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World durum wheat trade

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SUMMARY - The worldwide commercialisation of durum wheat is closely connected to its production. Traditionally, durum wheat is produced in very limited areas in the world which are normally placed in regions with very low pluviometry and therefore very dependent on adverse climatic situations. That is the reason why the farming is closely connected to the climatic situation of the region where it is produced. During the marketing campaign 1993-94 it is foreseen that the drought will affect the regions in the south of Europe as well as the regions in North America. In case of shortage of durum wheat the producer states will be forced to sell the security stocks which will be notably reduced. The shortage in supply will affect the world prices which could reach to a level not seen for 20 years. The sowing of the American farmers was less than the sowing of the previous year due to the low prices of the previous campaigns and to the pre-established set-aside programmes of the US Government. A similar direction is taking the Canadian sowing which will reduce its production, too, and in the EU also but due to the CAP reform and the drought that affected South Europe. The estimated losses of the production, due to these reasons, will be approximately: 15% in the USA; 9% in the EU and 6% in Canada. The situation will be even more critical in the non producer states because they will be confronted with a shortage of this cereal and very high prices.

Key words: Seller's market, exporters, quality, shotfall, prices.

RESUME *- "La commerce mondial du blé dur". La commercialisation du blé dur dans le monde est très intimement associée à sa production. Le blé dur est traditionnellement produit dans des zones limitées de la planète, qui sont généralement situées dans des régions à faible pluviométrie et, par conséquent, sujettes à des situations climatiques adverses. C'est pour cette raison que la culture du blé dur est étroitement liée au climat de la région où on le cultive. Pour la campagne de commercialisation 1993-94 on prévoit que la sécheresse touchera tant les zones du Sud de l'Europe que celles de l'Amérique du Nord et s'il y a pénurie cela obligera les Etats producteurs à vendre les stocks de sécurité, qui pourront donc se réduire sensiblement. Le manque d'offre va toucher les prix mondiaux qui pourront atteindre des niveaux inconnus pendant ces 20 dernières années. La terre emblvée par les agriculteurs américains a été inférieure à celle de la dernière campagne en raison des bas prix par rapport aux autres campagnes et à cause des programmes établis par leur Gouvernement concernant le gel des terres. La campagne canadienne suivra un chemin semblable en réduisant aussi sa production et celle de l'UE également, en raison de la réforme de la PAC et de la sécheresse du Sud de l'Europe. L'estimation de perte de récolte à cause des deux raisons citées ci-dessus est de: 15% pour les Etats-Unis; 9% pour l'Union Européenne; 6% pour le Canada. La situation sera plus critique pour les pays non producteurs car ils devront affronter le manque de cette céréale et en plus des prix très élevés.*

Mots-clés : *Marché de vente, explotateurs, qualité, pénurie, prix.*

Durum wheat trade is closely linked to production. Both factors should be looked at together.

Durum wheat is traditionally produced in only a few areas of the planet. These are regions with generally low rainfall that are vulnerable to adverse weather conditions.

The cultivation of durum wheat is heavily dependent on climate which has a substantial effect on both quality and quantity. Adverse climatic conditions restrict the amount produced and undermine the quality, thereby pushing up market prices. This is exactly what has happened in the current marketing crop, during which southern Europe was hit by drought. It also happened in 88/89 when a drought affected Canada and the USA.

World production over the past 8 years is shown in Table 1.

Table 1. World durum wheat production in millions of tons (International Wheat Council)

Year	1992/93	1991/92	1990/91	1989/90	1988/89	1987/88	1986/87	1985/86
EEC (now EU)	8.1	9.0	11.4	7.4	6.5	7.0	7.5	7.2
Turkey	4.2	4.0	5.0	5.5	5.5	4.0	6.0	6.0
Canada	2.9	3.1	4.6	4.3	4.1	2.0	4.0	3.9
USA	2.2	2.6	2.8	3.3	2.5	1.2	2.5	2.7
Tunisia	1.4	1.3	1.4	0.9	0.3	0.2	1.1	0.4
Algeria	1.2	1.3	1.3	0.6	0.9	0.4	1.0	1.1
Morocco	0.9	0.7	2.2	1.6	1.8	1.8	1.0	2.0
Others	5.8	5.8	5.7	5.4	5.3	5.8	5.5	5.9
Total	26.6	27.8	34.4	29.0	26.9	22.4	28.6	29.2

Until this year, it was easy to talk about durum wheat trade. It was a sellers' market, with large surpluses of production. In the EEC (now EU), market surpluses were offered to the intervention board. Average exports of the three leading exporters (Canada, USA and the EEC) over the past ten years amounted to 4.7 million tons of which the EEC's share was only 0.66 million, i.e. 14% of world trade. Farmers' total revenue came from prices, which were generally at the level paid by the intervention board, or slightly below, and producer incentives paid on the area under cultivation. To make up for prices that were below those paid by the state, industry offered farmers shorter payment periods, quality bonuses and the like. However in the present marketing crop the situation has undergone a marked change. World production is expected to be down by 4% or 1.1 million tons.

Due to the low prices obtained in previous years and the programmes established by the American government for land to be laid fallow, farmers in the United States sowed 17% less land than in the previous season. Furthermore, it looks as though the quality of 15% of the durum wheat harvested will also suffer as a result of fusariosis. The situation in Canada is expected to be rather similar and production will also be cut back. In the EU too, production will be down due to the reform of the Common Agricultural Policy (CAP) and the drought in Spain. Forecasts for production falls are: 15% in the USA, 9% in the EU, and 6% in Canada. If this happens, world stocks may well be considerably depleted by the end of the current buying round. However prices will not be greatly affected until world stocks fall below present levels.

Let us look at the reasons for these reductions. In the USA it is expected that 2.1 million acres, (about 850,000 hectares), will be sown. With an estimated yield around 2,500 kg/ha. This gives a crop for this marketing year of 2,204,000 tons as compared to 2,640,000 tons for the marketing year 92/93. Yield is down 5.8% on last year's figure of 2.8 tons per ha, but it is still substantially above the average for the past few years of some 2.0 tons/ha. This fall in the yield, coupled with the 17% reduction in the area under cultivation, has led to an overall fall in cereal production in the USA. Although price differences of 30 to 40% between soft and durum wheat were predicted as early as April, the farmers did not make any major alterations to their sowing programmes.

Stocks will remain at 1,251,000 tons, just slightly below the level of the previous marketing year when they stood at 1,333,000 tons. This is due to increased imports of durum wheat and its derivatives from Canada. Imports came to about 852,000 tons this marketing year, as against some 735,000 tons the year before. Some 600,000 tons were imported as grain. However some sources put the figure as high as 800,000 tons, which is almost 50% up on last year. The remainder imported this marketing year was pasta and other products made from durum wheat. It is worth noting that pasta imports from Italy and Turkey have increased enormously over the last year. "All these imports displace product grown and made in the United States" says North Dakota Wheat Commission (NDWC) Deputy Administrator, Neal Fisher. He added: "The situation has become a vicious circle. Increasing imports depress US farmers' incentive to grow durum. This, in turn, creates more opportunities for cheap, subsidized durum

and pasta to satisfy growing US demand". The United States Department of Agriculture recommended to President Clinton to lodge a complaint against imports of Canadian durum wheat into the United States based on Section 22 of the Agricultural Adjustment Act.

The Acreage Reserve Programme (ARP) is intended to stabilize or improve prices farmers receive for their commodities by cutting back production. The programme requires farmers to set aside a percentage of their base wheat acreage in order to qualify for Federal aid. With a 5% "set aside" requirement and an 83% participation rate among farmers, about 80,000 ha would be held out of durum production. In an average year this would reduce durum stocks by about 160,000 tons. With production down and domestic demand growing it is only to be expected that prices should tend to rise. In fact, however, this has not happened. For every step forward taken by American farmers, they have had to take two steps back. Most imports from Canada are of durum wheat grain, accounting for around 600,000 tons. Canadian wheat started coming into the United States in 1987 and imports remained steady until the Free Trade Area (FTA) came into force in 1989.

The North America Free Trade Area (NAFTA) has been viewed by most durum wheat farmers as a chance to put right some of the mistakes made in the FTA. American farmers' representatives have asked their government to include two major points in the NAFTA agreement: i) change the practice of the Canadian Wheat Board (CWB) of keeping prices and stocks secret; ii) put an end to the CWB's customary practice of subsidising transportation of wheat shipments bound for export. Both these factors make Canadian wheat more competitive and thereby have a considerable bearing on the increase in exports of Canadian wheat to the United States. According to Maier, "The bottom line is that unfairly priced imports depress producer income". "Durum wheat prices have risen sharply since much of the world's exportable durum is in the United States and Canada. Local durum prices have advanced 25 to 50 cents"; Maier went on to say. "This is a positive development for a shrinking industry, but it will take more than a few weeks of premiums to attract US growers back to planting durum ... As harvest continues, the potential for a drop in spring wheat and durum prices increases if quality and quantity are minimized".

Let us now take a look at the situation of stocks in the United States (Table 2).

Table 2. US stocks for the current marketing year (North Dakota Wheat Commission)

	Marketing year 92/93 thousands of tons	Marketing year 93/94 thousands of tons
Initial stocks	1,497	1,333
Production	2,640	2,204
Imports	735	952
Total supply	4,872	4,489
Domestic market	2,259	2,286
Exports	1,279	952
Total use	3,538	3,2381
End stocks	1,333	1,251

Table 3 shows United States exports over the last ten years.

The Department of Agriculture has estimated that exports will be down this trading year and so forecasts that imports will be in excess of exports by 130,000 tons. Exports are expected to be 952,000 tons as against 1,200,000 tons the previous year, i.e. 25% down, although the final figure is likely to be somewhat higher due to the fact that durum wheat from the EEC/EU is in short supply.

Table 3. United States durum wheat exports (ONIC, Marché des Céréales)

Year	Thousands of tons	% of all wheat
1983/1984	1,594	4,39
1984/1985	1,648	4,45
1985/1986	1,394	6,04
1986/1987	2,151	8,47
1987/1988	1,585	3,72
1988/1989	451	1,18
1989/1990	1,725	5,08
1990/1991	1,440	4,95
1991/1992	1,242	3,65
1992/1993 (forecast)	1,279	3,47
1993/1994 (forecast)	953	3,05
Average 79/80 - 93/94	1,528	4,32

In Europe, as a consequence of the CAP reform, huge areas of land in the European Community/European Union which had previously been used for growing wheat were left fallow or given over to other crops, mostly in the "Basin Parisien" in France. Bearing all this in mind, in November 1992 the "Union of Semolina Producers Associations in the EEC" of what was then still known as the EEC made the forecast for the present marketing year which is set out in Table 4. A large community shortfall was already foreseen at the time.

Table 4. EU production and requirements forecast for 1993/94 (including exports), Union des associations de semouliers de l'Union Européenne

Amounts in thousands of tons	Production (area planted in '92 x average yield for 87/91)		Total requirements (consumption + exports)	Shortfall
	Total	Traditional areas		
Italy	3,600	3,200	5,900	(2,700)
Greece	1,300	1,300	600	700
Spain	1,500	1,500	500	1,000
Total (a)	6,400	6,000	7,000	(1,000)
France	2,000	1,000	700	300
Others	100	-	800	(800)
Total (b)	2,100	1,000	1,500	(500)
Total (a) + (b)	8,500	7,000	8,500	(1,500)

The CAP reform ran the risk of leading to durum wheat no longer being produced in non-traditional areas and of the industry being hit by a shortfall of this staple cereal which is indispensable to the semolina and pasta industry.

In fact the area sown with wheat in France was 46% less than the previous season. In Italy it was also down. Overall the total area planted with wheat in the EEC was 10% down. When this forecast was made, the effects of the drought in Spain, which substantially reduced Spanish production, and hence that of the Community, were not reckoned with. In fact the balance sheet put forward at the last meeting of the "European Union Cereals Advisory Committee" in October was based on the figures given in the table below.

There are major discrepancies regarding the actual figures, especially those for production. COPA/COCEGA estimates were slightly over 6.9 million tons whereas the Commission finally gave a verbal figure of 7.4 million tons. At all events there is a major shortfall for which the following estimates have been provided: 2.3 million tons, according to the Commission's written figures; 1.6 million tons, according to COPA/COCEGA; 1.1 million tons, according to the figures given verbally by the Commission. The shortfall, whatever its real amount, should not give cause for concern, remembering that the EU has a large intervention board stock which on 5 September 1992 stood at 2.9 million tons.

The Commission's original estimates were as follows in Table 5.

Table 5. EU durum production and requirements: forecast for 1993/94 (including exports) (thousands of tons), Union des Associations des Semouliers de l'Union Européenne

	Production	Consumption	Shortfall
Italy	3,672	5,900	(2,228)
Greece	860	600	260
Spain	600	500	100
Total (a)	5,132	7,000	(1,868)
France	941	700	241
Others	74	800	(726)
Total (b)	1,015	1,500	(485)
Total (a) + (b)	6,147	8,500	(2,353)

There is no doubt whatsoever that current stocks are sufficient to meet the needs of the European Community. Even in the worst case scenario, there would still be a surplus of 600,000 tons. In saying that the shortfall is not worrying I am referring to the industry in the European Union. However the outlook is not the same for the other countries supplied by the EC, as in the current situation it is likely that the European Community will interrupt its exports of durum wheat grain. The situation will be most critical for Morocco which was also affected by the drought and which last year bought a total of 97,593 tons from the EC, and Algeria, which bought almost one million tons from the USA and only 4,647 tons of durum wheat from Europe. Both these countries will be in a position of having to import in the current sales round in order to satisfy the consumption requirements of their inhabitants. However exports from the European Union will be practically non-existent while those from the USA and Canada will down on previous years.

Estimates of EEC Intervention Board stocks are set out in the Table 6.

In 1992 the EC exported 820,000 tons of durum wheat. In this connection it should be noted that only 14 countries, out of a total of 40, accounted for 90% of purchases of durum wheat from the EC/EU last marketing year.

EC durum wheat exports in 1992 in tons are given in Table 7.

It is also worth pointing out that just 5 countries accounted for over 60% of EC exports.

Table 6. European Community intervention board stocks at 5 September 1993 (in tons), Comité Consultatif de Céréales, Brussels

Stocks at the beginning of the year		3,389,392
Amount accepted by intervention board		0
Amount sold		248,030
Internal market	179,948	
Exports	5,810	
Food aid	62,272	
Lost	0	
Amount engaged for		225,000
Internal market	150,000	
Exports	75,000	
Food aid	0	
Stocks available at 5 september 1993		2,916,362

Table 7. EC durum wheat exports in 1992 in tons (EEC/EU statistics)

Libya	168,717	South Africa	22,102
Byelorussia	104,564	Venezuela	20,912
Morocco	97,593	Moldavia	20,700
Russia	94,161	Israel	19,958
Poland	87,489	Tunisia	19,438
Ukraine	43,334	Turkey	17,377
Switzerland	28,478	Peru	13,490

In Canada the amount sown this marketing year was less than usual. At 3.5 million acres (about 1.4 million hectares) it was down 5.6% on the previous year, mainly due to the fact that rainfall in the province of Saskatchewan was below normal. Canada's record was established in 1989 when 2.6 million hectares were planted. By the time less than 30% of the total area sown had been harvested in the third week of September, it looked as though the quality had dropped for the second year in succession due to problems caused by climatic conditions. The quality is better in the more western regions while eastern regions have been more affected by the weather. According to the Canadian authorities the harvest in Saskatchewan, the country's major durum wheat-producing province, may still turn out to be of an acceptable quality given favourable weather. Canadian producers are concerned that this year might see a repetition of 1992 when, in similar circumstances to those prevailing now, most of their durum wheat crop was classified as No. 3 and fodder quality. The poor quality of the 1992 harvest had a bearing on Canadian exports so that in the 1992/93 marketing year, Canada exported about 2.5 million tons of durum wheat as against about 3 million tons the previous year. Exports to the United States for the first ten months of the 1992/93 marketing year came to about 400,000 tons as against 375,000 tons the year before.

Conclusion

We can expect that in the 1993/94 marketing year we will be faced with a considerable shortfall of exportable durum wheat and that prices for this cereal on the international market will be very high.

The likelihood of this major shortfall of exportable durum wheat can be deduced from the following figures (given in thousands of tons):

Exports for last year	4.700
Canadian exports	2.500
This would leave	2.200
Scheduled exports from the United States	952
This would leave	1,248
Forecast of stock remaining in the USA at the end of the marketing year	1,251

If the above predictions are fulfilled, the only standby stock remaining in the world would be the stock left in Canada. It is likely that stocks in the EU will be reduced to practically nothing by the end of 93/94.

If the next harvest were to be as bad as this one, the processing industry will be faced with serious supply problems.