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AUSTRALIA: WHEAT SITUATION AND OUTLOOK

Australia is one of the five major wheat exporting countries in the world and, as such, exerts a significant influence on global wheat prices. Over the past two decades, Australia's wheat production increased considerably as its farmers adopted agronomic practices that allowed wheat yields to virtually double. Wheat exports increased proportionately during this period. With new legislation enacted on July 1, 1999, the statutory Australian Wheat Board (AWB) ceased to exist and AWB Limited (AWB Ltd) was created. It is a grower controlled company predominantly for the export marketing of Australian wheat. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for Australia's wheat sector, and of the other major wheat exporters.

BACKGROUND

Australia is the smallest continent and the sixth largest country in the world. Established as a commonwealth nation of the British empire in 1901, it has often been described as an amalgam of the constitutional forms found in the United Kingdom and the United States (U.S.). On one hand, it is characterized by the distinct elements of a monarchy, but it is also a federation under which the division of powers between the Commonwealth and the states are laid down in a written constitution, similar to that of the U.S. Australia's six constituent states are Victoria, Queensland, New South Wales, South Australia, Western Australia, and Tasmania. Each state has its own government and each exercises a limited amount of sovereignty over its affairs.

Australia has a population of over 20 million, much of which is concentrated along the eastern and southeastern coasts. One of the most striking features of this vast country is its isolation, but it is relatively well-endowed in natural resources such as petroleum, coal, natural gas, iron ore, and other minerals. With about 6% of Australia's land area being arable, there is concern about soil degradation from overgrazing and other poor farming practices, as well as the loss of arable land to industrial development and increased urbanization.

Economy

Australia has a Western-style capitalist economy that relies heavily on exports, especially those of agricultural products, metals and fossil fuels. However, with relatively low commodity prices in recent years and the lingering effects of the Asian financial crisis, the Australian government is looking to increase exports of manufactured goods as a means of reducing unemployment and stimulating economic growth.

For the most part, Australia's economy has experienced good growth in recent years, but its dollar has steadily weakened since mid-1999, losing about 30% of its value relative to the U.S. dollar. The relatively low Australian dollar has enhanced exporters' ability to compete in the world markets for primary and manufactured goods.

AWB LTD

AWB Ltd is Australia's major grain marketing organization, and it was established under the Commonwealth Government's *Wheat Marketing Act 1999*. Owned by some 38,000 grain growers and 67,000 investors, it is one of the largest wheat marketing companies in the world. It is also responsible for financing payments to its member growers. Single desk authority for wheat exports is held by AWB (International) Ltd, a wholly-owned subsidiary of AWB Ltd. Another subsidiary, AWB Finance Ltd, provides financial services to growers in the area of underwriting and loans, and it also provides working capital for AWB (International) Ltd.

The core business function of AWB Ltd is serving the needs of Australian grain growers. Although the company is responsible for managing and marketing all Australian bulk wheat exports, it also deals with other

commodities such as barley, sorghum, oilseeds, and pulse crops. Wheat accounts for about 90% of the grain managed by AWB Ltd, and this activity alone accounts for about 3% of the total value of Australia's exports and 12% of total farm exports.

The Wheat Export Authority (WEA) is a statutory body responsible for monitoring the performance of AWB (International) Ltd. The WEA also considers applications from organizations other than AWB (International) Ltd that wish to export Australian wheat in bags or containers. In response to a review of the *Wheat Marketing Act 1989,* which was conducted in early 2001, the WEA is developing a revised export consent system for wheat. Included will be provisions for quarterly consents for exporters and annual consents for niche markets, all of which would be granted under specific WEA guidelines. The revised consent system is intended to be more transparent, and it is expected to provide more certainty to wheat exporters in the container and niche markets. Despite recommendations for partial abandonment of AWB Ltd's export monopoly status, the integrity of its single desk function for bulk wheat exports remains intact.

SHARE STRUCTURE OF AWB LTD

A Class shares can be held only by growers who produce at least 100 tonnes (t) of wheat annually, calculated on a three year moving average. Qualifying growers receive one A Class share, regardless of whether they deliver their wheat to AWB Ltd. They receive an additional share if they deliver between 33.3 and 500 t to AWB Ltd, and an additional share thereafter for each 500 t (or part of) delivered to the Company. A Class shares cannot be transferred, and must be redeemed when a shareholder ceases to qualify as a wheat grower. A Class shares do not pay dividends, but these shareholders control the activities of AWB Ltd, including the election of the majority of the Board of Directors.

B Class shares are freely traded between growers and non-growers, subject only to the restriction that no single shareholder hold more than 10% of the outstanding B Class shares at the time. B Class shares represent the economic value of AWB Ltd, and such shareholders receive dividends on their investment. They also elect a minority of the Board of Directors. Although AWB Ltd is structured to provide transparency, flexibility and strong governance in maximizing net pool returns for its member growers, the Company also seeks reasonable returns for its B Class shareholders.

Australia's grain growers were allocated B Class shares in proportion to the equity they held in the now defunct Wheat Industry Fund (WIF). The WIF was established under the *Wheat Marketing Act 1989* to underwrite AWB borrowing and to allow the AWB to diversify into value-added activities such as grain processing facilities in China, Egypt, and Vietnam. The WIF was funded by a 2% levy on growers' wheat marketings, net of freight and handling costs.

WHEAT

Wheat is Australia's largest grain crop, most of which consists of fall seeded or "winter" varieties. Although wheat is produced in all states, between 60% and 70% of the wheat is produced in Western Australia and New South Wales. The advantage of having wheat production spread over a wide geographical area is that adverse climate conditions in any specific area have a limited effect on overall production. As a result, year-to-year variations in total wheat production, even in the case of extremely unfavourable weather conditions, are often mitigated.

Australia's wheats are primarily varieties that have a light-coloured or white bran, and this makes it relatively easy for its exporters to differentiate their product from that of the other major wheat exporting countries including Canada. Millers generally prefer the lighter coloured bran varieties to those with a darker bran because of the higher extraction rates associated with milling wheat flour.

Australia's wheat exports over the past two decades have averaged 80% of its annual wheat production and exports have never been lower than 60% during this period. The proportion of wheat production exported was highest, at about 99%, in 1985-1986 when carry-in stocks were at a record high level. Australia's major wheat customers in recent years have been Iran, Egypt, Indonesia, Iraq, South Korea, Japan, Pakistan, and Malaysia.

SITUATION

World

For 2000-2001, world wheat **production**, estimated at 582 million tonnes (Mt), decreased for the third consecutive year. Much of the decrease is attributed to a 13% reduction in China's wheat production as a result of both lower harvested area and smaller yields. There were also significant reductions in wheat production in Pakistan and the European Union (EU). Generally, lower world **production** of wheat

WORLD: WHEAT SUPPLY AND DISPOSITION

July-June crop year	**1999 -2000**	**2000 -2001**	**2001 -2002**
	.....million tonnes.....		
Carry-in Stocks	175.8	170.1	163.0
Production	585.9	582.3	577.0
Total Supplies	**761.7**	**752.4**	**740.0**
Total Use	**591.6**	**589.5**	**596.0**
Carry-out Stocks	170.1	163.0	144.0
Trade	112.3	102.9	107.2
Stocks-to-Use Ratio	28.8%	27.7%	24.2%

Source: USDA

reflects farmers' reaction to market conditions where, faced with low wheat prices, they have switched to other crops in order to improve their profitability.

World **consumption** of wheat, estimated at 590 Mt, decreased marginally in 2000-2001, but still exceeded production for the second consecutive year. Considerably lower wheat consumption in the Former Soviet Union (FSU) and South Asia more than offset higher wheat consumption in major wheat producing countries such as Australia, Canada, and the EU. **Carry-out stocks** of wheat for 2000-2001 are estimated at 163 Mt, down about 4 Mt from the previous year.

Australia

For 2000-2001, Australian wheat **production** was 23.8 Mt, down slightly from the record harvest in 1999-2000. Although Western Australia and Queensland experienced drier-than-normal growing conditions in 2000-2001, both Victoria and South Australia had bumper crops, offsetting reduced production in the drier areas. In terms of **quality**, parts of New South Wales received excessive rainfall during harvest and, as a result, a significant amount of wheat was downgraded to feed and general purpose grades. This was partially offset by very good quality wheat produced in some of the other wheat producing states. New South Wales was Australia's largest wheat producing state in 2000-2001, but that was an anomaly. Western Australia is, on average, Australia's largest wheat producing state.

For 2000-2001, Australia's wheat **exports** are estimated at 15.9 Mt, down about 1% from 1999-2000, despite a small increase in the total wheat **supply**, estimated at 27.4 Mt. Poor weather conditions during harvest affected the amount of good quality wheat available for export in 2000-2001.

AUSTRALIA: WHEAT SUPPLY AND DISPOSITION

October-September crop year	**1999 -2000**	**2000 -2001**	**2001 -2002**
	.....million tonnes.....		
Carry-in Stocks	1.87	3.61	4.63
Production	24.76	23.77	22.00
Imports*	0.05	0.05	0.05
Total Supplies	**26.68**	**27.43**	**26.68**
Consumption	5.22	6.87	5.50
Exports	17.84	15.93	17.50
Total Use	**23.06**	**22.80**	**23.00**
Carry-out Stocks	3.61	4.63	3.68
Australian Prime Hard pool return (AUS$/t)**	239	262	283

* Processed wheat products such as pasta, etc.

Source: USDA, except ** which are Australian Wheat Board

OUTLOOK

World

For 2001-2002, world wheat **production** is forecast by the United States Department of Agriculture (USDA) at 577 Mt, about 5 Mt lower than the previous year, and the smallest crop since 1995-1996. The decrease is attributed to lower production in the major wheat producing countries such as the U.S., China, the EU, India, Canada, Australia, Pakistan, and Turkey. In the EU, the wheat crop is expected to be about 13 Mt smaller due to reduced harvested area and lower yields. Similarly, wheat crops in U.S. and China are expected to decrease by 7 Mt and 6 Mt, respectively. Larger crops forecast for the FSU, Ukraine, Hungary, Morocco, and Argentina are expected to partially offset lower production in the other major wheat producing countries.

World wheat **consumption** is forecast to increase slightly to 596 Mt in 2001-2002, exceeding total production for the fourth consecutive year. Human consumption of wheat is expected to increase moderately, reflecting the general slowdown in the global economy, but still maintaining the momentum attributed to higher family incomes and the increased adoption of Western-style diets. Wheat feed use is expected to increase with a general expansion of the livestock industry. In the FSU and Ukraine, for example, feed wheat consumption is expected to increase significantly as a result of a burgeoning poultry industry. An exception is the EU where, despite the ban on meat and bone meal for livestock rations, demand for feed wheat is expected to decrease due to the availability of imported soybean meal and relatively inexpensive domestic corn.

World wheat **trade** is forecast at 107 Mt, up 4.3 Mt from 2000-2001, with significant increases in imports by countries such as South Korea, Nigeria, Turkey, and China. Ukraine and Russia are expected to capture much of the increased wheat trade, while traditional wheat exporting countries such as Canada and Australia are expected to scale back wheat exports because of smaller crops in 2001-2002.

Australia

For 2001-2002, the USDA forecasts Australian wheat **production** at 22.0 Mt, down about 7% from the previous year. Inadequate rainfall during the planting season and low levels of subsoil moisture in the major wheat growing areas reduced yield prospects for many Australian wheat growers, especially those in Western Australia and Queensland. As well, delays in planting due to dryness reduced the amount of land area seeded to wheat.

Wheat **carry-out stocks** are forecast to decrease considerably in 2001-2002 in order to meet demand in a year of relatively low production. AWB Ltd is not expected to ration the amount of wheat available for export. Rather

than turning away customers, AWB Ltd expects Australia's wheat carry-out stocks to decrease to what is referred to as "pipeline stocks", which could be as low as 1 Mt for 2001-2002. Australia's wheat **exports** are forecast to increase by about 10%, to 17.5 Mt. With a combination of higher wheat prices and increased exports, the value of these exports is forecast at AUS$4.4 billion, up 17% from 2000-2001. The major markets for Australian wheat are Middle Eastern and Asian countries such as Iran, Iraq, Korea, Indonesia, and Japan. According to AWB Ltd, tensions as a result of terrorist attacks on the U.S. on September 11, 2001, are not expected to have much of an effect on Australia's shipments of wheat to its traditional customers in the Middle East. AWB Ltd's marketing campaigns in Iraq and Iran, their first and third most important customers in recent years, are proceeding as planned.

PRICES

With considerably lower world carry-out stocks of wheat forecast for 2001-2002, as consumption continues to outpace production, world wheat prices are expected to strengthen. The average pool return on **Australian** prime hard wheat for 2001-2002 is forecast by ABARE at AUS$283/t, up about 9% from 2000-2001. In the **U.S.**, the USDA is forecasting an average farm price of US$2.75-2.95 per bushel (/bu), a range whose mid-point is 9% higher than the estimate of US$2.62/bu for 2000-2001. In **Canada**, the Canadian Wheat Board November 2001-2002 Pool Return Outlook (PRO) for No.1 Canada Western Red Spring 13.5% is CAN$211/t (in-store Vancouver/St. Lawrence) compared to the final price of $203/t for 2000-2001.

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BIOTECHNOLOGY IN AUSTRALIA

Biotechnology is a term typically used in reference to technologies such as molecular diagnostic testing and the development of genetically modified organisms (GMO). Specifically, by inserting or deleting specific genetic material into the DNA of a plant or animal, it is possible to confer desirable traits into living organisms. Traits derived from this technology include herbicide resistance in plants and disease resistance in animals, and these are seen as beneficial in terms of increasing world food production and reducing dependence on herbicides, insecticides and fungicides. The new technology is also seen as key to providing solutions to environmental problems such as soil contamination and other forms of environmental degradation. For example, scientists are working on developing salt-tolerant plants to revitalize land seriously affected by salt degradation.

As of June 21, 2001, gene technology in Australia, as it relates to GMO, is regulated under the *Gene Technology Act 2000*. The legislation was enacted to protect the health and safety of people and their environment by identifying risks associated with gene technology and by managing those risks through specific regulations dealing with GMO. The Office of Gene Technology Regulation has been granted power to prosecute any organization that does not comply with the regulatory requirements. Depending on the severity of the offence, organizations involved in GMO research who fail to comply with the regulations face loss of accreditation, fines, and/or imprisonment.

There have been no GMO crops released for commercial use in Australia. However, the Australian government supports continued GMO crop trials provided they are carried out under strict controls. As of July 2001, Australia and New Zealand are reputed to have the world's strictest labelling requirements for any food products containing GMO ingredients. This means that almost all foods with GMO ingredients will have to labelled, except for highly processed foods that contain no detectable amounts of GMO.

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