



# Bi-weekly Bulletin

October 23, 2006 Volume 19 Number 14

## OATS: SITUATION AND OUTLOOK

Canada is the world's largest exporter of oats and is expected to account for 70-80% of world oat exports in 2006-2007. Oats represents about 6% of the production and exports of grains and oilseeds in Canada. The value of Canadian exports of oats and oat products increased to \$224 million in 2005 from \$192 million in 2004. For 2006-2007, the production of oats in Canada increased by about 10% from 2005-2006. Canadian exports, predominantly to the United States (US) food market, are expected to increase to a record high. The average price of oats is expected to increase from 2005-2006, due to the strong demand for corn in the US related to the biofuel market. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for oats.

Since 2000-2001, the world production of oats has stabilized at around 25 million tonnes (Mt) ending a 40 year decline in output resulting from the decline in on-farm feed usage following the wide-spread mechanization of farming.

World food consumption of oats is increasing slowly as consumers worldwide recognize the benefits of whole grains in health and wellness. Oats have numerous health benefits, as they are a rich source of bran, fibre and contains the complex carbohydrate beta-glucan, which is used in the manufacture of health foods. This food demand is expected to continue growing as countries such as China, a potentially huge market, discover the health benefits of oats.

The European Union (EU)-25 is the world's largest oat producing region followed by Russia, Canada, the US, and Australia. Global oat trade continues to be dominated by US demand, distantly followed by Japan and Mexico. Canada is the largest exporter, followed by the EU-25 (particularly Finland and Sweden), and Australia. Although Russia produces 20% of world production, it is not an important player in the export market as their oats are generally consumed domestically, or are of low quality and therefore not in demand.

compares to 50 Mt in the early 1960s when the demand for oats was significantly higher due to the number of horses which were dependent on oats. Trade is forecast to decrease to 2.1 Mt from 2.2 Mt last year. The United States (US) and Japan are expected to account for 84% and 3%, respectively, of world imports in 2006-2007. Canada and the EU-25 are expected to account for 80% and 11%, respectively, of the export market share. World trade in oats has averaged 2.0 Mt over the last 10 years and, like production, is not expected to increase significantly.

### SITUATION AND OUTLOOK 2006-2007

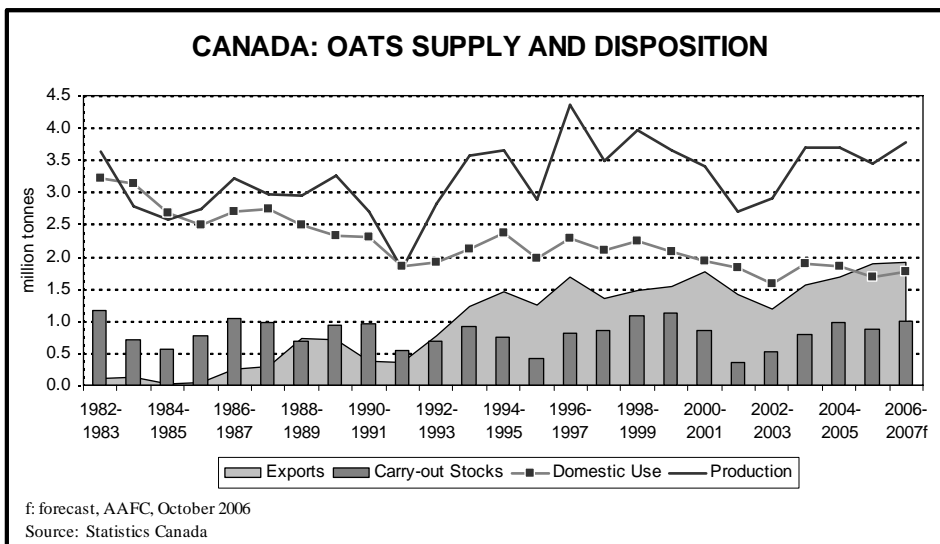
World production of oats is estimated by the United States Department of Agriculture (USDA) to increase to 23.9 Mt from 23.5 Mt in 2005-2006. This

### MAJOR IMPORTERS

#### United States

The US is the world's largest importer of oats and the fourth largest oat producer. The majority of US imports are high quality oats from Canada and the Scandinavian countries, Finland and Sweden, in the EU-25, which mainly service the performance horse feed markets. Also, some of these imports are further processed in the US and then exported as value-added oat groats to Central and South America.

US oat production is estimated to fall to a record low 1.36 Mt for 2006-2007, versus 1.67 Mt produced in 2005-2006. The hot and extremely dry conditions across the US led to very poor quality oats in several of the major production states. US imports for 2006-2007 (October-September) are expected to be the same as 2005-2006 at 1.8 Mt, or about 80% of



world imports, versus 1.62 Mt in 2004-2005. About 70% of the oats produced in the US are used for on-farm feed. Only about 5% are used for milling purposes.

US oat production has historically been disadvantaged by the US farm policy and by the relatively low yields compared to competing crops. For 2006, the loan rate is US\$1.33 per bushel (/bu) (US\$92/t) versus US\$1.95/bu (US\$77/t) for corn. However, due to the lower yields, support for oats is relatively low, i.e. US\$82/ac for oats versus US\$295/ac for corn, based on average yields over the 2003-2006 crop year period. Similarly, the loan rate on wheat of US\$2.75/bu (US\$101/t) provided about US\$116/ac in support, significantly higher than oats.

### Japan

For 2006-2007, Japan is forecast to import 70 thousand tonnes (kt) versus the 10 year average of 80 kt. Oats are grown as a forage crop all over Japan, from Hokkaido, the northern-most island, to Kyushu, the southern-most island. Oats imported into Japan are used mainly for feed purposes. Imports from Canada for 2006-2007 are forecast at 20 kt, similar to 2005-2006 and 2004-2005.

### MAJOR EXPORTERS

#### European Union

The EU-25 is the largest oat producing region in the world, and second largest exporter. The majority of production and virtually all exports originate in Finland and Sweden. Production in other EU-25 countries generally satisfies internal domestic demand. Oat production increased to 7.8 Mt from 7.4 Mt in 2005-2006, despite the hot and dry conditions in Scandinavia and across much of

northern Europe. The United Kingdom may be the only major oat producing region in Europe to achieve near normal yields.

In general, oats from Finland and Sweden, Canada's primary competitors, are exported into the southern US where they are consumed in the performance horse market. Production in Finland and Sweden was 1.1 Mt and 0.75 Mt, respectively, in 2005-2006 and is expected to rise by 5% in 2006-2007.

Exports from Scandinavia have been trending down since 1998-1999 as a result of: (a) higher returns for other crops and (b) lower demand in the US horse market resulting from the high oat prices relative to other feed grains. Due to low, weather-related, production in other member countries, the exportable surplus of oats available for the US from Finland and Sweden is expected to be historically low in 2006-2007. Consequently, EU exports (October-September) to the US for 2006-2007 are forecast by the USDA to remain historically low at 250 kt.

#### EU Oat Export Subsidies

EU-25 oat subsidies were introduced after Finland and Sweden joined the EU in 1995 because of the relative importance of the crop in those countries, and also to prevent oat acreage from being converted to barley production. Since barley qualifies for intervention, a larger surplus would result in costly intervention arrangements. Oats in the EU-25 are not supported by intervention prices or stocks.

### WORLD: OATS SUPPLY AND DISPOSITION

	2004	2005	2006
<i>local marketing year</i>	-2005	-2006	-2007f
	.....thousand tonnes.....		
Carry-in Stocks	3,376	3,677	3,231
Production	25,930	23,546	23,850
<b>Total Supply</b>	<b>29,306</b>	<b>27,223</b>	<b>27,081</b>
<b>Total Use</b>	<b>25,629</b>	<b>23,992</b>	<b>24,138</b>
Carry-out Stocks	3,677	3,231	2,943
<b>Trade</b>	<b>1,953</b>	<b>2,230</b>	<b>2,140</b>

f: forecast, USDA, October 2006  
Source: USDA

The level of subsidies issued is inversely related to the Chicago Board of Trade (CBOT) price for oats. They are directly related to transportation costs, and the exchange rate. When world prices are low, a significant portion of the final selling price is represented by the subsidy. This is required to cover the costs of freight and foreign exchange, in order to be competitive in US markets.

Average oat subsidies for 2005-2006 were €20 (CAN\$28.44) per tonne (/t) versus €4.59 (CAN\$6.53)/t for barley. The disparity indicates the subsidization of freight and foreign exchange costs associated with transporting oats from the EU-25 to the US Gulf ports. Other factors, such as the intervention price of barley, can also have an effect.

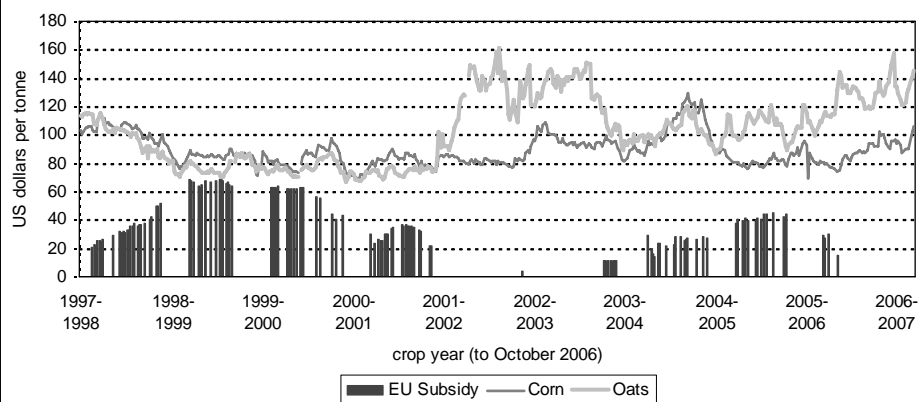
On June 29, 2006, the EU-25's Cereal Management Committee approved 100 kt of oats from Finland and Sweden to be eligible for export refunds in the 2006-2007 crop year. The actual quantity of which subsidies will be awarded may be lower. For example, in 2005-2006, 104 kt

### UNITED STATES: UTILIZATION OF OATS

The major commercial US markets for oats are:

- (1) The **milling market**, which requires oats that meet stringent purity requirements, have good groat yield, uniformity, and colour (not stained). Grades normally desired are Nos. 1 and 2 Canadian Western (CW) Oats.
- (2) The **performance feed market**, mainly the southern US horse market, demands the highest quality oats.
- (3) The **general feed market**, mainly for beef cattle and horses is small relative to the market for barley and corn. This market is highly competitive with other feed grains, especially corn, since the market is quite price-responsive with a high degree of substitutability. The lowest value oats are generally sold in this market.
- (4) A **specialty market** for oats does exist, which includes organic, birdseed, and health food markets. In recent years a market for hullless oats (bred so the hulls fall away from the groat at harvest) has emerged due to the excellent food and feed value, but these oat varieties are usually grown under contract.

### US CORN AND OAT PRICES AND EU OAT SUBSIDIES (WEEKLY)



Source: Chicago Board of Trade and International Grains Council

was the eligible volume, but only about 82 kt actually received refunds. To date, EU export subsidies on oats have been nil and are not expected to be significant for 2006-2007.

#### CANADA

Production is estimated to increase to 3.8 Mt, from 3.4 Mt for 2005-2006 due to an 8% rise in seeded area and a return to normal abandonment rates. However, yields are expected to decline to 2.52 tonnes per hectare (t/ha) versus 2.59 t/ha from 2005-2006. Production in Manitoba recovered and increased by 121% to 0.98 Mt due to higher seeded area, low abandonment and higher yields. Production in Saskatchewan increased slightly from last year to 1.7 Mt, while production in Alberta decreased by 27% to 0.6 Mt. The quality of the crop is expected to be normal in western Canada including Manitoba where the impact of the dry weather on quality is less severe than previously expected. Total supplies are expected to increase by 5%, as the higher production more than offsets the drop in carry-in stocks.

Exports (including products) are projected to rise to 1.90 Mt from 1.88 Mt in 2005-2006 on support from strong US demand. Exports of processed oats have increased in recent years. Imports of Canadian oats satisfies most of US food (milling) import demand, with a small portion sometimes

directed to the Midwest feed market. The majority of exports go to Minnesota, Nebraska, and Iowa. High quality, performance feed oats are also exported from eastern producing provinces to the eastern states of the US.

Manitoba and Saskatchewan have controlled about 50% and 40% of the export market, respectively. Alberta has also played an important, although smaller, role in exports to the US. Exports to Japan, which averaged about 20 kt over the last 10 years, are usually filled by Alberta's oats due to its proximity to the West Coast.

CANADA: OATS SUPPLY AND DISPOSITION			
<i>crop year</i>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<i>August-July</i>	<b>-2005</b>	<b>-2006</b>	<b>-2007f</b>
Seeded Area (kha)	1,995	1,853	2,002
Harvested Area (kha)	1,315	1,326	1,498
Yield (t/ha)	2.80	2.59	2.52
	.....thousand tonnes.....		
Carry-in Stocks	788	975	872
Production	3,683	3,432	3,782
Imports	26	20	15
<b>Total Supply</b>	<b>4,497</b>	<b>4,427</b>	<b>4,669</b>
Food & Industrial Use	118	80	100
Feed, Waste & Dockage	1,574	1,431	1,488
Seed and Other Use	156	167	171
<b>Total Domestic Use</b>	<b>1,848</b>	<b>1,678</b>	<b>1,769</b>
Exports (includes products)	1,675	1,877	1,900
<b>Carry-out Stocks</b>	<b>975</b>	<b>872</b>	<b>1,000</b>
US No.2 Heavy, nearby CBoT (US\$/t)	131	144	140-160

f: forecast, AAFC, October 2006

Source: Statistics Canada

#### Prices

For 2006-2007, CBoT prices for nearby oat futures are forecast to increase from 2005-2006 to CAN\$150/t. The premium for oats over corn is expected to decrease. The premium for high quality oats is expected to increase. Additional support for prices is provided by historically low exports from Scandinavia and high US corn prices, related to rising ethanol production.

#### OUTLOOK

For 2007-2008, world production of oats is expected to increase slightly as lower production in the US is more than offset by higher production in the EU-25, Canada and Australia. In the US, farmers are expected to shift some area out of oats into corn and wheat because of the strong demand for biofuel. Consequently, US production is expected to decrease causing the import demand for Canadian food oats to rise. Consequently, Canadian exports of oats to the Minnesota/Wisconsin and South Eastern regions of the US are expected to rise slightly. In the EU-25, production is expected to increase due to higher yields as growing conditions return to normal. EU oat exports are expected to increase slightly but it is not expected to be an aggressive user of export subsidies.

In Canada, area seeded to oats is expected to increase due to high prices. Oat production is expected to increase slightly due to higher area harvested and yields, assuming normal weather and growing conditions. The total supply of oats in Canada is expected to rise as higher carry-in stocks supplement the increased output. Domestic consumption of oats is expected to rise as a result of higher feeding and food and industrial use. Exports are expected to decline slightly resulting in carry-out stocks remaining unchanged from the previous crop year. The price of oats is expected to remain strong.

Over the medium-term, prices are expected to rise on support from the rapidly expanding biofuels market. This will place further, continuous demand on corn, leading to a bullish outlook for corn, and hence oat, prices.

## SASKATCHEWAN OAT CHECK-OFF PROGRAM

The Government of Saskatchewan, at the industry's request, has established the producer-directed Saskatchewan Oat Development Commission (SODC). The Commission's function is to increase the profitability of producers through market development, improved production practices, support for research on improved varieties. The SODC will be financed through a mandatory refundable check-off at the point of sale, set at \$0.50/t, and is expected to generate approximately \$350,000 per year. The check-off will be applied to all oats grown in Saskatchewan, excluding those grown for on-farm use. However, producers may request a refund twice per year. The check-off program started on August 1, 2006. The same program has been proposed in Manitoba but, on two occasions, producer support narrowly failed to reach the 60% approval rate required in Manitoba. Alberta has not instituted a check-off program to date.

### Research and Funding

In 1996, millers and seed companies formed the Prairie Oat Breeding Consortium in partnership with Agriculture and Agri-Food Canada (AAFC). A joint federal-private sector oat breeding and development program was set up in Winnipeg. It is, however, dependent on federal infrastructure, facilities and oat experts, with some funding from private sector professionals.

The consortium's goal is to contribute to the stability and competitiveness of oat production in Canada, hitherto accomplished by the development and release of oat varieties that are adapted to the Canadian prairies, and that possess the processing and nutritional requirements desired by the industry and consumers. Other organizations, such as the Prairie Oat Growers' Association (POGA), a farmer association, are similarly dedicated to oats, but promote profitable production via education.

Funding for oat research by the USDA is higher than AAFC funding, which ranges between CAN\$1.0-1.5 million per year. Public funding for crop research in general has been declining, with contributions specifically towards oat research declining more rapidly.

Over the last four years, the complement of oat-specific breeders has been reduced from four (federal) positions to two positions, one located at the Cereal Research Centre (CRC) in Winnipeg, the only federal oat breeding initiative left in western Canada. The other is located at the Eastern Cereal and Oilseeds Research Centre (ECORC) in Ottawa. The Cereal Development Centre (CDC) at the University of Saskatchewan is a

provincial initiative but also conducts research on barley. The new oat check-off program in Saskatchewan will likely prove to be beneficial to the CDC in the future.

In eastern Canada, there is currently one oat breeder for AAFC located in Ottawa. The primary objective of this facility is to develop higher yielding, disease resistant varieties for all the eastern provinces.

Hands-on private sector oat breeding is limited, but there is significant involvement in private sector funding towards oat research. Overall, 80% of agricultural research and development in Canada is performed in universities or in government facilities.

The most important attribute of eastern prairie adapted varieties is resistance to Stem, Leaf, or Crown rust, the most important diseases causing significant losses in oat production in western Canada. These diseases evolve over time into new, more virulent strains that can overcome the rust-resistance of present cultivars, requiring continuous, dynamic research to produce new rust-resistant varieties. Successful production in western Canada continues to depend on, and result from, the use and development of these varieties, that possess and surpass market-specific requirements.

The consortium-AAFC partnership and the continuation of progressive oat research, is highly advantageous to producers because it provides a consistent, high quality, and therefore high demand, oat for farmers to produce and market.

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**Electronic version available at  
[www.agr.gc.ca/mad-dam/](http://www.agr.gc.ca/mad-dam/)**

ISSN 1207-621X  
AAFC No. 2081/E

Bi-weekly Bulletin is published by the:  
**Market Analysis Division,  
Research & Analysis Directorate  
Strategic Policy Branch  
Agriculture and Agri-Food Canada.  
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Issued also in French under title:  
*Le Bulletin bimensuel*  
ISSN 1207-6228  
AAFC No. 2081/F

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*While the Market Analysis Division assumes responsibility for all information contained in this bulletin,  
we wish to gratefully acknowledge input from the following:*

Prairie Oat Growers Association, Research Branch (AAFC), Market and Industry Services Branch (AAFC)