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AUSTRALIA

Australia is one of Canada's major competitors in the grains and oilseeds export market. It is normally the world's largest exporter of barley, second largest exporter of canola and fourth largest exporter of wheat. As a result, changes in policies and markets for grains and oilseeds in Australia have important implications for Canada. As an example, the possible change in Australia's concentration from non-genetically modified (GM) canola to GM canola could have an effect on Canada's canola industry, which is primarily of the GM variety and export-oriented. This issue of the *Bi-weekly Bulletin* looks at the major developments and the market situation and outlook for Australia's grains and oilseeds sector and explores the implications for Canada.

BACKGROUND

Australia's population of 20.3 million (M) benefits from a robust economy considered to be on par with several prosperous West European economies. In recent years, solid economic output, consumer confidence, and high export prices for Australia's raw materials and agricultural commodities have fuelled Australia's economic growth, which is estimated at 2.8% for 2006. As well, Australia has had a budget in surplus since 2002, and its strong economic ties with emerging developed economies have contributed to an overall solid economic performance. However, lower agricultural exports due to the recent drought and strong import demand have pushed up Australia's trade deficit.

Nevertheless, Australia's agriculture and agri-food sector contributes about 3.8% to its total economic activity and provides for about 3.8% of the country's employment. Of the estimated 46 million hectares (Mha) of arable land in Australia, about 20 Mha are normally seeded to field crops and the balance is in permanent pasture. Australia's major crop producing areas, in order of importance, are Western Australia, New South Wales, South Australia, Victoria, and Queensland, all of which support varying levels of winter crop production. Summer crop production, on the other hand, is concentrated in New South Wales and Queensland. The five major field crops produced in Australia are wheat, barley, canola, oats and sorghum, ranked in order of annual tonnage.

MAJOR DEVELOPMENTS IN THE GRAINS AND OILSEEDS INDUSTRY

Biofuels

Australia's relatively small but growing biofuels sector has increased the domestic demand for agricultural feedstock such as sorghum, wheat, and canola. To encourage production of ethanol and biodiesel, the Australian government has committed to providing several production grants (subsidies) until 2010-2011. For example, under the AUS$37.6M Biofuels Capital Grants Program, companies receive grants of AUS$0.16 per litre for new or expanded projects which produce a minimum of 5 million litres (ML) per year. The AUS$17.2M Ethanol Distribution Program announced in August 2006 is aimed at upgrading service stations to handle ethanol fuel. The AUS$100M Renewable Energy Development Initiative supports research projects such as using algal feedstock for biodiesel production, the conversion of plant waste into ethanol, and the development of high yielding sugar cane to be used as a feedstock for ethanol.

However, the cost of feedstock, the most important factor in the production of ethanol and biodiesel, has increased significantly. Investors are also concerned about whether the high price of crude oil will remain at levels of over US$70 per barrel. As a result, several

AUSTRALIA: MAJOR FIELD CROPS SUPPLY AND DISPOSITION

	2002 -2003	2003 -2004	2004 -2005	2005 -2006	2006 -2007	2007 -2008f
	……..million tonnes……					
Carry-in Stocks	10.9	5.1	8.3	9.7	14.0	4.7
Production	19.1	43.6	35.9	42.3	17.6	38.4
Imports	0.4	0.2	0.2	0.2	0.3	0.2
Total Supply	**30.4**	**48.9**	**44.4**	**52.2**	**31.9**	**43.3**
Exports	12.4	26.8	20.5	23.0	11.9	22.0
Feed Use	7.9	9.1	9.3	10.1	10.3	10.0
Crush/Food Use	5.0	4.7	4.8	5.0	5.0	5.1
Domestic	12.9	13.8	14.1	15.1	15.3	15.1
Total Use	**25.3**	**40.6**	**34.6**	**38.1**	**27.2**	**37.1**
Carry-out Stocks	5.1	8.3	9.7	14.0	4.7	6.2

Source: USDA-FAS, Oil World, ABARE

Canada

planned expansions have been put on hold or delayed, and some existing plants are operating at below capacity.

Currently, there are two major ethanol facilities in Australia producing about 132 ML of ethanol annually using waste wheat starch, low grade grain, and molasses as the feedstock. Four new biodiesel plants came on-line in 2006, adding about 280 ML of annual capacity to the 15 to 20 ML capacity Australia had previously. Tallow, soyoil, used cooking oil, and canola oil are the main feedstocks used in biofuel production in Australia. Unlike grain-based ethanol plants, which could face feedstock shortages in the future, Australia's biodiesel plants are located at or near ports. This provides relatively easy access to imports of palm oil and tallow at times when domestic supplies of feedstock are insufficient.

AUSTRALIA: BARLEY SUPPLY AND DISPOSITION

July-June marketing year	2002 -2003	2003 -2004	2004 -2005	2005 -2006	2006 -2007	2007 -2008f
	……..…million tonnes……					
Carry-in Stocks	1.8	0.9	1.9	1.9	2.8	0.9
Production	3.9	10.4	7.7	9.6	3.8	9.0
Total Supply	**5.6**	**11.3**	**9.6**	**11.5**	**6.6**	**9.9**
Exports	2.0	6.4	4.3	5.3	2.0	5.0
Feed Use	1.8	2.2	2.5	2.5	2.8	2.6
Food Use	1.0	0.9	1.0	1.0	0.9	1.0
Domestic	2.7	3.1	3.5	3.5	3.7	3.6
Total Use	**4.7**	**9.4**	**7.7**	**8.7**	**5.7**	**8.6**
Carry-out Stocks	0.9	1.9	1.9	2.8	0.9	1.4

Source: USDA-FAS

Deregulation of Wheat and Barley Marketing

Wheat

During World War I, the Australian government established a wheat pooling scheme, administered by the Australian Wheat Board (AWB), to assist wheat growers. The AWB ceased to operate in 1921, as originally intended, but was later re-established as a government controlled marketing authority which then operated from 1939 to 1999.

In July 1999, the AWB was privatized and became a grower-owned and controlled corporation. Since then, the AWB has diversified beyond its core business of single-desk wheat sales. The holding company, AWB Limited, oversees several subsidiary businesses, including the following: AWB GrainFlow, which provides bulk grain handling and transport facilities; Landmark, which provides financial, insurance, real estate, and other such services to Australian farmers; AWB (Australia) Limited, which is involved in domestic wheat trading and the export of non-wheat grains; and, AWB (International) Limited, which until recently exported wheat under a single-desk authority.

The AWB's status as single-desk exporter of Australian wheat changed in December 2006 when the government issued permits to two other companies to export wheat. On January 29, 2007, the first non-AWB wheat shipment since 1939 left Australia for Indonesia.

A new producer led company, to be in place by March 1, 2008, would then take control of the monopoly, but the Australian government will retain the right to further deregulate export sales if farmers cannot put together a new producer controlled organization.

Barley

The Australian barley sector once was highly regulated with single desk selling for domestic and export sales. The Australian Barley Board (ABB) was established in 1939 to coordinate the acquisition and marketing of all barley produced in Australia. In 1942, the ABB's jurisdiction changed to only Victoria and South Australia. Significant changes in regulations have occurred thereafter, with variations by state. With the removal of marketing restrictions on malting barley in New South Wales in 2005, and the removal of bulk exports restrictions in South Australia in 2007, the proposed deregulation in domestic and export marketing in Western Australia will end the single desk marketing of barley in Australia in 2008.

GM Crops

GM Wheat

Australia has launched field trials for drought tolerant GM wheat. The government body in charge of genetic modification, the Gene Technology Regulator, approved an application by the Victorian Department of Primary Industries for trials on GM wheat. Gene Technology Regulator's decision to allow GM wheat trials to go ahead was made after extensive consultation with the public and with other government departments and agencies. According to the Australia Grains Council, these trials may result in new varieties that will be ready for commercial release within five to seven years.

AUSTRALIA: WHEAT SUPPLY AND DISPOSITION

July-June marketing year	2002 -2003	2003 -2004	2004 -2005	2005 -2006	2006 -2007	2007 -2008f
	……..…million tonnes……					
Carry-in Stocks	8.0	3.1	5.4	6.7	9.7	3.2
Production	10.1	26.1	21.9	25.4	9.9	23.0
Imports	0.3	0.1	0.1	0.1	0.1	0.1
Total Supply	**18.5**	**29.3**	**27.3**	**32.1**	**19.7**	**26.3**
Exports	9.1	18.0	14.7	16.0	9.0	15.5
Feed Use	3.5	3.2	3.2	3.7	4.8	4.0
Food Use	2.7	2.7	2.7	2.7	2.7	2.7
Domestic	6.2	6.0	5.9	6.4	7.5	6.7
Total Use	**15.3**	**24.0**	**20.6**	**22.4**	**16.57**	**22.2**
Carry-out Stocks	3.1	5.4	6.7	9.7	3.2	4.1

Source: USDA-FAS

GM Canola

The main canola producing states in Australia have legislation

that prevents commercial planting of GM canola. The legislation is largely based on the belief that there is consumer resistance to GM crops and to meat products derived from livestock that have been fed GM feedstuffs. Proponents of the legislation contend that commercialization of GM canola would result in the loss of price premiums for Australia's non-GM canola. Australia's wheat and barley marketers also claim that the presence of GM canola in their shipments might jeopardize sales due to the possible co-mingling in the grain handling and storage system.

AUSTRALIA: OATS SUPPLY AND DISPOSITION

July-June marketing year	**2002 -2003**	**2003 -2004**	**2004 -2005**	**2005 -2006**	**2006 -2007**	**2007 -2008f**
	……..million tonnes……					
Carry-in Stocks	0.15	0.19	0.29	0.26	0.37	0.09
Production	0.96	2.02	1.28	1.70	0.65	1.50
Total Supply	**1.11**	**2.21**	**1.57**	**1.96**	**1.02**	**1.59**
Exports	0.12	0.21	0.14	0.19	0.08	0.18
Feed Use	0.63	1.53	1.00	1.23	0.68	1.00
Food Use	0.18	0.18	0.18	0.18	0.18	0.18
Domestic	0.80	1.71	1.18	1.40	0.85	1.18
Total Use	**0.92**	**1.92**	**1.31**	**1.59**	**0.93**	**1.35**
Carry-out Stocks	0.19	0.29	0.26	0.37	0.09	0.24

Source: USDA-FAS

In global markets, there appears to be little evidence of price premiums being extracted for non-GM canola, and that includes markets for organic and certified non-GM canola. The exception might be certain niche markets where a segment of the population enjoys the benefits of high disposal income. In the meat and dairy markets, there appears to be some marketing advantage for producers who can claim their animals are fed GM-free feedstuffs.

The major issues regarding market access and price premiums for non-GM canola have essentially been addressed. Australia must now consider the financial and environmental benefits of lifting the moratorium on GM canola, and examine the costs of segregating GM and non-GM canola should they proceed in that direction.

MARKET SITUATION AND OUTLOOK

For 2006-2007, Australia's major crop producing areas were affected by severe drought during much of the crop year. As a result, total ***production*** of Australia's major field crops decreased by more than 50%, to 17.6 million tonnes (Mt), as average yields dropped to an even lower level than in 2002-2003 when several thousand hectares of seeded land were abandoned. Although Australia's wheat, barley and oat crops were affected by the 2006-2007 drought, the canola crop was particularly hard hit due to its relatively low tolerance to dry conditions.

Faced with steadily increasing domestic demand for agricultural commodities and the lowest available supplies since 2002-2003, ***carry-out stocks*** of Australia's major field crops were drawn down significantly to 4.7 Mt in 2006-2007, from 14.0 Mt in 2005-2006, and the lowest level in recent years.

On the other hand, early indications are that soil moisture conditions in Australia's main crop growing areas have improved significantly since the disastrous drought of 2006-2007 and that crop yields for 2007-2008 will return to more normal levels.

For 2007-2008, assuming a return to near normal growing conditions, total ***production*** of Australia's major field crops is forecast to increase significantly to 38.4 Mt but ***carry-out stocks*** are forecast to increase only slightly to 6.2 Mt.

On the demand side, the outlook is being shaped by the biofuels sector, as it is in other major grains and oilseeds producing countries. As well, increasing consumer acceptance of GM commodities worldwide is expected to have an effect on how Australia will serve its domestic and key export markets in the future.

Wheat

For 2006-2007, wheat yields were lower than those experienced during the drought of 2002-2003 and the lowest since 1982-1983, and the abandonment of seeded area for 2006-2007 was abnormally high. As well, below average winter and spring rainfall resulted in depleted soil moisture reserves which limited spring wheat plantings. For 2007-2008, as soil moisture reserves are expected to recover and yields return to more normal levels, wheat ***production*** is forecast at 23.0 Mt, up from 9.9 Mt in 2006-2007, but below 25.4 Mt in 2005-2006.

With the lowest beginning stocks in years, available ***supplies*** for 2007-2008 are forecast at 26.1 Mt, up from 19.7 Mt in 2006-2007, but considerably lower than the record 32.1 Mt in 2005-2006. Nevertheless, ***exports*** for 2007-2008 are forecast at 15.5 Mt, up from 9.5 Mt in 2006-2007 and ***carry-out stocks*** are forecast at 4.1 Mt, up from 3.2 Mt in 2006-2007.

Barley

For 2006-2007, the drought dramatically reduced crop yields and increased abandonment rates through much of the barley growing areas. For 2007-2008, yields and area harvested are expected to increase significantly. Barley ***production*** is forecast at 9.0 Mt, up considerably from 3.8 Mt in 2006-2007, but slightly less than the 9.6 Mt of barley produced in 2005-2006. As crop yields recover and abandonment rates decline due to improved moisture conditions, available supplies are forecast at 9.9 Mt, up from 6.6 Mt in 2006-2007. As a result, ***exports*** are forecast to increase to 5.0 Mt, more than double the 2.0 Mt of barley exported in 2006-2007. ***Carry-out stocks*** for 2007-2008 are forecast to increase to 1.4 Mt from 0.9 Mt in 2006-2007, which were even lower than those recorded in 2002-2003, and the lowest since 1999-2000.

Oats

For 2006-2007, oat ***production*** fell dramatically as yields were halved by severe drought. For 2007-2008, oat ***production*** is forecast at 1.5 Mt, up from 0.7 Mt in 2006-2007 as growing conditions return to more normal levels. With oat production expected to more than offset the lower-than-normal beginning stocks, available ***supplies*** are forecast at 1.6 Mt, up from 1.0 Mt in 2006-2007, and ***exports*** are forecast at 0.18 Mt, up from 0.08 Mt in 2006-2007. ***Carry-out stocks*** for 2007-2008 are forecast at 0.2 Mt, up from 0.1 Mt in 2006-2007.

AUSTRALIA: CANOLA SUPPLY AND DISPOSITION

November-October marketing year	**2002 -2003**	**2003 -2004**	**2004 -2005**	**2005 -2006**	**2006 -2007**	**2007 -2008f**
			……..million tonnes……			
Carry-in Stocks	0.08	0.05	0.08	0.24	0.38	0.11
Production	0.87	1.70	1.54	1.44	0.50	1.40
Imports	0.00	0.00	0.00	0.00	0.06	0.00
Total Supply	**0.95**	**1.75**	**1.63**	**1.68**	**0.93**	**1.51**
Exports	0.50	1.21	0.90	0.82	0.35	0.80
Crushing	0.39	0.43	0.46	0.46	0.46	0.46
Other Use	0.01	0.03	0.03	0.03	0.02	0.02
Domestic Consumption	0.40	0.46	0.49	0.48	0.48	0.48
Total Use	**0.91**	**1.67**	**1.38**	**1.30**	**0.83**	**1.28**
Carry-out Stocks	0.05	0.08	0.24	0.38	0.11	0.23

Source: USDA-FAS

Canola

For 2006-2007, canola ***production*** was at the lowest level since 1994-1995 when Australia produced 0.3 Mt of canola. It must be noted that the canola crop is particularly vulnerable under abnormal growing conditions because of its low tolerance to drought, i.e., relative to most other field crops. With a return to more favourable growing conditions for 2007-2008, canola ***production*** is forecast at 1.4 Mt, up considerably from 0.5 Mt in 2006-2007. The increase in production is expected to more than offset the lower-than-normal beginning stocks. On that basis, available ***supplies*** are forecast at 1.5 Mt, up from 0.9 Mt in 2006-2007, and ***exports*** are forecast at 0.8 Mt, up from 0.4 Mt in 2006-2007. ***Carry-out stocks*** for 2007-2008 are forecast at 0.2 Mt, up from 0.1 in 2006-2007.

IMPLICATIONS FOR CANADA

The potential approval of GM commodities for production in Australia, as it reacts to recent developments has implications for Canada's grains and oilseeds sector. With no clear evidence of Australia's ability to extract significant premiums for non-GM canola, Australian farmers are expected to explore the financial and environmental benefits of herbicide tolerant canola should that opportunity arise. Should they proceed in that direction, this could potentially place Australia in direct competition with Canada in important export markets for canola such as Japan and Mexico.

Australia's biofuels sector, while still in its infancy, also has the potential to exert a significant market influence on world prices for grains and oilseeds. If it were to adopt a more aggressive biofuels strategy, similar to those already in place in the EU and the US, there would be additional demand pressure on the already tight supplies of feedstock being used for the production of ethanol and biodiesel worldwide.

With a return to normal production levels, and the increase in available supplies, Australia is expected to increase its exports of wheat, barley, and canola, which would pressure world prices for these commodities and Canada's exports.

For example, Australia is expected to export between 0.2 and 0.4 Mt of canola to Japan, a traditional and important market for Canadian canola. Australia could also displace some of Canada's exports in markets such as Bangladesh, Pakistan and the United Arab Emirates where Australia has a freight cost advantage. For barley, Canada may face more intense competition in the Asian-pacific markets such as China, as exports of both feed and malting barley from Australia increase. The increased availability of exportable supplies from Australia is also expected to offset some of the demand pressure on world prices being exerted by the biofuels sector.

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