



# Bi-weekly Bulletin

September 10, 2004 Volume 17 Number 14

## PROFILE OF THE CANADIAN OILSEEDS SECTOR: PART 2

Historically, oilseeds tend to be a higher value crop than cereals, providing farmers with an alternative for market diversification. For producers in western Canada, canola, flaxseed, mustard seed and sunflower seed are considered as cash crops, as soybeans are for producers in eastern Canada. Decisions on how much of each crop to plant are made independently by each producer. Marketing of the crops and products is conducted by grain companies. This *Bi-weekly Bulletin* provides a brief overview of the marketing sector and some of the major organizations involved.

### CANOLA

#### Canola seed exports continue to grow

Canola products are sold both domestically and abroad. In the early 1990s, about half of the average 3.9 million tonnes (Mt) canola seed crop was crushed domestically and the other half was exported. Starting in 1993, increased production of seed led to increased seed exports which peaked at 4.9 Mt in 1999. Since 1994, the crushing capacity for canola seed has more than doubled. Therefore, since 1995, the industry has directed its new market development towards the market for value added products: canola oil and canola meal, while undertaking market maintenance in its important seed markets particularly of Japan and Mexico. Forecasts for future years indicate that exports of seed will be

around 3.0-4.0 Mt while domestic processing is expected to range between 3.0-4.0 Mt.

For canola seed, exports for 2003 were 3.3 Mt. Historically, Japan is the major market for canola seed followed, during the early 2000s by Mexico, China and the United States (US).

Canola seed is marketed by grain companies which have an international network of business contacts, agents representatives etc. Most of the largest companies have their own primary elevators providing a marketing, storage and distribution. They also own, are

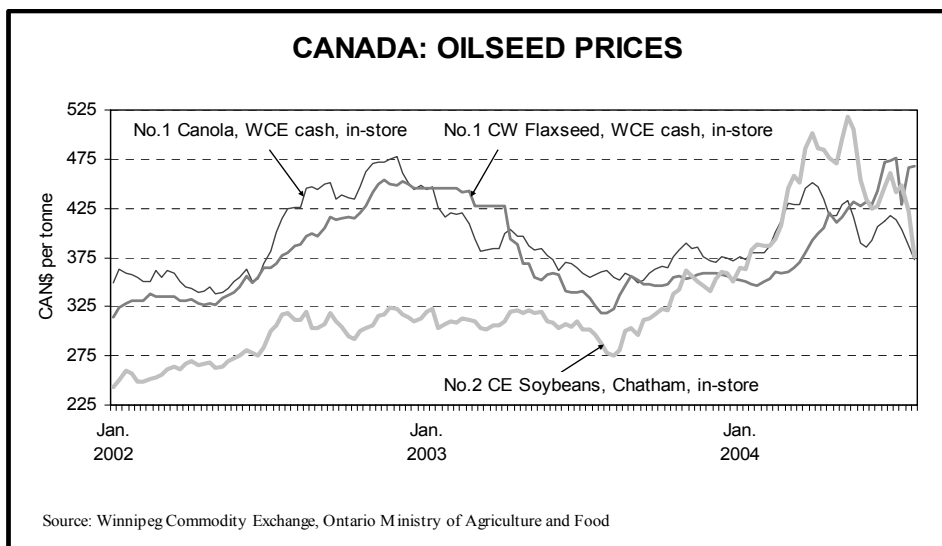
partners, or have an operating agreement with terminal elevators located in Vancouver, British Columbia (B.C.), Prince Rupert, B.C. and Thunder Bay, Ontario. The terminal and port facilities in Churchill, Manitoba are owned by OmniTrax, a private railroad, and are managed by Louis Dreyfus, a private elevator company.

#### Winnipeg Commodity Exchange and canola prices

Prices for canola seed are discovered on the futures market of the Winnipeg Commodity Exchange (WCE) through the buying and selling of contracts by numerous traders. The WCE provides

CANADA: CANOLA EXPORTS			
calendar year	2002	2003	2004f
	.....thousand tonnes.....		
Japan	1,557	1,682	1,700
Mexico	489	711	950
China	66	319	400
United States	157	113	150
Other	9	426	650
<b>Total</b>	<b>2,278</b>	<b>3,251</b>	<b>3,850</b>

f: forecast, AAFC, July 2004  
Source: Statistics Canada



the facilities for buyers, sellers and users of canola seed to exchange canola seed contracts.

Futures contracts are based on 20 tonne lots of non-commercially clean No.1 canola, free on board (fob) in the PAR region (within a 150 kilometre radius of Saskatoon, Saskatchewan. The WCE has four additional delivery regions, central east (non-par location in Saskatchewan at \$0.00/tonne discount), central-west region (non-par locations in Saskatchewan at a \$2.00/tonne premium), eastern (non-par locations in Manitoba at a \$2.00/tonne discount) and western (non-par locations in Alberta at a \$6.00/tonne premium).

The contract prices on the WCE are primarily influenced by supply and demand of canola seed in Canada, its quality characteristics, and the international supply and demand of canola seed and rapeseed. International factors, such as demand, supply and prices of competing commodities (e.g. soybeans), also have an effect on determining the price of canola seed on the WCE.

On May 19, 2004, the shareholders of WCE Holdings Inc., the parent corporation of Winnipeg Commodity Exchange Inc. approved the resolution necessary to transform the WCE trading platform from the traditional open outcry method to an electronic system. The resolution was approved by 81% of the ballots cast. Regulatory approval by the

Manitoba Securities Commission is pending. The WCE hopes to have the system in place and electronic trading is scheduled to begin by December 2004.

## SOYBEANS

### Canada exports about 25% of its soybeans

In 1985, domestic production of soybeans increased to the point of achieving self sufficiency, although Canada is still highly dependent on imports of soybean meal to meet domestic requirements for protein meals for animal feed.

Canada exports about 25% of its soybean crop, mostly to Europe, the US and Asia Pacific (Japan, Hong Kong, Singapore, Malaysia, etc.). Exports to Asia Pacific in particular, are Special Quality White Hilum Soybeans for human consumption through the soyfood market.

Soybeans are marketed through grain companies which have access to a distribution and storage infrastructure.

### Canadian soybean prices follow Chicago soybean prices

Prices of soybeans and soybean products are set internationally. The Chicago Board of Trade (CBOT) operates the largest futures exchange that determines the price of soybeans worldwide. The international price for soybeans is affected by world events and international economic and

## CANADA: SOYBEAN EXPORTS

<i>calendar year</i>	2002	2003	2004f
.....thousand tonnes.....			
Netherlands	34	137	200
Japan	100	163	175
Malaysia	107	115	150
United States	86	162	100
Iran	61	62	75
Other	<u>288</u>	<u>232</u>	<u>300</u>
<b>Total</b>	<b>676</b>	<b>871</b>	<b>1,000</b>

f: forecast, AAFC, July 2004

Source: Statistics Canada

agronomic factors as well as livestock production cycles.

## FLAXSEED

### Flaxseed is mostly exported to the European Union

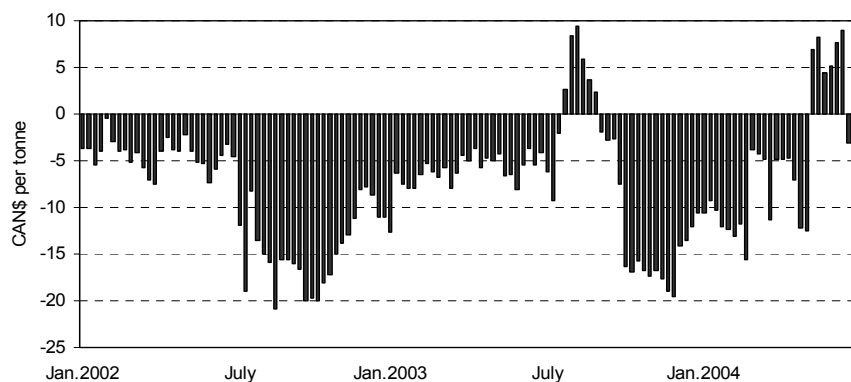
Most of Canada's flaxseed is grown for the export market, where it is crushed into oil and meal. Only a relatively small amount of seed is crushed domestically.

The marketing, pricing and transportation of flaxseed is very similar to canola. Many of the companies involved with other Canadian grains also deal in flaxseed.

### The WCE is revising the flaxseed contract

Most of the price discovery for flaxseed now occurs in the cash market with the bulk of export selling conducted by 2 or 3 large exporters matched by a similar number of purchasing companies. On June 17, 2004, the WCE temporarily de-listed the December 2004 and March 2005 flaxseed futures contracts. The July and October 2004 flaxseed futures remained on the board for trading under the current contract

## SOYBEAN BASIS: CHATHAM-CHICAGO CASH IN-STORE



Source: Chicago Board of Trade, Ontario Soybean Growers

## CANADA: FLAXSEED EXPORTS

<i>calendar year</i>	2002	2003	2004f
.....thousand tonnes.....			
Belgium	541	520	525
United States	60	95	90
Japan	34	18	19
Netherlands	39	1	1
Other	<u>29</u>	<u>51</u>	<u>50</u>
<b>Total</b>	<b>703</b>	<b>685</b>	<b>685</b>

f: forecast, AAFC, July 2004

Source: Statistics Canada

terms. Under the proposed changes and beginning with the December contract, trading will be conducted in Canadian dollars and the US and Thunder Bay delivery regions will be removed. While significant changes were made to the contract in 2003, the enhancement had not attracted the expected market participation. The new contract is scheduled to be re-launched prior to January 1, 2005.

## OTHER OILSEEDS

### Sunflower Seed

Most of the sunflower seed produced in Canada is consumed by the confectionary industry, packaged as bird seed or exported to the US and EU. Its volume is much lower than other oilseeds and most of the acreage is grown under contract with processors and dealers. Exports of sunflower seed are about 30% of production, with the largest destination being the US.

### Mustard Seed

Canada is the world's largest exporter of this commodity. Only a small percentage of mustard is crushed locally while some is ground to produce mustard flour. The majority of Canadian mustard seed is

exported to the US, Europe and Japan for use as a condiment. Bangladesh crushes mustard seed to produce a hot edible oil preferred in the Indian sub-continent.

In general mustard seed is marketed through grain companies with prices determined internationally. Mustard seed is mostly grown under contract to processors and/or dealers. Being a western Canadian crop, mustard seed is controlled by many of the same organizations and regulations affecting canola and flaxseed.

### Safflower Seed

Most of the safflower seed currently produced in Canada is sold to the US for use in the higher paying birdseed market and to a lesser degree, in the domestic birdseed market.

## OILSEED PRODUCTS

### Canada is a net exporter of vegoils

In 2003, exports were 0.9 Mt and imports were 0.3 Mt for a positive trade balance of 0.6 Mt. Canola oil exports accounted for 92% of total vegoil exports in 2003, with 95% of canola oil exports being destined for the US, 1% for Singapore, and less than 1% for Malaysia, Taiwan, South Korea and Hong Kong, respectively. In 2003, Canada accounted for 66% of total world rapeseed/canola oil exports, compared with 5% for linseed oil exports and less than 1% for soybean oil.

The major market and growing market for canola oil is the US. In 1996, canola oil represented 8% of edible oil consumption in the U.S., up from 4.5% the year earlier. Increasing demand for canola oil is being shown by the Peoples Republic of China. The dominant market for canola meal is the US.

### Canadian oil and meal prices are based on CBOT soyoil and soymeal prices

For canola oil and canola meal, marketing channels are generally similar to those described for the seed but the price discovery mechanism is based on the soyoil and soymeal contracts on the CBOT futures market. Since contracts on the CBOT trade in US dollars, industry must also hedge against fluctuation in the Canadian exchange rate. Since canola meal contains almost 70% of the protein level of soymeal, the price of canola meal is about 70% that of soymeal. This factor is considered in hedging canola meal contracts on the CBOT. Canadian soyoil and soymeal are mostly for domestic consumption, are marketed in a similar manner as canola oil and meal for domestic consumption and are priced based on CBOT prices.

### Western Canada exports canola meal and imports soymeal

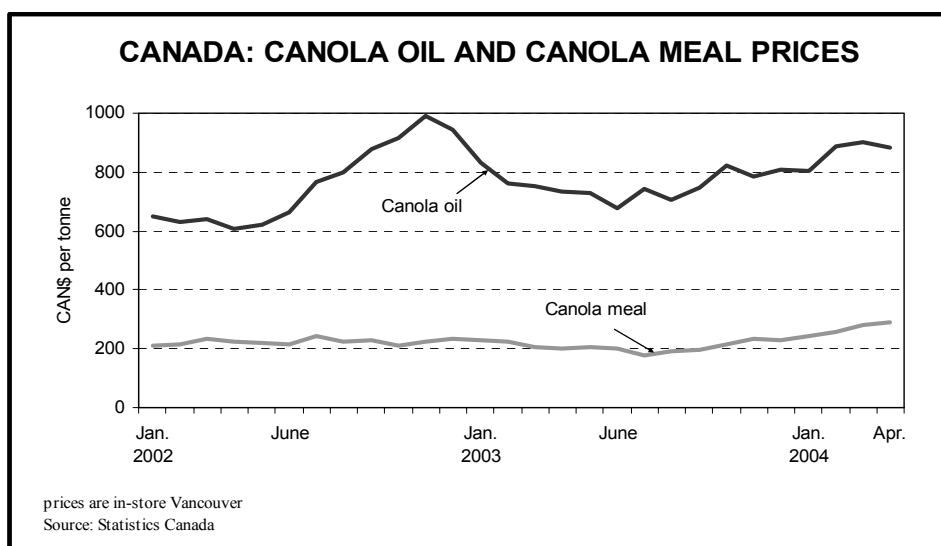
The trade in protein meals is important with Canada being a large net exporter of canola meal and a large net importer of soymeal, largely into western

CANADA: VEGOIL IMPORTS			
calendar year	2002	2003	2004f
	.....thousand tonnes.....		
Soybean oil	125	140	130
Cotton oil	36	36	35
Canola oil	32	29	30
Palm oil	12	26	30
Olive oil	25	25	25
Sunflower oil	28	18	20
Coconut oil	13	16	15
Palm kernel oil	8	10	10
Linseed oil	5	6	5
Other	46	41	50
<b>Total</b>	<b>330</b>	<b>347</b>	<b>350</b>

CANADA: VEGOIL EXPORTS			
calendar year	2002	2003	2004f
	.....thousand tonnes.....		
Canola oil	568	788	780
Soybean oil	39	37	35
Linseed oil	6	25	25
Other	27	24	30
<b>Total</b>	<b>640</b>	<b>874</b>	<b>870</b>

f: forecast, AAFC, July 2004  
Source: Statistics Canada, COPA



Canada. In 2003, Canada exported slightly over \$250 million worth of protein meals. By far the largest segment was the export of canola meal which earned \$226 million in exports, followed distantly by soymeal at \$22 million and linseed meal at \$4 million. By contrast, for the 2003 calendar year Canada imported \$328 million worth of protein meal, mostly soymeal valued at \$325 million. As well \$2 million worth of canola meal was imported.

In 2003, exports of protein meal were 1.2 Mt while imports were 1.1 Mt (of which 98% were soymeal imports from the US), for a positive trade balance of 0.1 Mt. Canola meal exports accounted for 92% of total meal exports in 2003, with 90% of canola meal exports being destined for the US, 4% for Ireland, 2% to Taiwan and less than 1% for Singapore. Canada accounted for 46% of total world rapeseed/ canola meal exports in 2003, compared with 40% for linseed meal exports and less than 1% for soybean and sunflower meal exports.

#### Growth rate for margarine decreases

Margarine experienced a dramatic increase in demand during the 1970s much of it at the expense of more traditional dairy products such as butter.

Starting in the 1980s and continuing in the 1990s, the rate of growth for margarine decreased considerably due to a combination of factors: effective marketing strategies by the dairy industry, nutritional concerns on the part of consumers, an increase in demand for "natural" foods and an interest in gourmet cooking. In addition, provincial regulations, demanding the use of distinctive coloration for margarines, negatively impacted on margarine sales in the large markets of eastern Canada.

By 1997 all provinces, except Quebec, have foregone regulating margarine products and adopted national standards. This should be beneficial to oilseeds processors and to the soybean and soyoil sector especially.

## ORGANIZATIONS

### Canola Council of Canada (CCC)

The national industry organization for canola and canola products is the CCC. The Council is a national non-profit association, funded by members of the Canadian canola industry. Its mission is to enhance the Canadian canola industry's ability to profitably produce and supply seed, oil, and meal products that offer superior value to customers throughout the world.

Council members include canola growers, canola processors, canola exporters, grain handling companies, crop input suppliers, governments and food and feed manufacturers.

A list of organizations involved in the canola industry is currently available on the Council's website ([www.canola-council.org](http://www.canola-council.org)).

The CCC is funded from three major sources:

- (1) a voluntary industry levy paid by Canadian crushers and exporters;
- (2) funds provided to specific programs from industry members of which one of the largest is the canola grower check-off commissions, and;
- (3) government programs, both federal and provincial.

The Council has a budget that ranges from two to six million dollars per year. Council funding is allocated to four areas of activity: agronomic extension (crop production), communications, utilization (market development and access) corporate affairs and finance and administration. The allocations are made with one purpose: to advance the canola industry in all its aspects. To accomplish their mission, the CCC undertakes a wide range of activities. On the international scene, the CCC:

- (a) assists industry members with incoming and outgoing missions (to develop new markets and to provide technical support to established clients);
- (b) assists industry members with technical seminars (such as, using canola meal in animal rations and trading aspects of canola products);
- (c) promotes the use of canola products by hosting domestic and international training activities, and
- (d) assists industry members with trade fairs, international conferences and other major international events to promote canola products.

To ensure continual improvement in canola products, the CCC conducts research activities including:

- (1) collaborating closely with the POS Pilot plant and other research institutions on applied research,
- (2) coordinating with industry members to provide the necessary research results to have canola and its products accepted by regulatory agencies, and
- (3) conducting market studies which assist in directing the above activities.

Through its crop production program, the CCC actively researches and promotes the introduction of better agronomic practices to increase productivity at the farm level. The CCC's success is due principally to the unique blend of industry, producers and governments and the close cooperation between these diverse interests.

The Canola Council has set four targets by 2007:

- (1) 7 Mt sustained annual production
- (2) 2 to 3 additional dedicated canola customers (i.e. Iran)

### CANADA: VEGETABLE PROTEIN MEAL IMPORTS

<i>calendar year</i>	2002	2003	2004f
	.....thousand tonnes.....		
Soybean meal	1,077	1,043	1,000
Canola meal	14	10	10
Linseed meal	3	2	2
Sunflower meal	2	1	1
Other	15	12	12
<b>Total</b>	<b>1,111</b>	<b>1,068</b>	<b>1,025</b>

### CANADA: VEGETABLE PROTEIN MEAL EXPORTS

<i>calendar year</i>	2002	2003	2004f
	.....thousand tonnes.....		
Canola meal	765	1,127	1,130
Soybean meal	107	72	65
Linseed meal	10	24	22
Other	17	7	8
<b>Total</b>	<b>899</b>	<b>1,230</b>	<b>1,225</b>

f: forecast, AAFC, July 2004  
Source: Statistics Canada, COPA

- (3) Doubling of US consumption of canola oil
- (4) 1 new domestic market application (bio-diesel)

Meanwhile, Canada's canola industry is in the throws of a major change. It's estimated that within five years 50% of canola acres will be in speciality trait or functional varieties like low linolenic, low (5%) or zero (2% or less) saturated fat, higher omega-3, and others including nutraceuticals like high vitamin E level varieties. Generic or traditional canola will occupy the other half of the acres.

The introduction of new genetically modified organism (GMO) canola varieties is also on the rise. In Canada at present there are three main groups of herbicide-resistant canola: Roundup Ready and Liberty Link varieties which were produced using genetic modification and Clearfield varieties which were developed using a traditional plant breeding technique called mutagenesis.

New GM varieties recently introduced include GM Roundup Ready low linolenic/high oleic acid canola, GM Roundup Ready hybrids, and Clearfield-tolerate hybrids. In the wings are Roundup Ready hybrids that are low linolenic/high oleic acid.

#### **Canadian Canola Growers Association**

In each of the major producing provinces, there are canola growers organizations whose aims are to further the interests of the canola growers and the canola crop. These organizations are the Manitoba Canola Growers Association, the Saskatchewan Canola Growers Association (policy issues), Saskatchewan Canola Development Commission, the Alberta Canola Producers Commission and the Ontario Canola Growers Association. To nationally coordinate producer interests and to respond to their agronomic needs, these associations have formed the Canadian Canola Growers Association. All producer organizations are strong supporters and take key membership roles in the CCC.

#### **Ontario Soybean Growers (OSG)**

The soybean growers have shown a high degree of cohesion and organizational ability. In 1949, the Ontario Soybean Growers Marketing Board was formed, later changing its name to the current OSG. Today, the OSG represents 30,000 producers and negotiates certain aspects of the pricing arrangements for Ontario soybeans, while the handling, crushing and exporting of soybeans and soybean products are handled by grain companies. The OSG's objective is "to enhance the marketing of Ontario soybeans." The OSG's powers include: licensing producers, dealers and grain merchandisers and brokers; and establishing license fees and negotiating with dealers and handlers charges for handling, cleaning and drying.

Processors, crushers and brokers have agreed to pay to the producer the equivalent of the US soybean price adjusted for quality, transport, handling, insurance and monetary exchange. The OSG negotiates the factors involved in these activities. All trading for the domestic, export, and seed markets is done via grain companies at current prices based on the price establishment methodology agreed to with the OSG. Although the OSG has the power to purchase and sell soybeans, it has never exercised this right. Any changes to the operating policies of the OSG take place at the direction and with the agreement of soybean producers.

The OSG provides several important services. On behalf of the producers, the OSG gathers and disseminates market and price information. The OSG maintains marketing records from which it compiles an average price to the producers by crop year. It gathers the information from which federal and provincial stabilization payments are determined. The OSG promotes the use of soybeans and soy products domestically and in key markets abroad. Through the OSG, producer funds are channelled into various research projects, such as improved soybean varieties, or for new uses such as roasted soybeans in animal feed rations. Finally, the OSG is an active lobbyist of

the federal and provincial governments on a variety of issues of concern to the industry. A list of organizations involved in trading of soybeans and soyproducts is currently available on the OSG's website ([www.soybean.on.ca](http://www.soybean.on.ca))

#### **Canadian Soybean Export Association (CSEA)**

In the mid-1990s, a group of food quality soybean exporters from Ontario, Quebec, Manitoba and B.C. came together to form the CSEA. This Association deals with items of interest to Canadian exporters and explores existing and potential markets for premium priced high quality soybeans for soy foods production. This Association is made up of industry, government and OSG personnel.

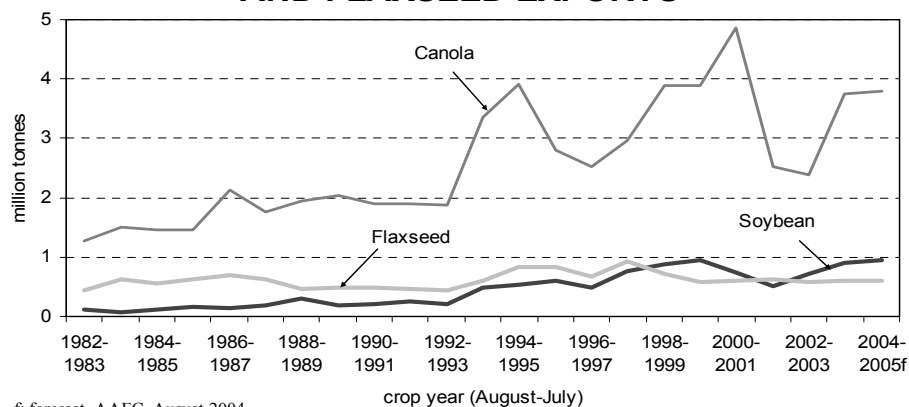
#### **Flax Council of Canada (FCC)**

The FCC is a single organization, representing the producers, grain handlers, shippers, exporters and end users of flax. Established in 1986 with full representation from all agricultural and industrial flax interests, the FCC promotes the advancement of flax and flax products. The FCC is located in Winnipeg, Manitoba.

The Council focuses the resources of the entire Canadian flax industry on flax market development, market and production research and crop promotion. Through its marketing initiatives and communication programs, the FCC creates worldwide market opportunities for flax. The FCC has a strong research and technical emphasis, supporting flax related research both with direct funding and indirectly as a coordinating forum.

The FCC's role is to identify opportunities and challenges facing flax and flax products; and to be a catalyst for the success of the Canadian flax industry.

## CANADA: CANOLA, SOYBEAN AND FLAXSEED EXPORTS



f: forecast, AAFC, August 2004  
Source: Statistics Canada

The Council's vision, through the year 2005, is to "Be a respected, market-focussed, research-oriented organization that promotes flax for industrial and nutritional (human and livestock) markets, and Solin for the vegetable oil market; develops markets that will demand the production from 5 million acres annually; strengthens Canada's position as the lowest-cost producer and most respected supplier of flax and flax products."

A list of organizations involved in the buying and selling of flaxseed and flaxseed products is currently available on the FCC's website ([www.flaxcouncil.ca/sup\\_ind.htm](http://www.flaxcouncil.ca/sup_ind.htm)).

### Canadian Oilseed Processors Association (COPA)

The COPA is a non-profit industry association which represents all of the oilseed processing companies in Canada. COPA members include: ADM Agri Industries Company, Bunge Canada, Canbra Foods Ltd., and Cargill Limited.

The objectives of COPA include:

- to promote the processing of oilseeds in Canada and the further processing of oilseed products into refined oil, protein meal and other finished products;
- to provide a forum for the discussion and study of matters pertaining to the processing industry;

- to broaden the scope of both domestic and export market opportunities for Canadian value-added oilseed products;
- to make recommendations and presentations to governmental bodies and other authorities on all matters pertaining to the processing industry;
- to promote research on oilseed products;
- to maintain an authoritative centre of information;
- to inform the public of issues of concern in connection with the processing industry;
- to inform the public of the contribution of the Canadian oilseed crushing industry to the economy of Canada and
- to assist the members of the Association in maintaining effective relationships with all persons directly or indirectly involved in the oilseed processing industry in Canada.

### Biodiesel Association of Canada

In 2003, the Biodiesel Association of Canada was formed to promote the development of a biodiesel industry in Canada. The Association's mission is to "promote the development of a Canadian biodiesel industry through efforts to support government policy and legislation, to create consumer awareness and acceptance of renewable fuels, and to contribute to the creation of common trade standards and product technical

specifications." A list of organizations involved in the production and marketing of biodiesel is currently available on the **Canadian Renewable Fuels Association's** website [www.greenfuels.org/bioindex.html](http://www.greenfuels.org/bioindex.html)

*Originally published in the July 2004 "Oilseeds Sector Profile" by Sergei Obolenski, Senior International Commodity Officer, Food Value Chain Bureau, AAFC*

*Some modifications have been made for this Bulletin.*

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