harvested area is estimated at 0.6 million hectares (Mha), down slightly from 2002-2003. The downward trend of soft wheat area has continued, due to both the reduced profitability of growing this crop and bad weather. For 2003-2004, soft wheat production is estimated at 2.8 million tonnes (Mt), down 0.5 Mt from last year.

For 2003-2004, Italian durum harvested area is estimated at 1.7 Mha, up marginally from 2002-2003. Seeded area was affected by overly wet conditions which delayed planting and negatively affected crop development. Average yields were also impacted by late season dryness which led to a downward revision of the earlier forecasts for production. For 2003-2004, Italian durum production is estimated at 4.0 Mt, down 7% from last year, but similar to the five year average.

Consumption

Soft wheat consumption is largely in the form of human food, followed by feed and then seed use. Soft wheats are used to make breads and rolls, while hard red spring wheat is imported to produce traditional holiday cakes as well as other bakery products. For 2003-2004, domestic use is forecast at 10.9 Mt, relatively unchanged from last year. Feed use of wheat rose in 2000-2001, as a result of the Bovine Spongiform Encephalopathy crisis in the EU and the meat and bone meal ban in feeding. Feed use is expected to remain at 1.6 Mt for 2003-2004.

Wheat and Flour Milling

Italian flour production has been relatively unchanged over the last five years, averaging about 5.0 Mt annually. Italy's domestic consumption of bread, bakery and confectionery products remains stable, although pasta use has risen marginally. Italian exports of bread wheat flours, largely to Yemen, Libya and Cuba, have fallen slightly after reaching a high of about 1.0 Mt in 1997-1998. This is largely due to expansion and competitiveness by the domestic milling companies in these countries. The majority of Italy's domestic durum wheat supply is used to produce pasta. Over the past 10 years, pasta production increased from 2.5 Mt to 3.2 Mt. Currently, per capita pasta consumption in Italy is about 30 kilograms (kg) per annum versus 6 kg in Canada. According to industry sources, annual pasta production for domestic use is over 1.6 Mt. Pasta production has continued to rise marginally, in line with the domestic consumption trend, and also due to the growth in the pasta export market. Italian pasta exports have risen annually over the last 10 years, from 1 Mt in 1994-1995, and are expected to exceed 1.5 Mt for the third consecutive year in 2003-2004. Pasta is exported to Germany, France and the United Kingdom (UK) as well as the US.

Italy has the largest milling industry in the EU. It is a well developed industry, with large industrial operations as well as small mills. The Association of Industrial Millers

ITALY: ALL WHEAT SUPPLY AND DISPOSITION

July-June crop year	**1999 -2000**	**2000 -2001**	**2001 -2002**	**2002 -2003**	**2003 -2004f**
Harvested Area (Mha)	2.39	2.32	2.29	2.42	2.27
Yield (t/ha)	3.06	2.97	2.80	3.11	2.97
	........................million tonnes........................				
Carry-in Stocks	0.85	0.75	0.75	0.83	0.81
Production	7.30	6.90	6.41	7.53	6.75
Imports	6.22	6.70	7.60	6.40	7.20
Total Supply	**14.47**	**14.35**	**14.76**	**14.76**	**14.76**
Exports	3.00	3.05	2.98	3.00	3.00
Feed Use	1.20	1.55	1.55	1.55	1.55
Food, Seed, Industrial Use	9.52	9.00	9.40	9.40	9.40
Total Use	**13.72**	**13.60**	**13.93**	**13.95**	**13.95**
Carry-out Stocks	0.75	0.75	0.83	0.81	0.81

ITALY: DURUM SUPPLY AND DISPOSITION

July-June crop year	**1999 -2000**	**2000 -2001**	**2001 -2002**	**2002 -2003**	**2003 -2004f**
Harvested Area (Mha)	1.69	1.66	1.66	1.65	1.68
Yield (t/ha)	2.37	2.59	1.80	2.61	2.38
	........................million tonnes........................				
Carry-in Stocks	0.50	0.40	0.30	0.30	0.30
Production	4.00	4.30	3.00	4.30	4.00
Imports	1.37	1.55	2.35	1.70	1.85
Total Supply	**5.87**	**6.25**	**5.65**	**6.30**	**6.15**
Exports	1.97	2.27	2.30	2.35	2.30
Food, Seed, Industrial Use	3.50	3.68	3.55	3.55	3.55
Total Use	**5.47**	**5.95**	**5.85**	**5.90**	**5.85**
Carry-out Stocks	0.40	0.30	0.30	0.30	0.30

f: forecast, AAFC, December 2003
Source: International Grains Council, USDA

and Pasta Makers of Italy (ITALMOPA) estimates there are about 700 milling companies in operation throughout the country. Of the total companies, about 190 mill durum and have a total annual capacity of 7.1 Mt, wheat equivalent. The remainder are bread wheat mills with a total annual capacity of 10.7 Mt, wheat equivalent. According to ITALMOPA, about 5.0 Mt of durum is milled, and about 7.0 Mt of bread wheat. Italian millers are highly conscious of quality, both in the wheat ground and the flour produced. Traders and millers demand wheat with specific characteristics from a reliable supply source and are willing to pay premium prices. Italian wheat tends to be softer and lower in gluten and protein than Canadian wheat. As a result, when Canadian wheat is milled, the result is a strong flour characterized by elevated insoluble protein (gluten forming) content and diminished starch content. By contrast, when Italian wheat is milled, the result is a weaker flour with elevated starch content and a diminished insoluble protein content. About 60% of domestic wheat flour is used for bread, with 20% exported and the remainder used for various domestic biscuit and confectionery products, according to ITALMOPA. Over 50% of durum milled goes into the domestic pasta market and 50% went to the export pasta market.

TRADE

Imports

Italy is a net soft wheat importer and is expected to import 5.4 Mt in 2003-2004, up 14% from last year, due to lower expected production. About 80% of Italian soft wheat imports have come from other EU countries with France as the leading supplier, followed by Germany and the UK. For 2003-2004, the share of imports from the EU, however, is expected to fall, largely due to reduced exportable EU supplies, as a result of drought conditions. Imports from non-EU countries, the US, Russia, and Canada, are therefore expected to rise. For 2003-2004, Italian wheat imports from Canada are forecast to rise slightly from last year, to between 0.2-0.3 Mt. This largely consists of No.1 and No.2 Canada Western Red Spring wheat in the 14-15% protein range, used to improve the flour blends domestically produced.

Italy is a net durum exporter, but is forecast to import 1.9 Mt in 2003-2004, up marginally from last year due to lower

CANADA IS A RELIABLE SUPPLIER OF CONSISTENT, HIGH QUALITY WHEAT AND DURUM

Canada has an enviable international reputation as a reliable supplier of high quality wheat and durum. The attributes of Canadian wheat and durum that attract demand are reliability of supply, cleanliness, uniformity, consistency and excellent end-product quality.

The reliability of Canada as a wheat and durum supplier is ensured by the great expanse of fertile plains in western Canada where favourable soil and climatic conditions allow the production of wheat and durum. Cleanliness is ensured by cleaning all wheat grades to export tolerances at inland and terminal elevators. Uniformity within and between shipments of comparable grade is a product of Canada's grading and bulk handling systems, which smooth out location-to-location variations in quality.

Canada has a strong commitment to quality throughout its grain system. This extends to strict varietal control to protect the inherent quality of all grades of each wheat class, and to strict adherence to wheat grade standards.

Durum

Canada Western Amber Durum (CWAD) is known for its combination of hard kernels, strong gluten and high protein content. The kernels mill well to produce semolina, the raw material for making good quality pasta and couscous, while strong gluten ensures good cooking characteristics and pigment gives a bright yellow colour.

Currently, the predominant durum variety grown in Canada is Kyle, which was bred at the Agriculture Canada Research Station in Swift Current and registered in 1984. Kyle is a high yielding, good quality durum variety with resistance to preharvest sprouting, disease and weathering. For 2003-2004, Kyle accounted for 49% of the CWAD seeded area in western Canada. In an effort to even better serve Italy's demand for high quality, high gluten strength durum Canadian grain companies have acquired the rights to test, grow and sell durum developed from desert varieties. These varieties have stronger gluten levels than current Canadian varieties and may help Canada become more competitive in the Italian durum market.

Wheat

Canada Western Red Spring (CWRS) wheat is known for its excellent milling and baking qualities. As a result of its high gluten strength, it is used extensively either alone, or in blends with other wheats, for the production of a wide range of products such as hearth breads, noodles, flat breads and steam breads.

Currently, the predominant hard red spring wheat variety grown in Canada is AC Barrie, which was bred at the Agriculture Canada Research Station in Swift Current and registered in 1994.

AC Barrie is a high protein, high yielding wheat with medium straw strength and is resistant to stem rust. For 2003-2004, AC Barrie accounted for 32% of the CWRS seeded area in western Canada.

production. The largest proportion of durum imports are expected to occur from non-EU countries, including the US, Australia and Canada. Italy also imports smaller quantities of durum from France and Spain. For 2003-2004, Italian durum imports from Canada are forecast to rise from last year, to between 0.3-0.4 Mt, largely due to the combination of large supplies of Canadian durum and lower durum production in Italy and the EU. This largely consists of No.4 Canada Western Amber Durum.

Exports

For 2003-2004, Italian soft wheat exports, which have been relatively unchanged the past three years are forecast at 0.7 Mt, similar to last year. These exports are largely to other EU countries including France, Spain, and the UK.

For 2003-2004, Italian durum exports, which have stabilized in the last three years at about 2.3 Mt, are expected to continue this trend. Algeria is Italy's largest customer followed by other EU countries including France and Germany.

GENETICALLY MODIFIED (GM) WHEAT

EU member states have up to now been allowed to fix their own tolerance threshold for GM contamination. Italy's milling industry has stated that it will not buy GM wheat because its consumers do not want it. Currently, Italy has a zero tolerance for wheat contamination with GM wheat. In September of 2003, the EU's high court ruled that Italy and other EU members can place temporary bans on GM foods if they suspect the foods pose a threat to public health or the environment.

OUTLOOK

For 2004-2005, Italian seeded durum and soft wheat areas are forecast to rise marginally and moisture conditions to-date have improved from this time last year. Italian wheat production is projected to return to levels seen in 2002-2003 and, as a result, Italian imports of Canadian wheat and durum may fall, but likely to levels seen in previous years, assuming Canada has sufficient supplies to export to Italy.

In the medium-term, Italy's wheat and durum import needs will continue to be dependent on other EU countries. With the EU beginning to phase out its farm subsidy program in 2005 through to 2007, Italian durum acres and production may decline. Canadian wheat and durum exports to Italy are expected to remain stable and Canada is expected to be well positioned to continue to service this market.

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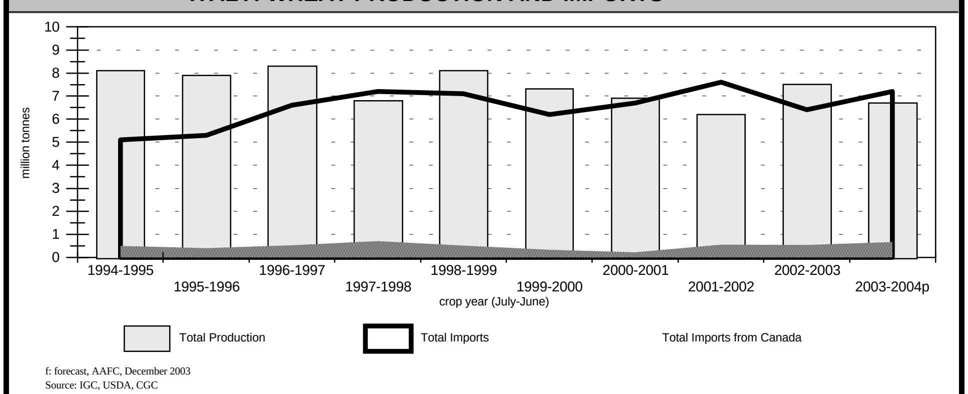
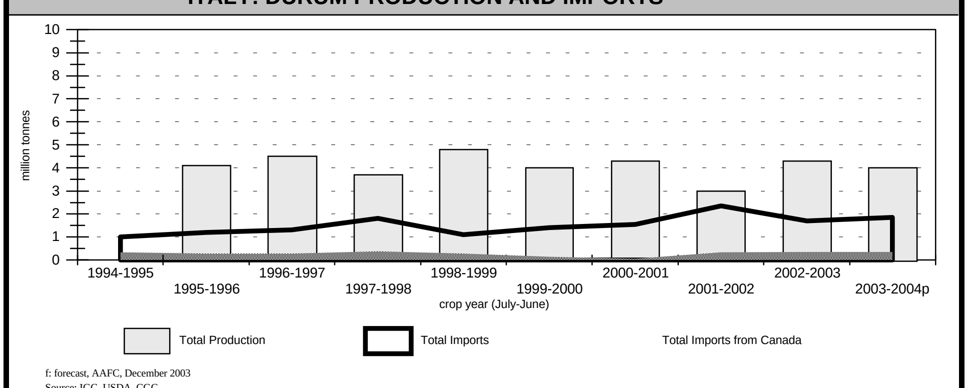
ITALY: WHEAT PRODUCTION AND IMPORTS



ITALY: DURUM PRODUCTION AND IMPORTS



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