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Bi-weekly Bulletin

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DURUM WHEAT: 2002-2003 SITUATION AND 2003-2004 OUTLOOK

Prices for durum wheat have been historically strong in 2002-2003 because consumption has exceeded production causing expected carry-out stocks in the major exporting countries to fall to the lowest level since 1997-1998. For 2003-2004, carry-out stocks are forecast to increase, due to a significant rise in world production, and durum prices are expected to average about 20% below 2002-2003. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for durum wheat.

Demand Considerations

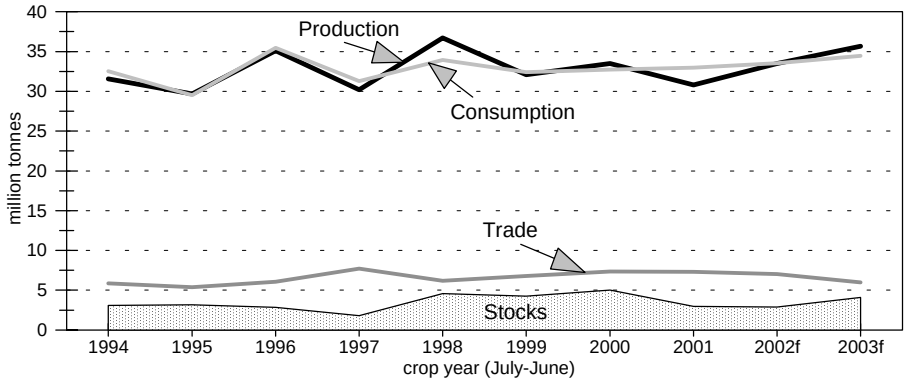
Durum wheat (Triticum durum) is a separate species from most other commercially grown wheat classes (which are mainly t. aestivum), and it has unique characteristics. Therefore, the substitutability of common wheat for durum wheat, and vice versa is limited. Good quality durum has a very hard vitreous (i.e. glassy looking) kernel (HVK), with an amber yellow endosperm, compared to the white endosperm of common wheat. Pasta made from durum semolina maintains a desirable firm texture during cooking, and it has a natural amber colour that is associated with good quality pasta. Pasta made from common wheat, even that made from high protein hard red spring wheat, tends to absorb more water in cooking and produce a softer, stickier product, and it is white unless artificial colour is added.

In Europe and North America, pasta products such as spaghetti and macaroni are generally produced exclusively from durum wheat. New pasta production techniques, such as high temperature drying, have improved the quality of pasta that can be made from common wheat, but discriminating pasta consumers continue to prefer pasta made from 100% durum wheat. In North Africa, durum is preferred for the production of couscous, a staple food in the region. As a result, the demand for durum tends to be quite price-inelastic. A small shortage of durum can result in a large increase in durum premiums over common wheat and increased supplies result in price shrinkage. Even if global supplies of common wheat are abundant, a shortage of durum can result in high durum prices, as most end-users are unwilling to switch to common wheat. Conversely, because the market beyond traditional pasta and couscous production is limited, a relatively small increase in durum production can result in large durum price declines.

Production Considerations

The best quality durum is produced in regions having a relatively dry climate, with hot days and cool nights, during the growing season. Durum wheat also

WORLD: DURUM SUPPLY AND DISPOSITION



Note: Stocks include EU, US, and Canada only
Consumption includes stock change in countries other than EU, US, and Canada

f: forecast, International Grains Council and Agriculture and Agri-Food Canada, May 2003
Source: International Grains Council

Canada

yields relatively well under dry conditions, compared to many alternative crops. Durum produced under conditions of higher moisture tends to have a low HVK count, making it less suitable for the production of pasta. Fungal diseases are also more common in moist climates, one of the more serious being fusarium head blight or "scab", which is a serious degrading factor to which no durum variety has resistance. Traditional durum consumption therefore developed in the hot dry regions around the Mediterranean such as North Africa, southern Europe, Turkey, and Syria. In North America, western North Dakota and southern Saskatchewan are the major growing regions, with a small area produced under irrigation in the Arizona and California deserts, where it is mainly grown as a rotation crop with vegetables.

World Situation and Outlook

World durum production for **2002-2003** is estimated by the International Grains Council (IGC) at 33.5 million tonnes (Mt), an increase of 9% from 2001-2002. However, total carry-in stocks have declined by 14%, to 8.2 Mt, so that supplies are up by just 3%, at 41.7 Mt. Major exporters' carry-in stocks were down by 41% from the previous year, at 2.9 Mt, the lowest since 1997-1998, and 15% below the 10-year average. The increase in production for 2002-2003 was mainly the result of larger crops in Canada and the European Union (EU), with the United States (US) and North African production declining. World durum usage in 2002-2003 is projected by IGC at 33.3 Mt, slightly below production. As a result, world durum stocks are forecast to rise by 2%, to 8.4 Mt. However, major exporter stocks are projected to be relatively unchanged at 2.9 Mt.

For **2003-2004**, world durum production is forecast by the IGC to rise by 7%, to 35.7 Mt, the highest since 1998-1999. Larger crops are expected in Canada, the US, North Africa and Australia, which will be only partly offset by smaller crops in the EU, Turkey and Syria. With slightly higher carry-in stocks, total supplies are projected to rise by 6%, to 44.1 Mt. Consumption is forecast by IGC to rise by 3%, to 34.4 Mt. World trade is projected by Agriculture and Agri-Food Canada (AAFC) to decline by 14%, to 6.0 Mt, due to reduced import demand from key markets, notably North Africa. Carry-out stocks are expected to rise by 15%, to 9.7 Mt. Major exporter stocks are forecast at 4.1 Mt, a 42% increase.

MAJOR EXPORTERS

CANADA: 2002-2003

Supply

In response to strong premiums over Canada Western Red Spring (CWRS) in 2001-2002, and declining farm-held stocks, western Canadian farmers increased their **2002-2003** durum area by 15%, to 2.49 million hectares (Mha). Due to severe drought in parts of western Canada, abandonment was well above normal, however, and harvested area rose by only 7%, to 2.19 Mha. Yields on the harvested area were higher than in 2001-2002, however, as the drought was concentrated in the more northerly regions of Saskatchewan, while durum production is concentrated in the south. Western Canadian durum yields in 2002-2003 are estimated by Statistics Canada at 1.70 tonnes per hectare (25 bushels per acre {bu/ac}), 16% above the previous year, when the drought was more concentrated in the south.

Due to the combination of a larger area and improved yields, production rose by 24%, to 3.7 Mt. The higher production was more than offset by lower carry-in stocks, which fell by 43% to 1.6 Mt. As a result, supplies have declined by 9%, to 5.4 Mt.

Quality

Due to excess rain at harvest, which resulted in sprouting, bleaching and mildew, the quality of the 2002 durum crop is reported to be well below normal, with only about 16% of the crop grading No.2 Canada Western Amber Durum (CWAD) or higher, compared to the 10-year average of about 75%. Protein content was well above normal, however, due to the hot dry growing conditions, with No.1 CWAD averaging about 14.3% protein (13.5% moisture basis), versus 14.0% last year and the 10-year average of just 12.6%.

Exports

Due to the decreased supplies of durum available, particularly of the top quality grades, Canadian exports (including semolina) are forecast to fall by 15% compared to 2001-2002, to 3.1 Mt, the lowest since 1993-1994. With decreased production in North Africa, import demand from this major market has risen, and Canada has been in a position to take advantage of this market opportunity. Canadian exports to North Africa are forecast at 1.8 to 2.0 Mt in 2002-2003, up from 1.71 Mt in 2001-2002. The EU is also increasing its exports into this region. Durum production in the EU is up by 32% from a year earlier, reducing import demand for Canadian durum. Canadian durum exports to the EU are forecast at 0.25 to 0.30 Mt in 2002-2003, compared to 0.44 Mt in 2001-2002. The US durum crop was 6% smaller in 2002-2003, which would normally mean increased imports from Canada, but the shortage of No.1 CWAD in Canada this year means that exports to the US will decline. Further,

the uncertainties created by US trade investigations, which will only conclude later this year, make forecasts of Canadian exports to the US highly speculative. With these factors in mind, Canada is expected to decrease its share of the world durum market in 2002-2003.

Carry-out Stocks

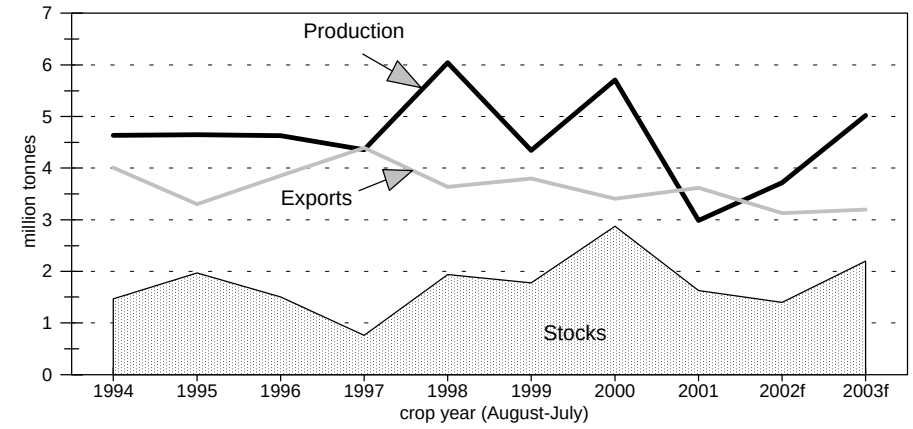
It is likely that the Canadian Wheat Board (CWB) will be able to accept deliveries of all durum offered by farmers in 2002-2003, and farm held carry-out stocks will fall compared to 2001-2002. The CWB has accepted 100% of the durum offered under the Series A and B delivery contracts, and it is expected that the acceptance of the final Series C contract will also be high. Farm-held stocks as of July 31, 2003 are forecast at 0.2 Mt, compared to 0.52 Mt on July 31, 2002. Carry-out stocks are estimated at 1.4 Mt, versus 1.63 Mt in 2001-2002 and the 5-year average of 1.8 Mt.

CANADA: 2003-2004

For 2003-2004, based on the Statistics Canada March 31 survey of seeding intentions, Canadian farmers are expected to decrease their durum seeded area by 5%, to 2.37 Mha, as a result of lower expected premiums over spring wheat. Assuming normal abandonment and yields, AAFC forecasts that production will rise by 35% from the drought-reduced 2002-2003 crop, to 5.0 Mt. Despite lower carry-in stocks, supplies are forecast to rise by 20%, to 6.4 Mt and exports are projected to rise slightly to about 3.2 Mt in 2003-2004, but remain below the 5-year average of 3.8 Mt. The EU is expected to harvest another large durum crop in 2003-2004, meaning that export opportunities into the EU will remain limited, and the EU will remain competitive into the North African markets. North African imports are forecast to fall by over 30% due to improved production in that region, reducing demand for Canadian durum. The US is also expected to have a larger durum crop in 2003-2004. However, assuming a return to normal Canadian crop quality in 2003-2004, there may be some opportunity to increase exports into the premium EU market. Exports are also expected to continue to increase into the emerging durum markets in South America and Asia. With declining total world durum trade expected in 2003-2004, Canada is expected to increase its share of the world market.

As a result of the increased production and relatively flat exports, durum carry-out stocks are forecast to rise by 57%, to 2.2 Mt.

CANADA: DURUM SUPPLY AND DISPOSITION



f: forecast, Agriculture and Agri-Food Canada, May 2003
Source: Statistics Canada

UNITED STATES: 2002-2003

Supply

North Dakota accounts for over 80% of total US durum area. US seeded area for 2002-2003 was down marginally from the previous year, at 2.91 million acres (Mac), the lowest since 1994-1995. The average yield in 2002 was slightly below-average at 29 bu/ac, due to drought in parts of the growing region. US production, as a result, is down by 6% from 2001, at only 79 million bushels (Mbu) (2.15 Mt), the smallest crop since 1993-1994. Carry-in stocks were 27% lower than for last year, at 33 Mbu, further reducing domestic supplies.

Trade

The United States Department of Agriculture (USDA) projects that US durum exports (June-May) will fall by 36%, to 32 Mbu (0.87 Mt) (including products), due to lower supplies and increased use by the domestic milling market. As of April 24, 2003, US durum exports (including outstanding sales) were 0.74 Mt, down from 1.31 in 2001-2002.

US carry-out stocks are projected to decline by 12% from 2001-2002 to 29 Mbu (0.79 Mt).

UNITED STATES: 2003-2004

Based on the USDA's March 1 seeding intentions survey, US farmers plan to reduce their durum area by about 3% in 2003-2004, to 2.83 Mac. However, assuming a return to normal yields, AAFC forecasts that US durum production will rise by 10%, to 88 Mbu (2.4 Mt). Domestic supplies are expected to rise slightly despite lower carry-in stocks. Due to increased use of domestic durum in the US milling industry, exports are forecast by AAFC to fall by 20%, to 0.7 Mt, the lowest since 1988-1989. Carry-out stocks are projected to decrease by 11%, to 0.7 Mt, well below the 5-year average

of 1.15 Mt. The stocks-to-use ratio would decline to 23%, from 25% in 2002-2003, and remain well below the 5-year average of 31%, which will be supportive of US durum prices in 2003-2004.

EUROPEAN UNION: 2002-2003

Supply

The EU is the largest durum producer in the world, with production concentrated in Italy, Spain, France, and Greece. However, it is also the largest consumer of durum, and since the early 1990s it has been a significant net importer of durum wheat. EU durum area increased slightly in 2002, and yields were above normal levels. As a result, EU production increased by 35%, to 9.3 Mt. This has been partly offset by lower carry-in stocks, which are down by 55%, at 0.4 Mt. As a result, EU domestic durum supplies are up by 24%, at 9.7 Mt.

Trade

The increased supplies have resulted in the IGC forecasting a 58% decrease in EU import requirements, to only 0.7 Mt, the lowest since 1993-1994. The EU has imported an average of 0.5 Mt of durum from Canada over the past 5 years, but this is forecast to decrease to about 0.25-0.30 Mt in 2002-2003, from 0.44 Mt in 2001-2002. EU durum exports are expected to more than double from 0.59 Mt in 2001-2002 to 1.2 Mt in 2002-2003 (including semolina), the highest since 1988-1989. Despite rising durum supplies, no EU export subsidies for durum are expected in 2002-2003. EU durum carry-out stocks are expected to rise by 75%, to 0.7 Mt.

EUROPEAN UNION: 2003-2004

Seeded area is reported to be slightly lower than in 2002-2003, and production is forecast by IGC to decline by 5%, to 8.8 Mt. This remains above the 5-year average of 8.3 Mt. Imports are projected by AAFC to rise by 36%, to 0.95 Mt, but remain below the 5-year average of 1.0 Mt. Due to reduced import demand from North Africa, exports are forecast to fall by 42%, to 0.7 Mt. Carry-out stocks are projected to rise by 71%, to 1.2 Mt, versus the 5-year average of 0.8 Mt.

OTHER PRODUCERS

The other major durum producing countries are Turkey, Syria, Kazakhstan, India, Australia, and Mexico. **Turkey** is the third largest durum producer in the world, next to the EU and Canada, with production averaging 3.3 Mt over the past 5 years. Turkey exported an average of about 0.3 Mt over the past 5 years. Turkey has a large pasta industry and is a major exporter of pasta. Small quantities of durum, averaging 18,000 tonnes a year, are imported to supplement domestic production, especially in years with a poor quality domestic crop. In **2002-2003**, Turkish production is estimated at 3.0 Mt, with exports slightly below normal, at 0.2 Mt. For **2003-2004**, production is forecast to decline to 2.9 Mt, with exports forecast by AAFC to fall to 0.15 Mt. Turkey is not a major Canadian market, tending to source its imports from the EU and the US.

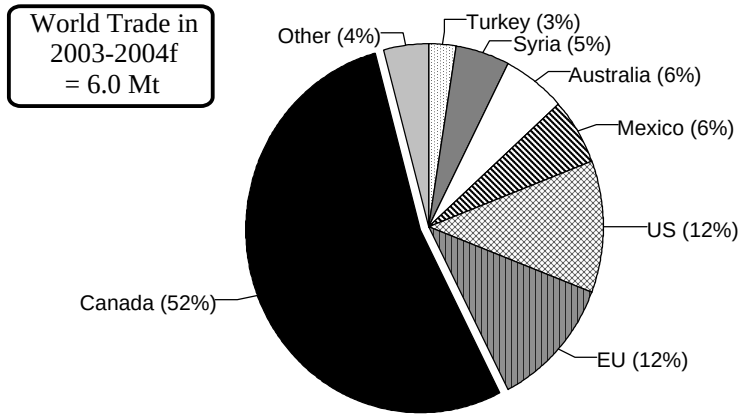
Syrian durum production has risen sharply, from 1.1 Mt in 1990-1991 to 2.8 Mt in **2002-2003**. Some durum is exported, especially when world prices are high, with the 5-year average being 0.3 Mt and with 2002-2003 exports forecast at 0.6 Mt. For **2003-2004**, IGC forecasts that Syrian durum production will decline by 11%, to 2.5 Mt. Exports are forecast to fall by 50%, to 0.3 Mt.

Kazakhstan durum production averages about 2.2 Mt annually, with 2.4 Mt produced in **2002-2003**. For **2003-2004**, production is expected to decline by 4%, to 2.3 Mt. Most Kazakhstan durum is consumed within the Former Soviet Union.

Indian durum production is trending upward, rising from about 1.0 Mt in the late 1980s to 2.1 Mt in **2002-2003**. Production is forecast to decline by 5%, to 2.0 Mt, in **2003-2004**. Durum is used domestically for the production of atta flour. No Indian durum is expected to be exported, due to poor quality and inadequate segregation in the handling system.

Mexican durum production has tripled over the past 10 years, from 0.35 Mt in 1992-1993 to 1.1 Mt in **2002-2003**. Production is forecast to remain

WORLD: DURUM EXPORTS (2003-2004f)



f: forecast, AAFC, May 2003
Source: International Grains Council, April 2003, except Canada which is Agriculture and Agri-Food Canada, May 2003

unchanged for **2003-2004**. Some Mexican durum is exported, averaging 0.4 Mt over the past 5 years, with 2002-2003 exports forecast at 0.5 Mt. This is expected to decline to 0.35 Mt for 2003-2004.

Australian durum production has risen from virtually zero in 1990 to about 0.5 Mt for 2001-2002. Production declined by 40% to just 0.3 Mt in **2002-2003**, due to drought, but it is expected to recover to 0.5 Mt for **2003-2004**. Australia has become a significant durum exporter, with 0.58 Mt exported in 2001-2002, targeting the Italian market. This declined to only 0.2 Mt in 2002-20003 due to reduced supplies, but is expected to recover to 0.35 Mt in 2003-2004.

MAJOR IMPORTERS

North Africa

The four North African countries of Algeria, Morocco, Tunisia, and Libya constitute the largest durum import market in the world. Durum based foods are a cultural tradition in these countries, where most durum is consumed in the form of couscous, which is small balls of semolina steamed and prepared in a similar manner to rice. Traditional breads are also made with durum flour, particularly in Morocco. Domestic production is insufficient to meet requirements, and imports have averaged 3.3 Mt over the past 5 years, representing about 55% of annual consumption. Grain production in this region is largely dependent on winter rains, which are somewhat unreliable, and as a result durum production is quite variable, ranging over the past decade from a high of 5.6 Mt in 1996-1997 to a low of 1.7 Mt in 2000-2001. Production for **2002-2003** is estimated by the IGC at a slightly below average 2.5 Mt, down from 3.2 Mt the previous year, as a result of dryness in many regions. Imports are forecast to increase by 22% compared to 2001-2002, to 3.8 Mt. In 2001-2002, Canada exported a total of 1.71 Mt to this region, 55% of total regional imports. This is expected to increase to between 1.7 and 1.9 Mt in 2002-2003, with Canada's market share decreasing to 45-50%. As of March 31, 2003, Canadian exports to North Africa were 0.92 Mt, versus 0.95 Mt a year earlier.

For **2003-2004**, IGC forecasts North African durum production at 4.0 Mt, an increase of 60% from 2002-2003 and the highest since 1998-1999. As a result of greater domestic supplies, AAFC forecasts that imports will fall by 38%, to 2.35 Mt. Canadian exports into North Africa are expected to fall as a result, although Canada's market share may increase.

Other Importers

The other major durum importing countries are Japan, Venezuela, Peru, and Chile. The **South American** countries represent a major growth market for Canadian durum. Pasta has traditionally been produced from common hard wheat in much of South America. However, through market development work by the CWB, the Canadian Grain Commission, and the Canadian International Grains Institute, Canadian durum exports into South America have increased steadily over the last decade, from only about 0.4 Mt in the early 1990s, to 0.59 Mt in **2002-2003**. AAFC forecasts that South American imports of durum will increase slightly, to 0.6 Mt, for **2003-2004.**

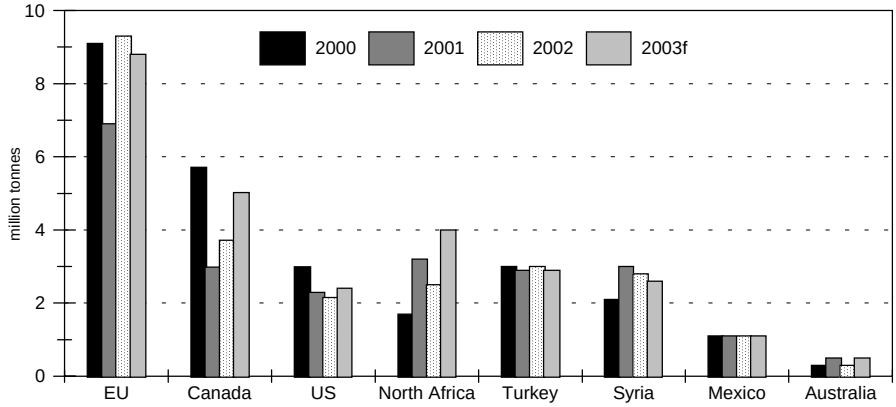
Durum imports by **Japan** have increased steadily from the early 1980s until the mid-1990s, reaching a high of 0.25 Mt in 1996-1997, due to changing dietary habits. However, the slowdown of the Japanese economy has impacted on pasta consumption, and imports have averaged only 0.2 Mt over the past 5 years. Imports are forecast at 0.2 Mt for **2002-2003**, and are expected to remain unchanged for **2003-2004**. Canada supplies the bulk of the Japanese market in durum wheat.

PRICE FORECASTS

Although world durum prices have been pressured by the larger EU crop, and weakening world import demand, prices have been supported by smaller crops in Canada, Australia and the US. The No.3 Hard Amber Durum (HAD) export price FOB Gulf is expected to average US$200 per tonne (/t) in 2002-2003, versus US$182/t in 2001-2002 (June-May).

For **2003-2004**, larger crops in North Africa, the US, Canada and Australia

WORLD: DURUM PRODUCTION



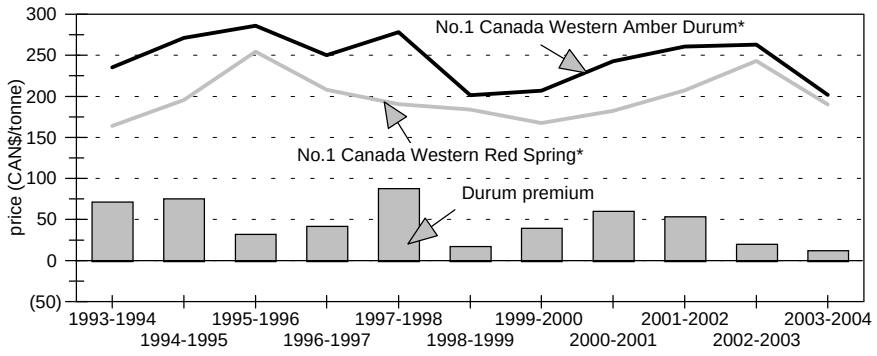
f: forecast, International Grains Council, April 2003, except Canada which is Agriculture and Agri-Food Canada, May 2003
Source: International Grains Council

are expected to pressure world durum prices, with the No.3 HAD Gulf export price forecast at US$160/t, 20% lower than in 2002-2003.

Canada

For durum wheat, the **2002-2003** May Pool Return Outlook (PRO) for No.1 CWAD with 11.5% protein is $263/t in-store Vancouver/St. Lawrence, up marginally from 2001-2002. A premium of $20/t over No.1 CWRS 11.5% is forecast, versus $53/t in 2001-2002. A western Canadian average on-farm price of about $217/t for No.1 CWAD 11.5% is expected, compared to $218/t in 2001-2002. For **2003-2004**, the May PRO for No.1 CWAD 11.5% is $202/t, a decline of 23% from the current year. Durum pool returns have been further impacted by the strengthening Canadian dollar. The premium over No.1 CWRS 11.5% is forecast to fall to $12/t. The on-farm price is forecast to fall to $157/t.

CANADIAN WHEAT BOARD:
FINAL REALIZED WHEAT PRICES AND POOL RETURN OUTLOOK



* 11.5% protein after 1999-2000
1993-1994 to 2001-2002: Canadian Wheat Board final realized prices
2002-2003 to 2003-2004: Canadian Wheat Board Pool Return Outlook, May 2003

Source: Canadian Wheat Board

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UNITED STATES DEPARTMENT OF COMMERCE (US DOC) IMPOSES PRELIMINARY COUNTERVAIL AND ANTIDUMPING DUTIES ON CANADIAN WHEAT AND DURUM IMPORTS

On March 3, 2003, DOC made a preliminary determination of subsidy resulting in provisional countervailing duties of 3.94% being imposed on US imports of both Canadian hard red spring (HRS) wheat and durum wheat effective March 10. On May 1, the DOC made its preliminary determination of dumping, imposing anti-dumping duties of 6.12% on HRS wheat and 8.15% on durum wheat effective May 8.

The final DOC subsidy and dumping determinations are expected to be made in mid-July 2003. If the DOC's final determinations are affirmative, the US International Trade Commission will rule on whether injury has occurred 45 days after the DOC's final determinations. If no injury or threat of injury is found, definitive countervailing and dumping duties would not be levied and all bonds for provisional duties will be cancelled.

The CWB has stated that it will continue to sell into the markets that provide the best return for Prairie farmers, and will consider all options to meet that goal when selling to customers in the US and around the world.

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