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## Oats: Situation and Outlook by Aamir Asgarali, Junior Market Analyst

*Canada is the world's largest exporter of oats and is expected to account for 70–80 per cent of world oat exports in 2006–2007. Oats represent about six per cent 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 per cent from 2005–2006. Canadian exports, predominantly to the United States (U.S.) 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 U.S. related to the biofuel market.*

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 contain 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 U.S., and Australia. Global oat trade continues to be dominated by U.S. 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 per cent 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.

### 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 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 (U.S.) and Japan are expected to account for 84 per cent and three per cent, respectively, of world imports in 2006–2007. Canada and the EU-25 are expected to account for 80 per cent and 11 per cent, 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.

### Major Importers

#### United States

The U.S. is the world's largest importer of oats and the fourth largest oat producer. The majority of U.S. 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 U.S. and then exported as value-added oat groats to Central and South America.

U.S. 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 U.S. led to very poor quality oats in several of the major production states. U.S. imports for 2006–2007 (October-September) are expected to be the same as 2005–2006 at 1.8 Mt, or about 80 per cent of world imports, versus 1.62 Mt in 2004–2005. About 70 per cent of the oats produced in the U.S. are used for on-

farm feed. Only about five per cent are used for milling purposes.

U.S. oat production has historically been disadvantaged by the U.S. 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 U.S. 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 five per cent 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 U.S. 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 U.S. from Finland and Sweden is expected to be historically low in 2006–2007. Consequently, EU exports (October–September) to the U.S. 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.

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 U.S. 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 U.S. 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 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 eight per cent 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 per cent 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 per cent 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 five per cent, 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 U.S. demand. Exports of processed oats have increased in recent years. Imports of Canadian oats satisfies most of U.S. 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 U.S.

Manitoba and Saskatchewan have controlled about 50 per cent and 40 per cent of the export market, respectively. Alberta has also played an important, although smaller, role in exports to the U.S. 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.

## Prices

For 2006–2007, CBoT prices for nearby oat futures are forecast to in-

crease 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 U.S. 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 U.S. is more than offset by higher production in the EU-25, Canada and Australia. In the U.S., farmers are expected to shift some area out of oats into corn and wheat because of the strong demand for biofuel. Consequently, U.S. 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 U.S. 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.

## 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 per cent 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.

## United States: Utilization of Oats

The major commercial U.S. 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 U.S. 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. ■

*(Source: Agriculture and Agri-Food Canada Bi-weekly Bulletin Oct. 23)*