

Bi-weekly Bulletin

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WHEAT: SITUATION AND OUTLOOK

World wheat supplies for 2000-2001 are expected to decrease significantly while consumption increases marginally. Although world carry-out stocks are forecast to fall sharply, carry-out stocks in the major exporting countries (the United States [U.S.], European Union [EU], Canada, Australia, and Argentina) are forecast to remain high. Prices are expected to continue to be pressured, but should average higher than in 1999-2000. In Canada, a reduction in non-durum wheat production will result in reduced supplies and lower exports in 2000-2001. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for wheat for 2000-2001. "Wheat" refers to all wheat including durum, unless otherwise specified.

WORLD

World wheat **supplies** are estimated by the United States Department of Agriculture (USDA) to decrease by about 14 million tonnes (Mt) from 1999-2000, to 708 Mt for 2000-2001, due to lower carry-in stocks and production.

Carry-in stocks are estimated at 128 Mt, about 8 Mt below 1999-2000.

Production is estimated at 580 Mt, about 6 Mt below 1999-2000, and the lowest since 1995-1996. **Consumption** is projected to continue to increase, with human food use rising to a record 494 Mt, while feed use of wheat is expected to decrease slightly, to 103 Mt.

World **carry-out stocks** are expected to decline sharply, to 111 Mt, with the stock-to-use (S/U) ratio falling under 19%, the lowest recorded in the last 30 years. Wheat **trade** is expected to be about 3 Mt above the 5-year average, due to continuing large imports into North Africa and the Middle East, because of drought in these regions.

The United States

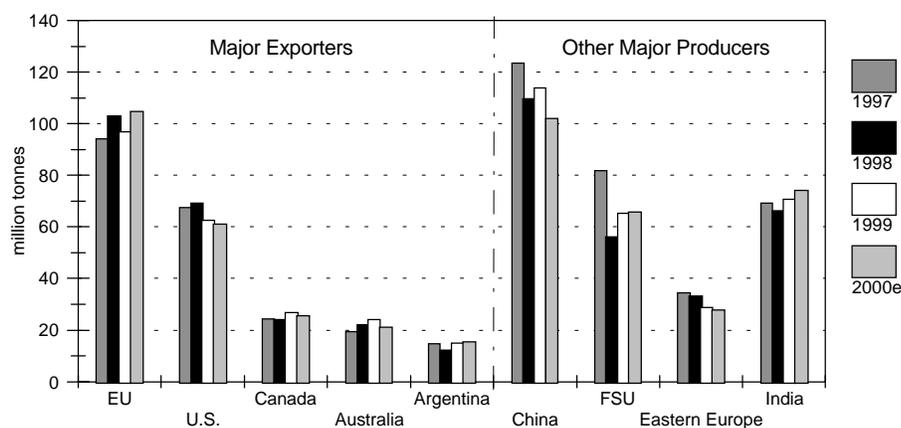
Since 1996, area seeded to wheat in the U.S. has decreased, largely due to the planting flexibility introduced by the *Federal Agricultural Improvement and Reform (FAIR) Act*, resulting in a shift of area into alternate crops such as soybeans and canola. However, due to

above average yields, from 1996-1997 to 1999-2000, production exceeded disposition, and carry-out stocks increased steadily, reaching 950 million bushels (mln bu) in 1999-2000, two and a half times those of 1995-1996, and the highest since 1987-1988. The S/U ratio rose to a burdensome 40%, compared to 19% recorded at the end of 1996-1997. Prices steadily declined, as the burdensome stocks loomed over the market, and the average U.S. farm price fell to US\$2.48 per bushel (/bu), the lowest since 1986-1987.

Both seeded and harvested **area** for 2000-2001 were relatively unchanged from 1999-2000. Hard red winter (HRW) wheat yields fell sharply from the higher than

normal level of 1999-2000, due to dryness over the fall and winter, but improved yields in all other wheat classes resulted in a reduction in all wheat **production** by only 3% from 1999-2000, to 2.24 billion bushels (bln bu). Reduced export competition from other exporters, such as Canada, is expected to increase U.S. **exports** by 3%, to 1.13 bln bu. **Domestic use** is expected to decline by about 2%, due to lower feed use. **Carry-out stocks** are forecast to remain high at 888 mln bu, about 7% below 1999-2000, with a S/U ratio of 37%. The average U.S. farm price is forecast by USDA at US\$2.35-2.75/bu, with the midpoint up by US\$0.07/bu from 1999-2000.

WHEAT PRODUCTION: MAJOR PRODUCERS



e: estimates, USDA October 2000, except Canada which is Statistics Canada September 2000
Source: USDA, Statistics Canada



The U.S. has not used the Export Enhancement Program (EEP) since 1995, despite falling prices and pressure from farm groups to reactivate EEP to support farm incomes. Instead, the USDA has stated its intention to continue to make use of credit and food aid programs such as the U.S. Export Credit Guarantee Program (GSM)-102 and Public Law (PL)-480 to stimulate increased exports, and to use Loan Deficiency Payments (LDP) to support farm income. As of October 27, 2000, about 1.57 bln bu of the 2000 wheat crop had received a LDP, averaging US\$0.44/bu, versus US\$0.47/bu for all of 1999-2000.

The European Union

For 2000-2001, EU wheat **supplies** have increased to a record level, but carry-out stocks are expected to decline slightly due to higher domestic feed use. The Common Agriculture Policy (CAP) area set-aside remained at 5%, but wheat area rose by 3% due to a shift out of barley and oilseeds, and **production** increased by 8 Mt to a record 105 Mt. The **quality** of the 2000-2001 crop is reported to be poor, however, due to excessive rain during harvest in France and southern Germany. This has resulted in sprouting, which lowers the "falling number" of the wheat, rendering much of the crop unsuitable for bread making.

Concern about the availability of sufficient supplies of milling quality wheat in the EU has limited export awards.

Exports are projected by USDA to remain the same as 1999-2000 at 16 Mt. However, this forecast is unlikely to be attained, given that to October 24, 2000, exports of wheat (including flour) were only 4.1 Mt, 18% below the 1999-2000 pace. **Domestic consumption** is expected to continue to rise, largely due to increased feed use, and is forecast to reach a record 93 Mt. **Carry-out** stocks are forecast to decrease slightly to 14.7 Mt, with a S/U ratio of 13.4%.

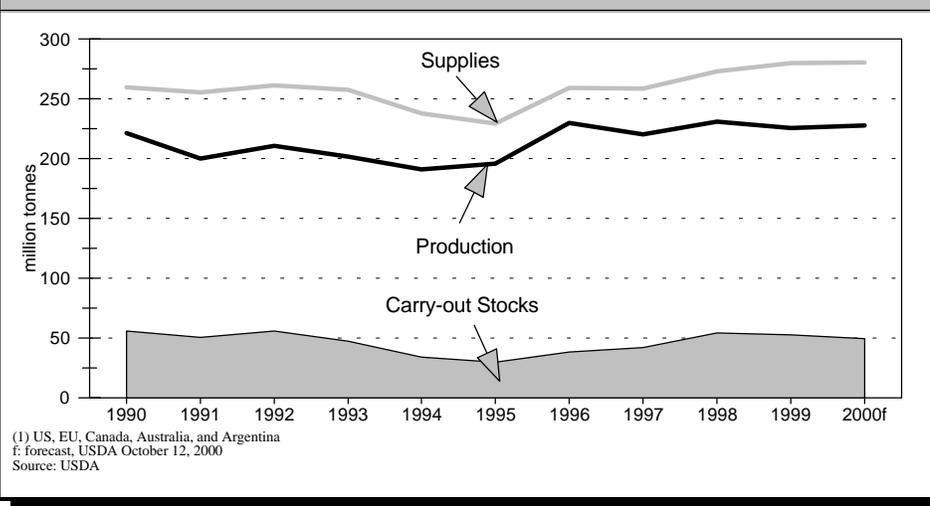
Regarding **export subsidies**, the World Trade Organization (WTO) limit for the EU for 2000-2001 is 14.4 Mt. This

WHEAT: SUPPLY AND DISPOSITION									
	WORLD <i>(July-June)</i>			UNITED STATES <i>(June-May)</i>			EUROPEAN UNION <i>(July-June)</i>		
	1998 -1999	1999 -2000	2000 2001f	1998 -1999	1999 -2000	2000 2001f	1998 -1999	1999 -2000	2000 2001f
million tonnes.....								
Carry-In Stocks	138.73	136.35	128.16	19.66	25.74	25.85	14.50	18.02	15.03
Production	588.39	585.93	579.91	69.33	62.57	60.94	103.09	96.89	104.60
Imports	-	-	-	<u>2.88</u>	<u>2.54</u>	<u>2.60</u>	<u>3.76</u>	<u>3.80</u>	<u>4.20</u>
Supply	727.12	722.28	708.07	91.87	90.85	89.39	121.35	118.71	123.83
Consumption	590.76	594.13	596.68	37.68	35.38	34.73	88.81	89.15	92.83
Exports	-	-	-	<u>29.03</u>	<u>29.46</u>	<u>30.50</u>	<u>14.59</u>	<u>16.00</u>	<u>16.00</u>
Demand	590.76	594.13	596.68	66.71	64.84	65.23	103.40	105.15	108.83
Carry-Out Stocks	136.36	128.15	111.39	25.74	25.85	24.16	18.02	15.03	14.68
Trade	102.02	108.05	105.14						
	CHINA <i>(July-June)</i>			AUSTRALIA <i>(October-September)</i>			CANADA <i>(August-July)</i>		
	1998 -1999	1999 -2000	2000 2001f	1998 -1999	1999 -2000	2000 2001f	1998 -1999	1999 -2000	2000 2001f
million tonnes.....								
Carry-In Stocks	33.46	27.90	25.25	1.35	2.40	3.93	6.01	7.44	7.39
Production	109.73	113.88	102.00	22.11	24.10	21.00	24.08	26.90	25.72
Imports	<u>0.83</u>	<u>1.01</u>	<u>2.00</u>	<u>0.06</u>	<u>0.05</u>	<u>0.05</u>	<u>0.08</u>	<u>0.01</u>	<u>0.02</u>
Supply	144.02	142.79	129.25	23.52	26.55	24.98	30.17	34.35	33.13
Consumption	115.58	117.00	114.00	5.12	5.62	5.75	8.01	8.65	8.73
Exports	<u>0.54</u>	<u>0.54</u>	<u>0.50</u>	<u>16.00</u>	<u>17.00</u>	<u>16.50</u>	<u>14.72</u>	<u>18.31</u>	<u>17.10</u>
Demand	116.12	117.54	114.50	21.12	22.62	22.25	22.73	26.96	25.83
Carry-Out Stocks	27.90	25.25	14.75	2.40	3.93	2.73	7.44	7.39	7.30

f: forecast, USDA October 2000, except Canada which is AAFC October 17, 2000

Source: USDA (FAS), Statistics Canada

WHEAT: MAJOR EXPORTERS SUPPLY AND STOCKS



implies that at least a portion of wheat will be exported without subsidy. To October 26, 2000, the EU had granted only 0.9 Mt of export licenses under the weekly export tenders, with an average subsidy of €1.94 (US\$1.75) per tonne (t), and with all awards since September 1, 2000 at zero subsidy. An additional 0.2 Mt of wheat has been exported at zero subsidy under the standing daily refund system, as well as 0.8 Mt from intervention, at prices above the intervention price. These unsubsidized exports have been possible because of the lower EU intervention price and the lower value of the euro, as well as the restriction of export awards due to concerns about domestic supplies of milling quality wheat. Under the terms of Agenda 2000, effective July 1, 2000, the intervention price was lowered to €110.25/t (US\$91/t using the October 26, 2000 exchange rate), from €119.19/t for 1999-2000. As of October 26, 2000, the €/US\$ exchange rate was 0.8273, versus 1.052 in October 1999.

The U.S. soft red winter (SRW) Gulf price, against which the value of French soft wheat is compared, averaged US\$99/t for nearby delivery in 1999-2000 (August-July crop year). It has averaged US\$100/t so far for 2000-2001, and is currently trading around

US\$105/t. Assuming that the €/US\$ exchange rate remains near current low levels, there will likely continue to be opportunities for EU grain traders to export wheat without subsidy.

With EU quality problems, imports from Canada of non-durum wheat may increase from 1999-2000. Over the past 5 years, the EU has imported an average of about 0.7 Mt of spring wheat and 0.6 Mt of durum from Canada (August-July). For 1999-2000, imports of spring wheat were 0.95 Mt, with durum a below-normal 0.22 Mt, due to the smaller and lower quality Canadian durum crop.

Australia

Production is forecast by the USDA at 21 Mt, down from the record of 24 Mt in 1999-2000, but otherwise the fourth largest Australian wheat crop, although private forecasters indicate that production may not exceed 20 Mt. Area seeded remains relatively high, however, yields are expected to be lower than the five-year average due to drought. A severe locust outbreak is also expected to threaten the crop this year, but control measures will likely minimize damage. **Exports** are forecast to decrease by 4%, to 16.5 Mt (October-September), the third highest on record.

Argentina

Production is forecast to rise by 3%, to 15.5 Mt. Area seeded increased by 1% as expected wheat prices were relatively higher than those for corn and sunflowers. **Exports** are expected to be unchanged from 1999-2000, at a record 11 Mt (December-November).

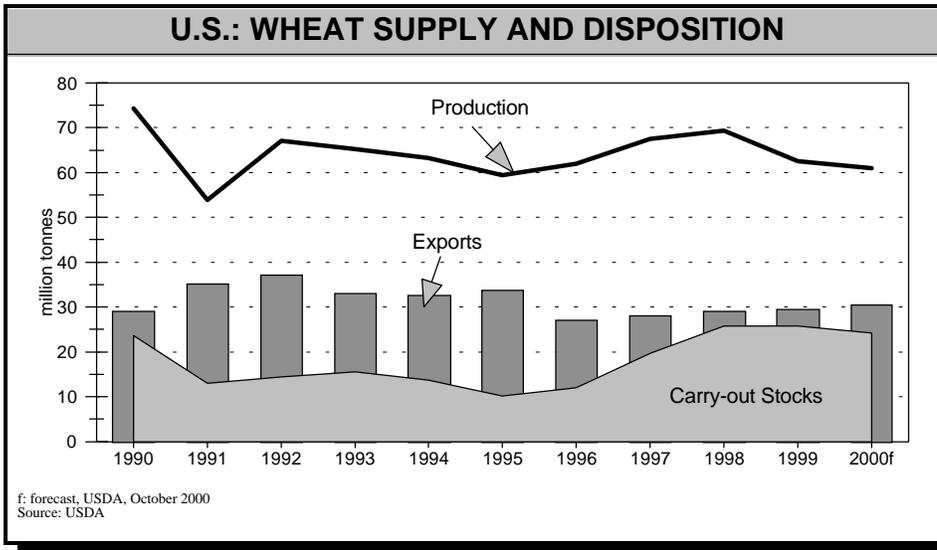
China

China is the world's largest wheat producer, and has been the largest wheat importer in many years. For 2000-2001, **production** is forecast to decrease by 10% from 1999-2000, to 102 Mt, due to lower area seeded, related to lower government support, particularly for spring wheat, and dry conditions in some of the major winter wheat regions. With relatively large carry-in stocks, **imports** are forecast to increase from 1.0 Mt in 1999-2000 to only 2.0 Mt, well below the 10 Mt or higher levels seen throughout the 1980s and early 1990s. For 2000-2001, imports from Canada are expected to rise to about 1.0 Mt, from 0.7 Mt in 1999-2000.

Over the longer term, increased imports will be required to match the growing wheat demand, which is now higher than the production achieved in any year except 1997-1998. Changes to China's internal price support and import control policies, in preparation for WTO membership, are also expected to increase imports of wheat.

North Africa

The North African countries of Algeria, Morocco, Tunisia, and Libya constitute the world's largest durum market, with annual imports averaging close to 3 Mt. For 2000-2001, with the second year of drought conditions in Algeria and Morocco, the International Grains Council (IGC) estimates that North African durum production has fallen to just 1.9 Mt, versus the average of 3.5 Mt, and slightly lower than during the previous severe drought in 1997-1998. Durum imports are therefore forecast by



IGC to rise by 13%, to 3.5 Mt.

Canadian durum exports to North Africa are projected by Agriculture and Agri-Food Canada (AAFC) to rise by about 10%, to 2.3 Mt.

Middle East

Most middle eastern countries, particularly Syria, Iraq, and Iran, experienced their second year of drought in 2000-2001, and wheat production in this region is estimated at only 30.9 Mt, compared to the 5-year average of 34 Mt. As a result, regional imports are expected to be similar to 1999-2000, at 17.5 Mt, well above the average of 14 Mt. The major Canadian market in this region is Iran, which purchased 3.5 Mt of Canadian wheat in 1999-2000, up from 0.5 Mt in 1998-1999, and the 5-year average of 1.2 Mt. This, however, is expected to decline in 2000-2001, despite continued strong demand from Iran, due to reduced Canadian supplies.

Canada

Production of non-durum wheat is estimated at 20 Mt, down 11% from 1999-2000 due to lower area and yields. Area harvested, mostly Canada Western Red Spring (CWRS) wheat, declined by 4% to 8.3 million hectares (mln ha), the second lowest since 1972-1973. Due to relatively stronger expected prices for durum

wheat in the spring of 2000, farmers shifted a significant area of land into durum wheat production. **Carry-in stocks** increased slightly for 2000-2001, to 5.6 Mt, and **supplies** are estimated to be 8% lower than for 1999-2000, at 25.8 Mt.

Domestic use is forecast to decrease as lower feed use offsets higher milling and seed use. Due to lower supplies, **exports** are forecast to decrease by 10% to just 13.3 Mt, the third lowest since 1988-1989 and well below the 10-year average of 16.2 Mt. **Carry-out stocks** are projected to fall to a near-pipeline level of just 5 Mt. Ontario winter wheat production is estimated at 1.37 Mt, down by 3% from 1999-2000, due to reduced harvested area, with quality severely affected by the worst fusarium head blight outbreak since 1996.

Production of durum wheat is estimated at 5.5 Mt, 28% higher than 1999-2000, and the second highest on record. Area harvested increased to 2.6 mln ha, 46% above the lower than normal level of 1999-2000, due to the high durum price premiums received in 1999-2000, and expectations for continuing premiums for 2000-2001. **Carry-in stocks** decreased and partly offset the increase in production. **Supplies** are estimated to increase by 17%, to a record 7.3 Mt. **Exports** are projected to increase by 6%, to 3.8 Mt. Import demand from North Africa will remain strong due to drought in

that region, and depending on the quality of the Canadian crop, exports to the EU are expected to increase to normal levels. However, Canadian exports will be limited by strong competition from other exporters such as the U.S., Australia, Syria, Turkey, and Mexico.

Carry-out stocks are expected to rise by 28%, to a record 2.3 Mt. Most of the increase will be in farm-held stocks as the Canadian Wheat Board (CWB) has stated that it will likely not be able to take delivery of all durum offered in 2000-2001.

PRICE OUTLOOK: 2000-2001

For 2000-2001, wheat prices will be supported by the expected decrease in world carry-out stocks. However, world wheat prices are highly correlated with the level of stocks in the major exporting countries. Carry-out stocks in the five major exporting countries; (the U.S., EU, Canada, Australia, and Argentina) are forecast to decrease by 6%, to about 49 Mt, versus the 5-year average of 43 Mt.

Based on the historical correlation, prices would be expected to be slightly higher than in 1999-2000. AAFC forecasts that world prices, as measured by the benchmark U.S. Hard Winter Ordinary (HWO) price, free on board (FOB) Gulf ports, will increase from US\$111/t in 1999-2000 (June-May), to US\$115-120/t for 2000-2001.

U.S. Wheat Price Outlook

The major wheat futures markets are located in the U.S., and therefore the prices determined in these markets generally provide direction to world prices. These markets, although they do react to some extent to world factors, tend to trade relative to expected U.S. supply and demand factors. The prices obtained in world markets by the CWB are therefore in large part determined by U.S. crop conditions, domestic consumption and exports. The overall wheat outlook is generally for U.S. wheat prices to be slightly higher than 1999-

2000, with the average U.S. farm price forecast by USDA to rise by US\$0.07/bu, to US\$2.55/bu, since carry-out stocks, and the S/U ratio, are expected to be lower than 1999-2000. Higher prices for hard red winter (HRW) wheat are expected to offset lower prices for SRW, hard red spring (HRS), and soft white wheat.

For **HRW**, U.S. production is estimated at 844 mln bu, down 20% from 1999-2000, and the S/U ratio is forecast to decline from 45% in 1999-2000 to 36% in 2000-2001. This is expected to result in the average nearby Kansas City Board of Trade (KCBT) HRW price increasing by 6%, to US\$3.00/bu. For **SRW**, the S/U ratio is forecast to be relatively unchanged at 28%. AAFC forecasts that the average nearby SRW price on the Chicago Board of Trade will be similar to or slightly lower than the 1999-2000 average of US\$2.57/bu (June-May). This is partly due to lower feedgrain prices, resulting from the large U.S. corn crop, since a major use of SRW in the U.S. is for feed.

For **HRS**, U.S. production is forecast by USDA to increase by 14%, to 509 mln bu, the highest since 1996-1997. Carry-out stocks are forecast to increase by 11%, to 242 mln bu, with the S/U ratio rising from 42% in 1999-2000 to 44% in 2000-2001. The quality of the HRS crop is projected to be very good with the average grade expected to be No.1 HRS. Protein levels, test weights and vitreous kernel counts are projected to be slightly higher than the 1999-2000 and five-year average. As a result, the premium for HRS, on the Minneapolis Grain Exchange (MGE), over HRW, on the KCBT, is forecast by AAFC to fall to just US\$0.25/bu, from US\$0.44/bu in 1999-2000 (June-May), for an average HRS nearby price of US\$3.25/bu, unchanged from 1999-

2000. Protein premiums are also expected to soften due to increased supplies of U.S. spring wheat, and higher average protein levels in both the U.S. and Canadian crops. The MGE premium for 14% protein is projected to fall to US\$0.30/bu from US\$0.34/bu in 1999-2000, and the MGE Dark Northern Spring 14% protein (DNS 14) cash price is forecast to average US\$3.55/bu, down about US\$0.05/bu from 1999-2000.

For **durum**, U.S. production is forecast to increase by 17% from the below-normal 1999-2000 crop to 116 mln bu. As a result, carry-out stocks are forecast to rise by 8%, to 54 mln bu, with the S/U ratio similar to 1999-2000 at 38%. Quality is expected to be below 1999-2000 and the five-year average, due to rain at harvest in northern North Dakota. This will help support prices for milling quality durum. The average grade is expected to be No.3 hard amber durum (HAD), down from No.2 HAD in 1999-2000, due to lower average test weights, vitreous kernel count and falling numbers. Average protein levels are expected to be slightly higher than 1999-2000. The average nearby MGE futures price is forecast at US\$4.30/bu, unchanged from 1999-2000. World durum prices will also be impacted by the large North American crop, but strong export demand, due to the drought in North Africa, is expected to provide support, and the No.3 HAD export price FOB Gulf is also expected to remain unchanged from 1999-2000, at about US\$150/t.

Protein Premiums

Premiums for protein, and for HRS wheat in general, are expected to decrease slightly from 1999-2000. This is due to good protein levels in the U.S. HRW wheat crop, the larger U.S. spring wheat crop, and higher protein content than for 1999-2000 expected for both the U.S. and Canadian spring wheat crops.

Canadian Price Outlook

The October CWB 2000-2001 Pool Return Outlook (PRO) for No.1 CWRS with 13.5% protein is \$202/t in-store Vancouver or St. Lawrence (I/S VC/SL), up by \$11/t from the 1999-2000 PRO. The PRO for No.1 CWRS 11.5%¹ is up by \$18/t from No.1 CWRS in 1999-2000, while the PROs for No.3 CWRS and Canada Prairie Spring (CPS) red wheat are \$14/t and \$15/t higher than for 1999-2000. This is consistent with the AAFC outlook for U.S. wheat prices. The CWB generally receives prices for high protein No.1 and No.2 CWRS wheat that are competitive with U.S. prices for DNS wheat, while lower protein CWRS wheat and CPS wheat are competitive with U.S. HRW wheat. Canadian wheat prices are also being supported by the lower value of the Canadian dollar.

Based on the October PRO, the western Canadian average on-farm price for No.1 CWRS 13.5 % protein will be about \$156/t, compared to \$143/t for 1999-2000. The 2000-2001 CWB initial payment for No.1 CWRS 13.5% is \$149.60/t I/S VC/SL, \$5.30/t higher than was set on August 1, 1999 for 1999-2000. In Ontario, the 2000-2001 Ontario Wheat Producers' Marketing Board (OWPMB) November 1, 2000 Estimated Pool Return (EPR) for Canada Eastern White Winter (CEWW) wheat is \$105-115/t, terminal or processor position, versus the final realized price of \$105.78/t for 1999-2000. The OWPMB initial payment for No.1 CEWW wheat has been set at \$81/t, terminal or processor position, compared to \$83/t in 1999-2000.

For **durum**, the 2000-2001 PRO for No.1 Canada Western Amber Durum (CWAD) with 11.5% protein¹ is \$205/t I/S VC/SL, unchanged from 1999-2000. A premium of \$21/t over

¹ The 2000-2001 PRO for No.1 and 2 CWRS with 11.5% protein is compared to the 1999-2000 PRO for No.1 CWRS with no protein premium. For 2000-2001, protein payments have been extended to include all CWRS wheat with 11% protein and over, while in 1999-2000 protein payments started at 12%. Therefore the No.1 and 2 CWRS grades in 1999-2000 included wheat with protein content up to 11.9%, and the average is estimated by the CWB at about 11.5%. A similar change was made for No.1 and 2 CWAD durum grades.

No.1 CWRS 11.5% is forecast, versus \$39/t in 1999-2000. A western Canadian average on-farm price of about \$160/t for No.1 CWAD 11.5% is expected, similar to 1999-2000. The 2000-2001 initial payment for No.1 CWAD 12.5% is \$143/t, \$8/t higher than that issued on August 1, 1999.

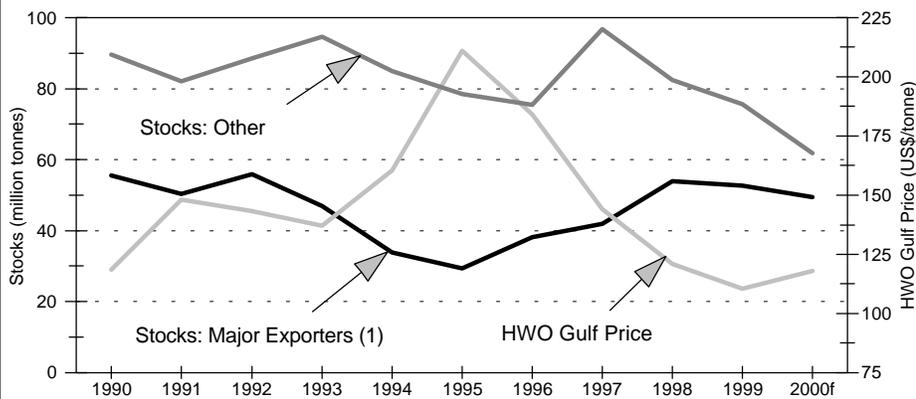
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WHEAT: STOCKS VERSUS HWO GULF PRICE



(1) US, EU, Canada, Australia and Argentina
 F: USDA October 12 forecast, except HWO Gulf Price, which is an AAFC October forecast
 Source: USDA

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NEW PRICING OPTIONS FOR CANADIAN WHEAT PRODUCERS

Canadian Wheat Board (CWB)

The CWB approved a new fixed price contract in March 2000 which allowed western Canadian wheat producers to fix a price or basis before the beginning of the crop year. The program was launched April 27, 2000 and only CWRS wheat (excluding feed) was eligible for the 2000-2001 crop year. The fixed price is calculated using the midpoint of the PRO for No.1 CWRS, 13.5% protein, I/S VC/SL, minus a discount for risk, administration and the time value of money. For the basis contract, the basis equals the fixed price minus the Minneapolis futures price, adjusted to Canadian dollars per tonne, and the producer can lock in a price, based on the daily movement of the MGE, at any point in time prior to either delivery, or the first notice day of the expiry of the contract. Discounts or premiums for other grades are based on the initial payment spreads at time of delivery.

Due to low prices offered in the fixed price contract, and unfamiliarity with the basis contract, producer interest in this new option was limited for 2000-2001. About 4,000 farmers registered for the program, but over the four contracting periods, a total of only about 30,000 tonnes (t) were contracted. Basis contracts were the most popular, totaling about 125 contracts taken out by 110 farmers. In addition, about 85 fixed price contracts were signed by 76 farmers. The program will be offered again next year and may include contracts for different classes of wheat. The pricing basis will likely be similar to 2000-2001.

Ontario Wheat Producers' Marketing Board (OWPMB)

A detailed examination of the off-Board direct marketing option for Ontario wheat producers was presented in *Bi-weekly Bulletin Volume 12, No.21* (November 5, 1999). For 2000-2001, 150,000 t of Ontario wheat was exempt from being marketed through the Board. Producers had until October 15, 2000 to request an exemption from the OWPMB for the 2000-2001 crop year, assuming the 150,000 t limit has not been reached, specifying the quantity and type of wheat to be direct marketed. A producer who decided not to use his/her exemption could return the exemption to the Board without penalty up to June 30, 2000, and any returned exemptions could be re-issued up to October 15, 2000. Any exemptions not canceled by June 30, 2000 became a binding obligation to market directly. For 2000-2001, the total 150,000 t of exemptions have been utilized. The program has been repeated for 2001-2002, with all 150,000 t of exemptions already requested.