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CANOLA: SITUATION AND OUTLOOK

Canola production in Canada decreased significantly in 2000-2001 but supplies decreased only slightly due to record high carry-in stocks. Japan and China continue to be major importers of Canadian canola and shipments to Mexico have increased sharply. Despite record high exports, carry-out stocks are expected to decline, but remain historically high. Global oilseed prices have been pressured by record high soybean production and soyoil supplies related to generous support programs in the United States (U.S.) and by burdensome world palm oil production. For 2001-2002, area seeded to canola and production in Canada are forecast to decrease significantly but burdensome supplies of competing edible oils and oilseeds are expected to reduce prices to the lowest level since 1986-1987. Carry-out stocks in Canada are forecast to decrease substantially.

WORLD

For 2000-2001, the production and supply of canola/rapeseed decreased due to lower production in the European Union (EU), India, Australia, and Canada. Crushing of canola/rapeseed is forecast to decline marginally as lower crush in the EU offsets higher crush in North America. Processing in Asia is expected to remain similar to 1999-2000. World carry-out stocks are forecast to decrease. World trade is expected to decline due to the reduced availability of canola/rapeseed in the EU and Australia, increased supplies and lower prices of competing soybeans and palm oil, and higher prices for protein meal which favours the crushing of soybeans over canola.

For **China,** production of canola/rapeseed increased due to higher seeded area. Average yields decreased due to near-drought-like conditions in some areas. Imports are forecast to decrease to 1.8 million tonnes (Mt) from the record high of 3.8 Mt in 1999-2000 while imports of soybeans are expected to increase because of the higher meal content. This is related to historically low world edible oil prices and stronger protein meal prices. China's share of world trade in canola/rapeseed is expected to decrease to 18% from 40% for 1999-2000. Similarly, imports of canola/rapeseed oil are projected to decline to about 20,000 tonnes (t) for the 2000 calendar year, from 69,000 t in 1999 and the record high of 350,000 t in 1997.

Processing of canola/rapeseed in China is projected to decline by 11% leading to a corresponding decline in the production of oil and meal. Exports of canola/rapeseed meal are expected to drop by 25% to 0.6 Mt, reducing the competition for Canadian canola meal into South Korea and other Asian markets.

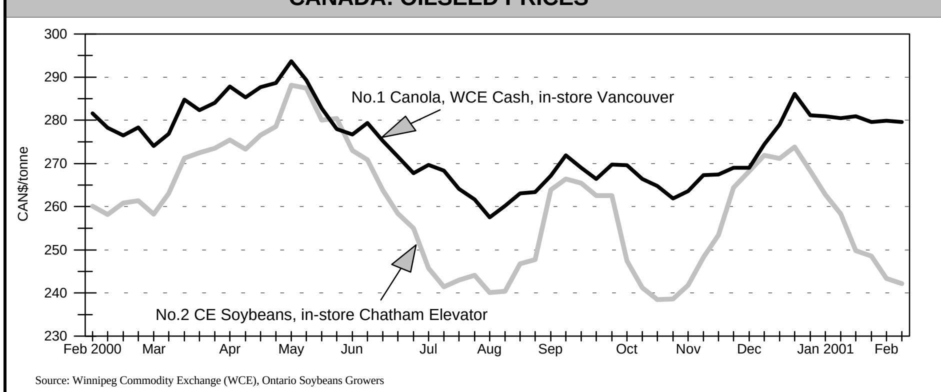
India's rapeseed production decreased significantly due to hot, dry weather in the major producing states. Supplies also decreased, but to a lesser extent due to high carry-in stocks.

Due to low crush margins in India, imports of edible oils are approaching 5.0 Mt annually and the government is considering restricting imports, although no specific quotas or tariffs have been specified.

Australian production decreased by about one-third from 1999-2000 due to lower area seeded, and lower yields related to a severe drought across Western Australia. Consequently, exports are forecast to decrease by almost 40%, to 1.2 Mt. Since about 0.3-0.4 Mt of canola are generally committed for shipments to the EU, Australian exports to Asia are forecast to decline by over 50% from 1999-2000 levels, to 0.7-0.8 Mt.

In the **EU**, the production of rapeseed decreased by 25% from 1999-2000 to 9.2 Mt. Lower prices led to a decline in seeded area in the United Kingdom, France, and Germany. Also, average yields in the EU decreased due to excess moisture. Area seeded was not significantly impacted by the changes introduced by Agenda 2000 because the direct area payments for oilseeds will continue to exceed those on grains until 2002-2003 at which time they will become equal. The area payments will be reduced to 63 i per tonne (/t) by 2002-2003 from 93 i/t in 1999-2000. Supplies of canola/rapeseed declined due to lower production and a decline in imports. Due to lower supplies, weak crush margins and

CANADA: OILSEED PRICES



Source: Winnipeg Commodity Exchange (WCE), Ontario Soybeans Growers

WORLD: SUPPLY AND DISPOSITION FOR CANOLA SEED, OIL AND MEAL

	1999 -2000	2000 -2001 [1/]	2001 -2002f
	................million tonnes................		
CANOLA/RAPESEED			
Carry-In Stocks	2.20	3.94	2.25
Production:			
China	*10.13*	*11.00*	*11.00*
European Union	*11.32*	*9.22*	*9.40*
Canada	*8.80*	*7.12*	*6.17*
India	*5.11*	*4.40*	*4.25*
Australia	*2.43*	*1.60*	*1.60*
United States	*0.62*	*0.92*	*1.00*
Other	*3.88*	*3.34*	*3.48*
Total Production	42.29	37.60	36.90
Total Supply	**44.49**	**41.54**	**39.15**
Total Use	**40.55**	**39.29**	**37.40**
Carry-out Stocks	3.94	2.25	1.75
Trade	11.04	9.96	9.00
CANOLA/RAPESEED OIL			
Carry-In Stocks	0.47	0.67	0.62
Production	13.59	13.13	11.94
Total Supply	**14.06**	**13.80**	**12.56**
Total Use	**13.39**	**13.18**	**11.96**
Carry-out Stocks	0.67	0.62	0.60
Trade	2.97	2.75	2.50
CANOLA/RAPESEED MEAL			
Carry-In Stocks	0.31	0.43	0.32
Production	22.34	21.65	19.60
Total Supply	**22.65**	**22.08**	**19.92**
Total Use	**22.22**	**21.76**	**19.62**
Carry-out Stocks	0.43	0.32	0.30
Trade	4.35	4.18	4.00

[1/] forecast, USDA, February 2001
f: forecast, AAFC, March 2001
Source: USDA

burdensome supplies of vegetable oils, canola/rapeseed crush is forecast to decline by 8% from 1999-2000 to 8.8 Mt for 2000-2001. Canola/rapeseed oil and meal output are expected to decrease accordingly to 3.5 Mt and 5.3 Mt, respectively. Carry-out stocks are expected to drop sharply to 0.16 Mt, from 0.37 Mt in 1999-2000.

The spread of Bovine Spongiform Encephalopathy (BSE), or mad cow disease, in the EU is expected to increase the demand for protein meal by 2.1-2.2 Mt a year to replace the use of animal meal in livestock rations, assuming that per capita consumption of beef remains stable. The demand for vegetable protein exceeds the world supply of non-GMO (genetically modified organism) protein meal which will provide strong support for protein meal prices.

Despite lower market prices, area seeded to canola in the **U.S**. primarily in the states of North Dakota, South Dakota and Minnesota, increased significantly and resulted in production increased to 0.87 Mt, from 0.62 Mt in 1999-2000. This is largely attributable to the high loan rates for oilseeds relative to market prices and relative to the loan rates for competing crops under the 1996 Federal Agricultural Improvement and Reform (FAIR) Act. The increase in oilseed supplies has pressured world prices while the marketing loan rate, through high LDP and marketing loans, has sheltered U.S. producers from the low prices. New legislation is scheduled to be introduced in 2002, However, it is not clear how the marketing loan provisions will change.

The loan rate is US$9.30 a hundredweight (/cwt), or CAN$308/t, for small seeded oilseeds such as canola and US$5.26 a bushel (CAN$290/t) for soybeans. U.S. producers collect the majority of their LDP between September and November, when prices are typically at seasonal lows. For 1999-2000, U.S. producers collected US$2.63/cwt (CAN$87/t) or US$34 million on 96% of their canola production. For 2000-2001 to-date, U.S. producers have collected US$3.67/cwt (CAN$125/t) or US$68 million on 92% of production.

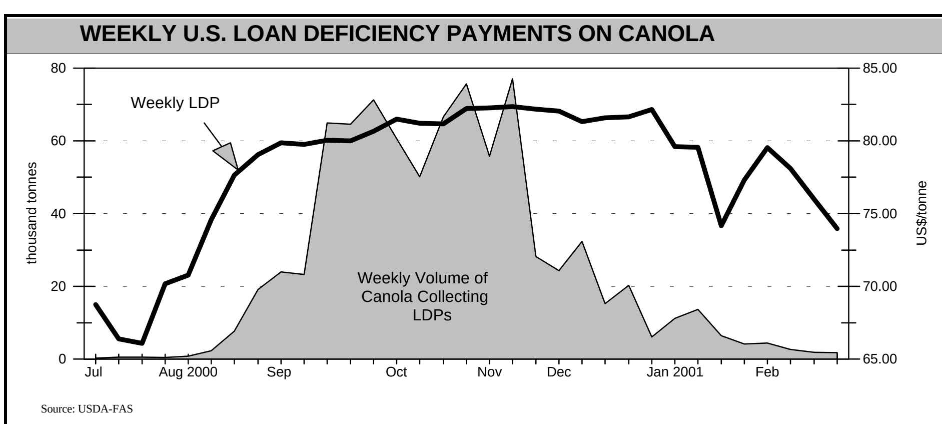
Processing of canola in the U.S. is projected to decline marginally to 0.72 Mt for 2000-2001 due to competition from burdensome soyoil and palm oil supplies. This is expected to be partly offset by increased exports of canola/rapeseed into Canada. Carry-out stocks are forecast to increase sharply although remaining too low to affect prices.

CANADA

Canola supplies decreased slightly as the sharp decline in production was largely offset by the record high carry-in. Timely seeding, adequate moisture, with the exception of southern Alberta, and a typical fall resulted in normal yields with average dockage. Despite a strong start, the pace of producer marketings declined post-harvest due to the low prices and the high premiums for deferred delivery, which rewarded producers for storing their crop.

Canadian crushing of canola is forecast to remain similar to last year at 3 Mt, despite ample supplies of canola, as an oversupply of soy and palm oil lowers prices for all vegetable oils and continues to pressure cash crush margins. The pace of crush during the second half of 2000-2001 is expected to be lower than the first half because of weak vegetable oil prices caused by abundant supplies.

The production of **canola oil** is forecast to increase by about 60,000 t to 1.30 Mt. Domestic consumption of canola oil is expected to increase to 0.4 Mt, versus the 0.35 Mt estimated for 1999-2000. Exports represent the balance of domestic production with little change in carry-out stocks.



The production of **canola meal** is forecast to increase slightly from 1999-2000 to 1.87 Mt. However, the domestic consumption of canola meal is projected to decline slightly, to 0.7 Mt, due to increased competition from soymeal.

Exports

Canada is expected to export a record 4.4 Mt of **canola** in 2000-2001. In the Asian market, competition from the EU and Australia has decreased. Japan is expected to remain Canada's major market with exports forecast to remain similar to 1999-2000 at 1.8 Mt. Chinese imports of Canadian canola are expected to increase for 2000-2001, despite a significant shift to crushing soybeans away from crushing canola/rapeseed. While total imports of canola/rapeseed are projected to decline, the impact will be felt mainly by the EU and Australia. Exports to Mexico are projected to rise sharply for 2000-2001, due to higher per capita consumption of canola/rapeseed oil and partly because of the increase in domestic processing. The latter has resulted in a major decrease in imports of canola/rapeseed oil since 1998-1999.

Canola oil exports are forecast to decrease marginally with lower shipments to the U.S., Japan, and China partly offset by an increase to South Korea and Hong Kong. About 60-70% of Canada's exports of canola oil are to the U.S.

Canola meal exports are forecast to increase slightly, with most of the canola destined for the U.S. where canola meal has gained market share at the expense of cottonseed meal in dairy rations. The Pacific region, where many large dairy operations are located, is the largest importing region for Canadian canola in the U.S.

CANADA : CANOLA SUPPLY AND DISPOSITION

August-July crop year	**1999 -2000**	**2000 -2001f**	**2001 -2002f**
	........million tonnes.........		
CANOLA/RAPESEED			
Carry-In Stocks	0.63	2.07	1.40
Imports	0.12	0.15	0.25
Production	8.80	7.12	6.17
Total Supply	**9.55**	**9.34**	**7.82**
Exports	3.89	4.40	3.80
Domestic Crush	2.98	3.00	3.00
Other Use	0.61	0.54	0.47
Total Use	**7.48**	**7.94**	**7.27**
Carry-out Stocks	2.07	1.40	0.55
CANOLA OIL			
Carry-In Stocks	0.02	0.02	0.06
Production	1.24	1.30	1.26
Imports	0.01	0.01	0.01
Total Supply	**1.27**	**1.33**	**1.33**
Exports *	0.90	0.87	0.86
Domestic Use	0.35	0.40	0.40
Total Use	**1.25**	**1.27**	**1.26**
Carry-out Stocks	0.02	0.06	0.07
CANOLA MEAL			
Carry-In Stocks	0.03	0.03	0.03
Production	1.86	1.87	1.80
Total Supply	**1.89**	**1.90**	**1.83**
Exports	1.12	1.17	1.08
Domestic Use	0.74	0.70	0.70
Total Use	**1.86**	**1.87**	**1.78**
Carry-out Stocks	0.03	0.03	0.05

f: forecast, AAFC, March 2001
Source: Statistics Canada, AAFC, *COPA

Prices

In recent years, canola prices in Canada have been pressured downward by: (a) low soyoil prices related to increased soybean production in the U.S. and South America; (b) low palm oil prices related to increased palm oil supplies in Malaysia and Indonesia; and (c) increased supplies of canola in Canada. The average cash price of canola, in-store, Vancouver is forecast to decline to $270/t for 2000-2001, the lowest level since 1986-1987. The U.S. average price of soybean oil is forecast to decline to US$0.1275-0.1425 per pound (/lb), the lowest level since 1990, versus the high of US$0.2584/lb achieved in 1997-1998. By comparison, the average price of U.S. soymeal is forecast at US$170-185 a short ton (/st), versus US$167.70/st in 1999-2000 and the recent historical low of US$138.50/st set in 1998-1999.

OUTLOOK

World canola/rapeseed production is forecast to decline for 2001-2002, due to a drop in seeded area, although this is expected to be partly offset by a return to normal yields in some regions. Supplies of canola/rapeseed are forecast to drop as the decrease in production is compounded by a sharp draw-down in carry-in stocks. As a consequence of reduced supplies, low vegetable oil prices and lower crush margins, canola/rapeseed disappearance is forecast to fall by 5%, to the lowest level since 1998-1999. World trade is forecast to drop by 10% due to the decline in supplies and to the reduction in crush. Carry-out stocks are projected to decrease.

Canola/rapeseed production in **China** is projected to be unchanged from 2000-2001 as higher seeded area is offset by lower yields. Supplies of canola/rapeseed are projected to decline due to lower imports. Canola/rapeseed crush is projected to decrease from 2000-2001 in favour of soybeans due to their higher meal content. The restructuring of China's oilseed industry is reported to be underway. Many of the largest processing companies have expanded rapidly in an attempt to become internationally competitive. Many of the older and smaller crushers are reportedly in danger of closing during the next major market downturn. The outlook is highly dependent on China's entry to the World Trade Organization (WTO) which is expected to lead to lower tariffs, and higher tariff rate quotas, on edible oils. This is expected to favour imports of canola oil relative to canola seed. However, due to disagreement over issues including access to developing country status for China's agriculture programs, entry into the WTO has been delayed. This delay will support the import of oilseeds at the expense of the oilseed products.

Rapeseed production in **India** is projected to be lower due to the after effect of drought, although edible oil imports will remain unaffected. India is rapidly becoming one of the world's largest importers of edible oils, about three-quarters of which is palm oil. However, imports of canola/rapeseed oil are forecast to remain steady at around 0.2 Mt.

Australian canola production is forecast to remain stable at 1.6 Mt as the expected decline in seeded area is offset by a return to normal yields, assuming near-average moisture conditions across the main growing regions. Therefore, supplies and exports are projected to remain near 2000-2001 levels. Recent reports suggest that Aventis and Monsanto plan to introduce Liberty Link and Round Up Ready canola to Australia in 2002 with exports of GMO canola occurring by 2003. The introduction of the genetically modified, hybrid varieties is expected to increase yields by 25%. However, because of the EU's ban on imports of GMO material, it could result in the loss of some of the market for Australian canola. The introduction of GMO varieties is expected to occur slowly with only 1% of the crop planted to GMO canola in 2002, rising to 10% by 2005.

EU rapeseed production is forecast to increase because of higher yields despite lower seeded area, as producers switch out of food grade oilseeds in response to low prices and the reduction in area payment subsidies. Domestic crush is forecast to increase due to the impact of the ban on the feeding of animal meal in livestock rations, as a result of concerns regarding BSE and expansion of biodiesel production. Exports of canola are projected to decline while carry-out stocks remain tight.

In the **U.S.**, the area seeded to canola is forecast to increase as producers respond to the marketing loan rate and switch some area out of wheat and coarse grains. Production is expected to increase to about 1.0 Mt, assuming normal yields. Exports to Canada are forecast to increase by 0.1 Mt from 2000-2001 to 0.25 Mt. U.S. crush of canola/rapeseed is forecast to rise and result in minimal carry-out stocks for 2001-2002.

In **Canada**, area seeded to canola is forecast to decrease by 10% due to more attractive returns for wheat and special crops, the sharp increase in the cost of fertilizer and high carry-in stocks. Average yields are also expected to decrease. Production is forecast to decrease by 0.95 Mt from 2000-2001 to 6.2 Mt. Supplies of canola are also expected to decrease significantly due to high carry-in stocks. Exports are forecast to decline due to lower supplies and because low vegetable oil prices are expected to continue to pressure crush margins in importing countries. Domestic crush is expected to remain similar to 2000-2001, due to pressured crush margins and the burdensome oversupply of soyoil and palmoil. Carry-out stocks of canola are forecast to fall to 0.55 Mt, versus 0.52 Mt averaged over 1996-1997 to 1998-1999 when production averaged 6.4 Mt. The production of canola oil and meal is projected to remain stable, with the U.S. remaining the largest export market for both commodities. The forecasts do not take into account China's accession to the WTO, which would be expected to reduce exports of Canadian canola seed and increase exports of canola oil and support Canadian crush.

CANADA: EXPORTS BY COUNTRY OF DESTINATION

August-July crop year	**1998 -1999**	**1999 -2000**	**2000 -2001**
	........thousand tonnes.........		
CANOLA SEED			
Japan	1,815	1,801	1,800
China	1,269	1,211	1,500
Mexico	529	570	900
United States	277	280	200
Other	10	23	0
Total	**3,900**	**3,885**	**4,400**
CANOLA OIL *			
United States	410	525	495
South Korea	47	87	100
Hong Kong	126	82	90
China	63	88	80
Japan	9	35	20
Iran	0	20	20
Taiwan	26	17	20
Malaysia	0	7	10
India	20	0	5
Other	77	34	30
Total	**778**	**895**	**870**
CANOLA MEAL			
United States	1,135	1,066	1,050
Western Europe	26	39	40
Taiwan	11	19	20
South Korea	56	0	10
Japan	24	1	5
Other	7	3	49
Total	**1,259**	**1,128**	**1,174**

Notes:
1) For 1999-2000, canola oil (including crude, refined and hydrogenated oil) is based on COPA estimates.
2) Exports and imports of canola oil include crude and refined oil, but exclude hydrogenated oil and processed products (margarine, salad oil and shortening).

f: forecast, AAFC, March 2001
Source: Statistics Canada, *COPA

Prices

The price of canola, cash, in-store Vancouver, is forecast at $240-280/t for 2001-2002 the lowest level since 1986-1987. The price of canola oil, RBD (refined bleached deodorized), FOB (free on board) plant, are forecast to decline due to an expected appreciation of the Canadian dollar. The average U.S. soyoil price is forecast by the United States Department of Agriculture to be unchanged at US$0.135/lb FOB Decatur. Canola meal prices, FOB plant, are projected to decline due to the lower U.S. soymeal prices, 44% protein FOB Decatur, which are expected to decline to about US$170/st for 2001-2002.

CANADA-U.S. TRADE

Exports of U.S. canola to Canada have risen significantly during recent years due to the increase in canola production in the northern plain states. Exports typically peak immediately after harvest as U.S. producers deliver to the nearest crushing plant, i.e. Altona, Manitoba.

Canada exports a total of $600 million worth of canola, canola oil and canola meal to the U.S., versus the $50 million of mostly seed canola imported from the U.S. While Canadian imports of U.S. canola are expected to increase for 2000-2001, the net balance of trade continues to support Canadian producers to a significant degree, in turn, increasing delivery opportunities for Canadian producers.

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