

Bi-weekly Bulletin

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OATS: SITUATION AND OUTLOOK

The world oat market in 1999-2000 was characterized by a continuation of historically low prices, high United States (U.S.) demand for oats, and high European Union (EU) subsidies. In Canada, despite relatively high carry-in stocks, oat supplies decreased as farmers lowered production in response to low prices. Canada has maintained its level of oat exports despite lower domestic supplies and strong competition from the EU. For 2000-2001, oat supplies in Canada are forecast to decrease slightly but exports are expected to remain high due to strong demand in the U.S. Oat prices in Canada will continue to be pressured by low corn and oat prices in the U.S. and competition from the EU in the U.S. import market. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for oats.

WORLD: 1999-2000

The oat market is strongly influenced by the general market for coarse grains. In 1999-2000, although world **coarse grain supplies** increased only slightly, they remained burdensome as significantly higher **carry-in stocks** offset a decrease in **production**. Corn represents about 70% of the world coarse grain market. The situation was similar in the U.S. where the supply of corn rose, with a 12 million tonne (Mt) increase in carry-in stocks offsetting an 8 Mt decrease in U.S. production. In response, the average U.S. farm price decreased from US\$1.94 per bushel (/bu) in 1998-1999 to US\$1.80/bu in 1999-2000.

World **oat supply** decreased slightly in 1999-2000 due to lower carry-in stocks and lower production. The United States Department of Agriculture (USDA) estimates that **production** decreased to 24.8 Mt, from 26.0 Mt in 1998-1999 and the 10-year average of 33.0 Mt, mainly due to lower production in the U.S. and Canada. Production continues to show a long-term downward trend, especially in Russia where it decreased to 4.4 Mt in 1999-2000, less than half of the 10-year average of 9.9 Mt.

World **oat consumption** decreased by about 5% to 25.9 Mt in 1999-2000. This is significantly lower than the 10-year average of 32.9 Mt, largely due to lower consumption in Russia. **Food use** has steadily decreased from the peak in 1990-1991 of 7.4 Mt, to an average of

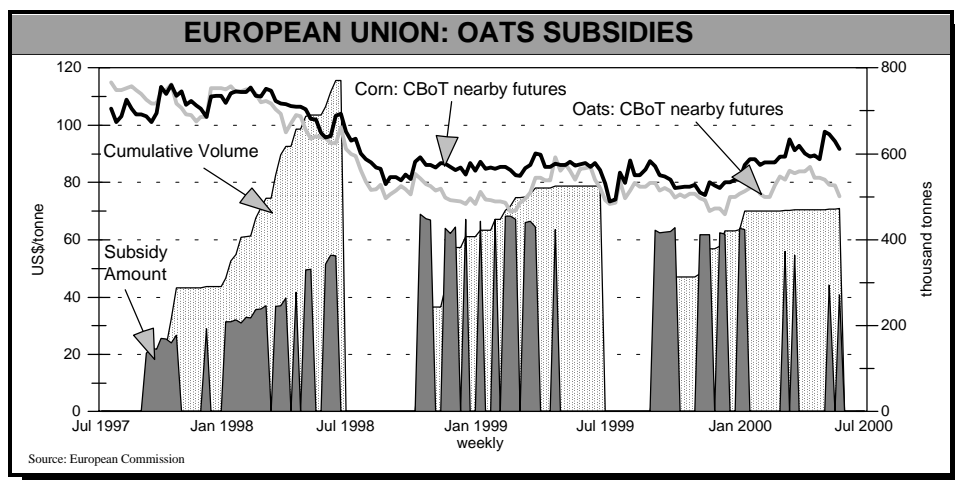
6.8 Mt over the past ten years. Per capita food consumption of oats has decreased considerably in most countries, except in Canada where food and industrial use of oats has increased from 95,000 tonnes (t) in 1988-1989 to 220,000 t in 1999-2000. Conversely, in Russia, with little year-to-year variation, the food use of oats has averaged 2.1 Mt during the past ten years resulting in a decrease in per capita consumption.

World **trade** in oats is expected to increase from 1.9 Mt in 1998-1999 to 2.1 Mt in 1999-2000 due largely to an expected 0.15 Mt increase in imports by the U.S. The U.S. is the largest import market for oats and its share of world imports has averaged over 80% during the past decade. For 1999-2000, that share is expected to be about 80%. Canada dominates the world export market for oats and it is estimated to have met 60% of total world demand in 1999-

2000, followed by Sweden (14%), Finland (8%), and Australia (7%). Australia's oat exports increased significantly in 1997-1998 when the U.S. removed its ban on Australian oats. The U.S. had previously banned the import of Australian oats because of concerns about diseases being transmitted by shipments of Australian grain.

United States

For 1999-2000, U.S. **oat production** decreased to 2.1 Mt, 11% below 1998-1999 and 38% lower than the 10-year average. The major oat producing states (percentage of production in parenthesis) are: North Dakota (14); Minnesota (12); Wisconsin (12); South Dakota (8); and Iowa (7). In terms of seeded area, Texas (14), California (6), and Montana (4) are also significant but only 10-20% of the seeded area in these



states is harvested for grain, with the remainder either cut for greenfeed or used for grazing cattle.

U.S. oat production has decreased significantly over the past ten years due largely to more favourable net returns for other crops such as soybeans and corn. Furthermore, record high U.S. corn production and high EU subsidies have

pressured feedgrain prices in general.

U.S. **oat imports** service the milling market, the feed market for race/hobby horses in the southern U.S. and the general feed market for livestock. The **milling market** is serviced largely by Canada because of lower transportation costs associated with the proximity of Canadian supplies. Millers also like the consistency and reliability of Canadian oat supplies. In 1999-

2000, between 60 and 70% of Canadian oats exported to the U.S. are expected to be used for milling purposes. The remainder of Canadian exports are primarily for feed rations in the northern states, with some shipments of oats destined for southern U.S. markets. In the southern states, Canada faces strong competition from subsidized EU oats and is particularly disadvantaged at locations that are close to Gulf ports and therefore benefit from relatively low transportation costs.

As a result, the **horse market** in the southern U.S. is largely serviced by the EU.

The **general feed market** for oats is highly competitive with other feedgrains, especially corn, since the market is quite price-responsive with a high degree of substitutability.

European Union

The EU is a major player in the world oat market and it continues to offer large subsidies on oat exports. The European Commission's objective is to ensure that

oats remains a profitable crop for Scandinavian farmers to grow relative to barley which is subject to intervention. The Commission does not want to see Scandinavia convert oat acres to barley acres, which would contribute to a larger barley surplus.

For 1999-2000, the EU subsidy on oats has averaged about US\$62.50/t compared to US\$66.77/t in 1998-1999 and US\$33.79/t in 1997-1998. The total value of this subsidy is estimated at about US\$30 million for 1999-2000.

EU oat **production** decreased marginally

UNITED STATES: OATS IMPORTS BY COUNTRY OF ORIGIN

October-September Crop Year	1998 -1999	1999 -2000e	2000 -2001f
.....million tonnes.....			
Canada ^{1/}	1.10	1.26	1.26
Sweden	0.32	0.33	0.32
Finland	0.12	0.14	0.14
Other	<u>0.06</u>	<u>0.02</u>	<u>0.03</u>
Total	1.60	1.75	1.75

^{1/} August-July crop year

e: estimate, AAFC, August 2000

f: forecast, AAFC, August 2000

Source: USDA, FAS

WORLD: OATS SUPPLY AND DISPOSITION

	1998 -1999	1999 -2000e	2000 -2001f
.....million tonnes.....			
Production ^{1/}			
Russia	4.60	4.40	4.50
Canada	3.96	3.64	3.61
U.S.	2.41	2.12	2.20
Australia	1.88	1.48	1.45
Sweden	1.14	1.20	1.30
Finland	0.98	0.99	1.30
Other	<u>11.03</u>	<u>10.93</u>	<u>10.72</u>
World	26.00	24.76	25.08
Imports ^{2/}			
U.S.	1.60	1.75	1.75
Japan	0.08	0.09	0.09
Other	<u>0.21</u>	<u>0.28</u>	<u>0.27</u>
World	1.89	2.12	2.11
Consumption ^{1/}			
Russia	5.57	5.38	4.53
U.S.	4.13	3.90	3.87
Canada	2.23	2.18	2.21
Australia	1.65	1.30	1.28
Finland	0.78	0.74	0.80
Sweden	0.77	0.80	0.75
Other	<u>11.77</u>	<u>11.59</u>	<u>11.55</u>
World	26.90	25.89	24.99
Exports ^{2/}			
Canada	1.25	1.28	1.28
Sweden ^{3/}	0.26	0.30	0.30
Finland ^{3/}	0.15	0.18	0.18
Australia	0.15	0.15	0.15
Other	<u>0.08</u>	<u>0.21</u>	<u>0.20</u>
World	1.89	2.12	2.11
Carry-out Stocks ^{1/}			
U.S.	1.18	1.10	1.12
Canada	1.09	1.05	0.95
Finland	0.10	0.15	0.30
Australia	0.18	0.20	0.22
Sweden	0.13	0.13	0.13
Other	<u>1.99</u>	<u>0.91</u>	<u>0.91</u>
World	4.67	3.54	3.63

^{1/} Local marketing year

^{2/} October-September crop year

^{3/} AAFC, August 2000 estimate

e: estimate, USDA, August 2000

f: forecast, USDA, August 2000

Source: United States Department of Agriculture

UNITED STATES: OATS SUPPLY AND DISPOSITION

	1998 -1999	1999 -2000e	2000 -2001f
.....million bushels.....			
Harvested Area (mln ac.)	2.8	2.5	2.5
Yield (bu/ac.)	60.2	59.6	61.8
Carry-in Stocks	74	81	76
Production	166	146	153
Imports	<u>108</u>	<u>99</u>	<u>100</u>
Total Supply	348	326	329
Food, Seed & Industrial Use	69	68	68
Feed, Waste & Dockage	<u>196</u>	<u>180</u>	<u>180</u>
Total Domestic Use	265	248	248
Exports	2	2	2
Total Use	267	250	250
Carry-out Stocks	81	76	79
Average farm price (US\$/bu)	\$1.1	\$1.1	\$0.95 -1.35

Note: All Imperial measurements are based on 32 lb/bu weight, except imports which are based on 38 lb/bu.

e: estimate, USDA, August 2000

f: forecast, USDA, August 2000

Source: United States Department of Agriculture

to 6.1 Mt in 1999-2000, mainly due to lower production in countries other than Sweden and Finland. Production increased in Sweden and Finland but, due to low carry-in stocks, supplies and exports decreased slightly. EU exports declined from 0.6 Mt in 1998-1999 to 0.5 Mt in 1999-2000. Oat **consumption** decreased as lower feed use offset higher food use.

CANADA

The area of oats harvested in Canada averaged 1.3 million hectares (mIn ha) over the last decade, ranging from 0.8 mln ha in 1991-1992 to 1.7 mln ha in 1996-1997. Unlike Scandinavia, Australia and the U.S. where oat production has declined in recent years, Canada's oat production has increased.

In Western Canada, there has been a shift in the major production regions since the Western Grain Transportation Act was repealed in 1995. Oat production has shifted from regions in southern Alberta to regions in eastern Saskatchewan and Manitoba, which are closer to the Minneapolis market. With that shift, Alberta's share of Western Canadian oats production dropped to about 25%, about half of what it was prior to removal of the subsidy.

Exports

Canada's share of the world export market for oats and oat products is estimated at 80% for 1999-2000, with exports of 1.55 Mt (August-July), virtually the same as in 1998-99 but considerably higher than the 10-year average of 1.15 Mt.

About 95% of Canada's oat exports are destined for markets in the northeastern U.S., although some of those exports are redirected to the U.S. Midwest feed market. Japan is also one of Canada's dependable customers, importing a small volume of oats each year.

Prices

Since January 1999, Chicago Board of Trade (CBoT) oat prices have averaged 92% of CBoT corn prices on a per tonne basis and, on occasion, oats have even traded at a premium to corn. On average, the price differential between corn and oats is a discount of CAN\$10 per tonne. A similar price comparison on a per bushel basis is more complicated because there are two bushel measures:

the Winchester bushel (32 lb/bu) used by the U.S.; and Canada's Imperial bushel (34 lb/bu). This is further complicated by the fact that the USDA uses 38 lb/bu as the standard for oat imports. Regardless of the measure used, the differential between corn and oat prices on a per bushel basis is considerably higher than on a per tonne basis simply because corn has a much higher bushel weight than oats.

Oat prices in the U.S. are affected by EU subsidized oats entering the U.S. market, which in turn may affect prices to Canadian producers. In addition, Chicago and Minneapolis oats futures are pressured by U.S. loan deficiency payments for corn and oats, which were US\$0.27/bu on 77% of the corn crop, and US\$0.23/bu on 84% of the oat crop in 1999-2000.

The cash **price** for oats in Western Canada is determined by the Minneapolis cash market price, adjusted for transportation costs and local supply and demand conditions. The Minneapolis cash price is usually at a slight premium to the CBoT cash price for oats, which tracks CBoT corn prices quite closely. Canadian oat prices decreased from an average of \$132/t in-store Minneapolis for 1998-1999 to \$128/t for 1999-2000.

OUTLOOK: 2000-2001

World

The world **supply** of oats is expected to increase slightly to 29.0 Mt as a 1% increase in **production** is offset by the second lowest **carry-in stocks** in a decade. For the exporting countries, the major increase in world oat supplies is largely due to an increase in EU oat production.

In the **U.S.**, **supplies** are forecast to be virtually unchanged from 1999-2000 as a slight increase in **production** is offset by small decrease in **carry-in stocks**. Although area seeded to oats has decreased slightly, a larger

proportion of the seeded crop is expected to be harvested, leaving harvested area virtually unchanged from the previous year. **Consumption** is forecast to remain stable for both food and feed purposes, and imports are expected to be up slightly from the previous year. Although the EU and Canada will continue to be the major exporters of oats to the U.S., Australia is also expected to be very competitive in this important market. Oat **prices** in the U.S. will continue to be pressured by burdensome corn supplies, especially if U.S. corn production reaches the near-record USDA forecast of 10.4 billion bushels.

For the **EU**, oat **production** is forecast by the USDA to increase by about 12% to 6.8 Mt. Sweden's oat production is forecast to increase by 8% to 1.3 Mt and, with a return to more favourable growing conditions for 2000-2001, Finland is expected to increase oat production by over 30% to 1.3 Mt, which is more in line with their 10-year average of 1.2 Mt. With

CANADA: OATS SUPPLY AND DISPOSITION

<i>August-July crop year</i>	1998 -1999	1999 -2000e	2000 -2001f
Harvested Area (000 ha)	1,592	1,398	1,360
Yield (t/ha)	2.49	2.60	2.61
thousand tonnes.....		
Carry-in Stocks	846	1,088	975
Production	3,958	3,641	3,544
Imports	3	4	3
Total Supply	4,807	4,733	4,522
Human Food	226	220	225
Seed, Loss in Handling	187	160	165
Feed, Waste & Dockage	1,815	1,828	1,832
Total Domestic Use	2,228	2,208	2,222
Exports: grain	1,249	1,300	1,300
products	242	250	250
Total Exports	1,491	1,550	1,550
Total Use	3,758	3,758	3,772
Carry-out Stocks	1,088	975	750
Stocks-to-Use Ratio (%)	29.0	25.9	19.9
Prices (CAN\$/t)*	\$132	\$128	\$110-140
Harvested Area (mIn ac.)	3.93	3.45	3.47
Yield (bu/ac.)	65.3	68.2	67.4
Production (mIn bu)	256.6	236.1	233.8

* 1999-2000: basis track Minneapolis, delivery only allowed in Western Canada.

e: estimate, Agriculture and Agri-Food Canada, August 2000

f: forecast, Agriculture and Agri-Food Canada, August 2000

Source: Statistics Canada and Agriculture and Agri-Food Canada

COMMERCIAL AND INDUSTRIAL USE OF OATS

In addition to traditional markets for feed and human consumption, Canadian processors are developing lucrative markets for non-traditional products derived from oats. Ceapro Inc. is a good example of an emerging biotechnology company specializing in the application of advanced separation technology to extract phytochemicals.

With headquarters in Edmonton, Alberta and production facilities located at the Alberta Food Processing Development Centre in Leduc, Alberta, Ceapro provides the pharmaceutical, nutraceutical, functional food, cosmetic and personal care, and veterinary markets with novel botanical extracts fingerprinted for specific functional activity. Their products include colloidal oat extract, which is used to treat skin inflammation and is also known for its anti-oxidant properties. Another product is beta glucan, which is derived from high fibre oat bran and is believed to lower cholesterol, promote healing of wounds, and improve skin condition.

Ceapro is reputed to have the number one veterinary oat shampoo in Japan's animal health market, achieving a market share in excess of 9% in the past two years. An indication of the magnitude of this market is Ceapro's July 18, 2000 announcement of a purchase order for a 40 foot container-load of their oat shampoo destined for a customer in Osaka, Japan.

increased production in the two Scandinavian countries, and **consumption** expected to increase only slightly, their combined **exports** are forecast to increase significantly for 2000-2001, barring any harvesting problems.

For **Australia**, oat **production** is forecast to decrease marginally to 1.45 Mt. **Exports** are forecast to remain unchanged at 0.15 Mt as Australia plans to maintain its share of the world feed market.

For **Canada**, **area seeded** to oats has decreased by 3% as farmers shifted area into crops that offered higher expected returns. However, the harvested area as a percent of seeded area is expected to increase from previous years. Some of the oat crop is cut for greenfeed and the proportion varies from year to year, depending on feed availability and crop conditions. **Production** is forecast to decline slightly to 3.5 Mt and the **supply** of oats is expected to decrease

marginally.

This forecast is dependent on the possible effects of excessive rainfall on production in parts of Manitoba and Saskatchewan, some of which are major oat producing regions. Oat **exports** from Canada are forecast at 1.55 Mt, unchanged from 1999-2000. Of that total, 0.25 Mt are forecast to be exports of oat products, the same as in 1999-2000. Exports of oats to the U.S. are forecast at 1.3 Mt, similar to 1999-2000. It is expected that Canada will maintain or increase slightly its share of exports to the U.S. Depending on how aggressive EU export subsidies are, southern regions of the U.S. could receive lower volumes of Scandinavian oats in 2000-2001.

Carry-out stocks are forecast to decrease by about 23%, to 0.75 Mt, as a result of lower supplies and slightly higher domestic use.

PRICES

The average U.S. farm price of oats is

forecast by the USDA at US\$0.95-1.35/bu for 2000-2001, versus US\$1.10/bu in 1999-2000. Assuming an exchange rate of US\$1=CAN\$1.43, the Canadian oat price (No. 3 CW, Winnipeg Commodity Exchange, in-store Minneapolis) is forecast to average CAN\$125/t, versus CAN\$128 in 1999-2000. After allowing for deductions for transportation and local supply and demand conditions, an average farm price of CAN\$80/t is expected for oats in Western Canada.

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EU POLICY

The EU's reform of their Common Agricultural Policy (CAP) in 1992 included the introduction of direct area payments as compensation for lower intervention prices. Although they were not intended to be a permanent feature, these direct area payments now represent about half of EU net farm receipts.

Under **Agenda 2000**, direct area payments will be increased from €54.35/t to €58.67/t in 2000-2001 and €63.00/t in 2001-2002, and farmers will be eligible to receive these payments provided that they continue to set aside 10% of their arable land. Prior to the 1999-2000 crop year, a set aside of 5% was required.

On July 1, 2000 the cereal intervention price was reduced from €119.19/t to €110.25/t. Another 7.5% reduction is scheduled for July 1, 2001 which will bring the intervention price to €101.31/t. Any further reductions in the intervention price will depend on market conditions.

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