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Canada

Grain and Feed Update

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Report Highlights:

The Canadian grain market has undergone major changes since August 2012, but for the most part planting intentions continue to be guided as they always have – by weather, economics and planting rotations. Weather conditions across agricultural regions in Canada have generally been fair to excellent, and better than previously expected. Total production of wheat, barley, oats and corn is forecast to be 54 MMT, an increase of 6% over the previous year's total of 51 MMT.

EXECUTIVE SUMMARY:

Marketing Year 2013/2014:

- Preliminary estimates of principal field crop areas were made available by Statistics Canada in its June Farm Survey.
- Weather conditions across agricultural regions in Canada have generally been fair to excellent, and better than previously expected.
- Production of all wheat is expected to increase by 8% to 29 MMT due to increased area seeded and yields that are forecast to be similar to the last crop year for spring and winter wheat. Behind the increase are strong wheat prices, relative ease of marketability and the advantages that wheat has as a rotation crop.
- A forecasted increase in barley production of 4% over MY 2012/2013 is supported by yields that are expected to improve over last period, despite a 3% decrease in area seeded.
- After years of decline, area seeded to oats increased 18% over the previous period to 1.36 MHA. Production is forecast to remain low but increase 10% to 3.0 MMT. Low oats production is primarily due to competition from wheat and oilseeds, and reduced demand.
- In MY 2013/2014, corn production is forecast to increase slightly based on a predicted increase in area harvested and despite an expected return to lower trend yields. Production is forecast to be 15% above the five-year average (2007-2011).
- Forecasted exports of all wheat grain, flour, uncooked pasta and couscous in MY 2013/2014 have been revised up 500,000 tons to 19.5 MMT (up 4% over the previous period), mainly as a result of increased sales opportunities in South America with tighter supplies in Argentina.
- In MY 2013/2014, Canadian corn exports are expected to fall by 46% from the previous period's high due to an expected improvement of the U.S. supply.
- In MY 2013/2014, barley exports are forecast to fall 21% due to a recovery in world production and a comparatively good Canadian domestic price.
- Exports of oats are forecast to fall another 6% to 1.6 MMT due to lower supply and decreased U.S. demand.

Marketing Year 2012/2013:

- Exports of all wheat grain, seed and products in MY 2012/2013 are forecast to increase 7% from the previous period to 18.8 MMT, due to a good harvest, diminished output in regions like Australia, and strong demand from the United States following the country's drought in agricultural areas.
- Exports of corn in MY 2012/2013 are forecast to reach 1.4 MMT, 183% higher than the previous period, due to increased production and strong demand from the United States following the drought.

- Imports of corn in MY 2012/2013 are forecast to decrease 31% from the previous period to 600 TMT due to increased domestic production. The majority of corn imports continue to come from the United States.
- Barley exports in MY 2012/2013 are forecast to increase 8%, lifted by reduced world supplies and increased domestic production.

Production Outlook (General):

Statistics Canada's June Farm Survey, which collects information on crop seeded areas in Canada, was conducted between May 27 and June 10, 2013, with approximately 25,000 farmers. Producers were asked to report their seeded areas of grain, oilseeds and special crops.

June seeded acres are subject to updates from subsequent surveys during the current crop year. Data on final acreages for 2013 will be released on December 4, 2013 and may be subject to revision for two years. This data is reflected in the estimates and forecasts provided in this report.

Weather conditions across agricultural regions in Canada have generally been fair to excellent, and better than previously expected. Crop conditions across the prairie provinces are for the most part also considered to be fair to excellent, and yields are forecasted to be average or above average.

In April, 2013, excess moisture was considered a possibility in parts of Saskatchewan; however, conditions have mostly improved. The areas of concern were the same areas that were previously flooded in 2011. For the period November 2012 to March 2013, precipitation was 150% to 200% of normal in south-central and south-eastern Saskatchewan, and 115% to 150% of normal along the Manitoba border. However, in a surprising turnaround, by June 24th, the government of Saskatchewan stated that seeding was complete. At the time of writing, most crops in the province were rated fair to excellent, despite more heavy rain in some areas.

Excess moisture conditions were also a concern in parts of Manitoba in the Spring, and major crop-growing areas -- the southwest and central regions -- have experienced mixed conditions. In the Central Region, good growing conditions continue to advance crops, as well as allow producers to make good progress with haying operations and applications of fungicides. In the Southwest Region, field and forage crops were impacted by the strong winds, heavy rains and hail that passed through the area during the week ending July 15th. At the time of reporting, damage to annual crops ranged from light to severe. Assessments are continuing.

Flooding was experienced in the Calgary, Alberta area, where swelling of the Bow and Oldman River basins began June 19, 2013 and over the following days caused significant flooding damage to the surrounding area, including some agricultural area. However, the majority of the agricultural area was pasture and not crop-growing land. Post estimates that less than 1% of crops, mostly special crops, were affected.

The Canadian grain market has undergone major changes since August 2012, but for the most part planting intentions were guided as they always have been – by weather, economics and planting

rotations. Up until August 2012, the Canadian Wheat Board (CWB) was the world's biggest single wheat exporter. Now that the CWB's monopoly is gone, farmers are free to chose who they sell to. Buyers and sellers are moving forward cautiously and will use their experiences in marketing years (MY) 2012/2013 and 2013/2014 to determine how their actions impact their business. For example, buyers such as Japan's Ministry of Agriculture, Forestry and Fisheries, are hedging their bets and splitting purchases between the CWB and other grain traders. Likewise, farmers too are splitting sales. We anticipate that in MY 2014/2015, market players will be trending towards the sources that have worked best for their businesses. World market supply and demand conditions will have an important influence on wheat pricing.

While changes to the market have resulted in business as usual in many respects, the open market may have somewhat of an influence on planting decisions. For example, the option to grow a mixture of higher yielding, mid-protein varieties rather than high-protein wheat, could influence wheat's competitiveness with other rotation crops in years to come.

Secondly, some producers are saying that the inherent changes to the market since the dissolution of the CWB's monopoly, coupled with good prices, have increased their willingness to research and pursue new crops. Some analysts say that a good example of this is the growth of area seeded to soybeans.

Soybeans gained positive attention over a short period of time. Historically, if the soil was too moist, farmers would delay planting other crops and plant winter wheat instead. This is changing. In some areas that tend to be quite moist (parts of south and southeast Saskatchewan as well as southwestern Manitoba), producers were quick to dedicate land to soybeans. Soybeans are a low-input crop, they're herbicide tolerant, they thrive in moisture, and they currently offer fair margins even with yields as low as 25 bushels per acre. These factors, coupled with the current market environment which favors change, led to an increase of about 200% y/y in area seeded to soybeans in Saskatchewan (for a totaling 69 THA), and a 36% increase in Manitoba (totaling 439 THA), according to Statistics Canada data.

Thus far, prairie soybean producers are new and inexperienced but have been blessed with great harvests. However, there's a possibility that these producers will be discouraged if recent trials done in the region are any indication.

Although not an influence on planting decisions this crop year, in two or more years we could expect to see planting decisions increasingly influenced by the needs of value-added industry. There is some expectation by industry sources that with the CWB no longer acting as sole marketer of Western Canadian wheat and barley, more processing will take place in Canada. The speculation is that companies were hesitant to invest due to the fact that there was essentially one supplier of durum wheat. The announcement of the construction of a pasta and pulse processing plant in Regina, Saskatchewan has been held up as an example of the type of processing investment that will take place now that the CWB is no longer the sole marketer. Other industry sources, however, state that the value-added processing capacity in Canada is currently underutilized and that the true determining factors of whether or not investments in processing of wheat products will be made in Canada or elsewhere will be the transportation costs of getting these products to their markets.

One of the consequences of the dissolution of the CWB's monopoly is that there is less transparency about the setting of cash prices. In the U.S., the National Agricultural Statistics Service produces a price

survey which collects prices at point-of-first-sale. Even more widely watched in the United States are the DTN elevator price surveys. In Canada, there are no similar price surveys. In Western Canada, the CWB used to provide price forecasts, market outlooks and a crop surveillance function. It brought together some of the disparate information sources on wheat, durum and barley. Now, producers must rely on crop reports provided by the various provincial governments which are produced in a variety of types and formats. While producers could call prospective buyers for cash prices, not all producers do so, nor is there currently a system for providing information for analysts.

New commodity organizations have formed that could potentially help close the information gap, including the Alberta Wheat Commission, the Saskatchewan Wheat Development Commission, the Saskatchewan Barley Development Commission, the Cereals Council of Canada and the Barley Council of Canada. The Manitoba Wheat and Barley Growers Association is currently awaiting provincial certification.

In 2012, Intercontinental Exchange (ICE) Future Canada in Winnipeg launched futures contracts for milling wheat, durum and barley, to help farmers gain greater transparency on market prices and manage their trading risks. However, some of the markets have not been very active, and there remains a lack of price signals.

ALL WHEAT:

Production:

In MY 2013/2014, area seeded to all wheat increased 10% from the previous period due to a combination of several factors, including wheat's strong prices, relative ease of marketability and potential as a rotation crop for canola (which is experiencing decreased yields due to intense cultivation). Much of the loss in canola acres in Canada went to wheat, with some competition from soybeans. Area harvested is expected to increase 8% over the previous period to 10.3MMT. Production of all wheat is expected to increase by 8% to 29 MMT due to increased area seeded and yields that are forecast to be similar to the last crop year for spring and winter wheat.

In MY 2012/2013, area seeded to winter wheat fell 6% to 790 THA. At the national level, 790 TMT of winter wheat remain (about 88% of winter wheat seeded), representing a decrease in survival of 6%. A very good survival rate in Ontario and Alberta was partly offset by poor survival rates in Saskatchewan and Manitoba.

Post forecasts an 8% decrease in winter wheat production over the previous period, due to the lower number of acres seeded and the lower survival rate.

Area seeded to spring wheat increased 13% over the previous period and 16% over the five-year average to 7.72 MHA. Gains in increased area seeded to spring wheat were led by Saskatchewan, which planted 492 THA more than last year (up 14%). Manitoba and Alberta each planted 188 THA and 172 THA more than the previous year, respectively.

Production of spring wheat is forecast to increase 13% to 21 MMT due to the increase in area seeded.

Consumption:

In MY 2012/2013, domestic consumption of all wheat is forecast to be 9.6 MMT, down slightly from the previous period due to decreased use of wheat feed, but still 22% above the five-year average (MY2007/2008 to 2011/2012). Growth in food, seed and industrial (FSI) consumption tends to be small but positive from year to year. It is forecast to grow 1% from the previous period to 5.2 MMT after experiencing above-average growth of 5% in MY 2011/2012.

In MY 2013/2014, wheat feed is expected to decrease by 5% from the previous period. About 15% of wheat is used for domestic feed, so it is marginally vulnerable to "small grains" (barley, oats, rye) or other feedstuffs (dried distiller grain, corn gluten feed & meal, milling byproducts).

Growth in FSI consumption is forecast to remain flat in MY 2013/2014.

Trade

In MY 2012/2013, exports of all wheat grain, flour, uncooked pasta and couscous are forecast to grow 8% over the previous period to 18.8 MMT. This is 7% above the five-year average and 15% above the ten-year average. Exports began MY 2012/2013 strong. During the period from August to January of MY 2012/2013, they were 9,752 MT in exports. This is 15% above the same period in MY 2011/2012 and 17% above the same period in MY 2010/2011. The spike in exports is due to a good harvest, diminished output in regions like Australia, and strong demand from the United States following the country's drought in agricultural areas.

Forecasted exports of all wheat grain, flour, uncooked pasta and couscous in MY 2013/2014 have been revised up 500,000 tons to 19.5 MMT, mainly as a result of increased sales opportunities in South America with tighter supplies in Argentina. This represents a projected increase in exports of 4% over the previous period.

Imports of all wheat grain, flour, uncooked pasta and couscous in MY 2012/2013, is forecasted at 490 TMT, similar to the previous period, as reflected in the import levels thus far in the marketing year. During the period from August to January of MY 2012/2013, imports were less than a percent above levels of the same period in MY 2011/2012. Import levels in TY 2012/2013 for the period July to January are 5% above the same period of TY 2011/2012. The trade year for wheat and wheat products is July-June.

No growth in imports is expected in MY 2013/2014, due to sufficient domestic supply.

Although the Canadian Government eliminated the CWB's function as the sole buyer and marketer of wheat, durum and barley produced in Western Canada, there are still varietal registration requirements. These requirements, administered by the Canadian Food Inspection Agency (CFIA) under the Seeds Act and Regulations, tied to the Canadian grading system operated by the Canadian Grain Commission (GCC) under the Canada Grains Act, impact the free flow of imports.

Stocks:

Stocks of all wheat in MY 2012/2013 are forecast to be driven down 12% from the previous period to 5.2 MMT. In MY 2013/2013, stocks are forecast to fall another 4% from the previous period. These forecasted decreases are largely due to the expectation that increased total supply will not offset increased exports.

All Wheat: Production, Supply and Demand

Wheat Canada	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Aug 2011		Market Year Begin: Aug 2012		Market Year Begin: Aug 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	8,553	8,553	9,500	9,497	10,300	10,290
Beginning Stocks	7,360	7,176	5,932	5,879	4,907	4,899
Production	25,288	25,288	27,200	27,205	29,000	29,370
MY Imports	488	488	475	490	490	490
TY Imports	496	496	475	490	490	490
TY Imp. from U.S.	397	397	0	0	0	0
Total Supply	33,136	32,952	33,607	33,574	34,397	34,759
MY Exports	17,352	17,352	18,800	18,775	19,500	19,500
TY Exports	17,603	17,603	18,800	18,775	19,500	19,500
Feed and Residual	4,702	4,621	4,700	4,700	4,500	4,450
FSI Consumption	5,150	5,100	5,200	5,200	5,200	5,200
Total Consumption	9,852	9,721	9,900	9,900	9,700	9,650
Ending Stocks	5,932	5,879	4,907	4,899	5,197	5,609
Total Distribution	33,136	32,952	33,607	33,574	34,397	34,759
1000 HA, 1000 MT, MT/HA						

Statistical notes: HS codes for all wheat include 1001, 1101, 190219, 190230, 190240. The conversion factor used to convert wheat products to grain equivalency is 1.368.

DURUM

Production:

On average, area seeded to durum represents about 20% of the total area seeded to wheat in Canada. In MY 2013/2014, area seeded to durum increased 4% over the previous period, reaching 1.97 MHA. Saskatchewan and Alberta made up the entire gain of 81 THA.

Production is forecast to increase 3% to 4.8 MMT due to increased area seeded and yields that are approximately equal to the previous period. Growth in durum has been dampened by the profitability of alternative crops and due to lack of adequate price signals.

Durum area decreased significantly in MY 2010/2011 and MY 2011/2012 due to wet spring conditions and rebounded somewhat in MY 2012/2013 with an increase of 18% from the previous period to 1,878 THA. Area harvested remained below the ten-year average of 1,987 THA (using periods 2002 to 2011).

Consumption:
Domestic consumption of durum in MY 2013/2014 is forecast to increase marginally as it is expected that a slight increase in food, seed and industrial consumption will mostly offset a slight decrease in durum use in feed. Durum for feed is anticipated to move more in line with historic average levels as there is less supply of feed grade durum.

Trade:
In MY 2012/2013, exports are forecast to increase 15% to 4.1 MMT. Canada remains the largest exporter of durum in the world. In MY 2013/2014, exports are expected to fall 5% due to improved world supply.

Durum imports in MY 2012/2013 are expected to increase due to lower beginning stocks and increased domestic consumption. In MY 2013/2014, imports are forecast to increase marginally.

Stocks:
In MY 2012/2013, ending stocks of durum are forecast to decrease by 14% from the previous period to 1.3 MMT due to increased total supplies not offsetting increased exports.

In MY 2013/2014, ending stocks of durum are forecast to be about the same as the previous period.

CORN

Production:

Area seeded to corn for grain remains high at 1.48 HA, 15% above the five-year average and 3% above the previous period. Growth in area seeded to corn for grain in Quebec is up 7% over the previous period, down 2% in Ontario and up 22% in Manitoba.

In MY 2013/2014, corn production is forecast to increase slightly on a forecasted increase in area harvested and despite an expected return to lower trend yields. Production is forecast to be 15% above the five-year average (2007-2011). In MY 2012/2013, corn production rose to 13 MMT, 18% above the previous year's levels.

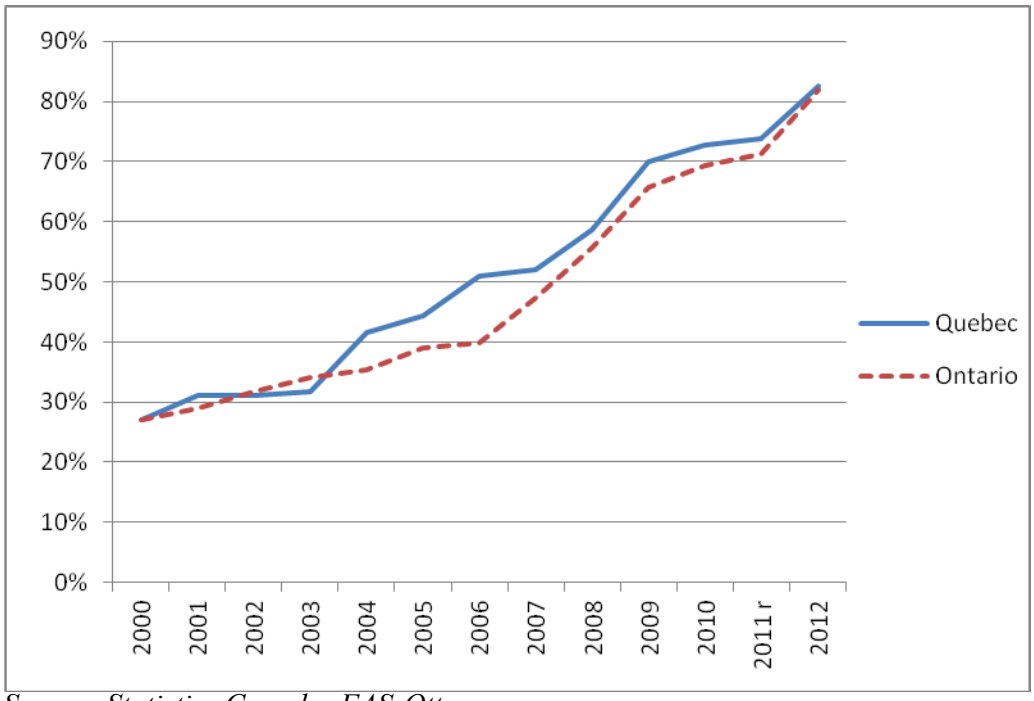
In MY 2012/2013, corn yields varied greatly across Canada's major growing provinces of Ontario and Quebec, but on average yields in these provinces were 2% and 7% above their five-year averages, respectively. In MY 2013/2014, Post forecasts lower yields in Quebec, and somewhat lower in Ontario, closer in line with trend yields.

While corn production is increasing in Alberta and Manitoba, the provinces are not seeing the sudden high levels that North and South Dakota experienced. Manitoba saw the greatest growth of the two provinces, seeding 112 THA in MY 2013/2014. If a forecasted 21% increase in harvested area in

Manitoba carries a yield of 6.6 MT/hectare (typical in that province) it would provide an extra 28,500 tons of corn for a total of 847 TMT, or 10% of the forecasted level of national production.

While the prairie provinces may not be major players today (in MY 2013/2014, they seeded a total of 159,800 HA to corn), there are several factors that may nurture the growth of corn production in these provinces in the years to come. First, the environment in the prairies has become more hospitable to corn because of the longer, warmer growing seasons in recent years. Second, strong demand for corn has prairie farmers trying to cash in on high corn prices. Further, new corn hybrids are being developed by companies like DuPont Pioneer which are designed for Canadian prairie conditions. Seed developer Monsanto Co. said that it will spend $100-million over the next ten years on developing earlier-maturing corn hybrids as part of a venture called the Canada Corn Expansion Project.

Corn: GM Area vs. Total Area



Source: Statistics Canada; FAS-Ottawa

An estimated 92 to 95% of corn acres in Canada and the United States are planted with seed coated with neonicotinoids, a pesticide which Canadian government scientists have found to be linked to mass bee deaths during the 2012 spring corn planting in Ontario and Quebec. Health Canada's Pest Management Regulatory Agency (PMRA) report on this subject is available at the following URL: http://www.hc-sc.gc.ca/cps-spc/pubs/pest/_fact-fiche/pollinator-protection-pollinisateurs/index-eng.php. While Health Canada may not currently be going down the path of the European Union, which issued a ban on the pesticide, it stated, "Should evidence become available demonstrating reasonable grounds to believe that health or environmental risks of a pesticide are unacceptable, the PMRA will take appropriate regulatory action." Individiual provinces could adopt a ban on neonicotinoids, but many observers say this is unlikely without more information. The pesticide is also used on canola and soybeans.

Consumption:

In MY 2012/2013, domestic consumption of corn is forecast to be 2% above the previous period, in line with the ten-year average. In MY 2013/2014, domestic consumption is expected to rise 5% from MY 2012/2013 levels as supplies remain high.

Feed use and corn for food, seed and industrial purposes lifted from the previous year's level as a result of increased supplies. Post estimates that corn used for non-beverage ethanol increased 7.7% over the previous period to 952 TMT in MY 2012/2013. In MY 2013/2014 corn feedstock is forecast to grow by 4.4% over the previous period.

Trade:

The pace of exports is expected to slow but levels will remain high and are expected to reach 1.4 MMT in MY 2012/2013. Post forecasts that Ontario will export 1 MMT of corn and Quebec will export 0.3 MMT. Exports of corn from September to January of MY 2012/2013 are 220% above the same period in the previous marketing year due to drought conditions in the United States.

In MY 2013/2014, Canadian corn exports are expected to fall 87% from the previous period due to an expectation of improved U.S. supply, which would bring the export level in line with its five-year average.

In MY 2012/2013, imports are forecast to be about 600 TMT, and to decrease in the next period due to high carry-in stocks and a forecasted increase in production.

Stocks:

A 15% increase in production in MY 2012/2013 resulted in an increase in supplies that are forecast to lift ending stocks by 27% to 1.7 MMT despite a spike in exports. In MY 2013/2014, the forecasted sustained high level of supplies and significant decrease in exports are expected to drive stocks higher.

Corn: Production, Supply and Demand

Corn Canada	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Sep 2011		Market Year Begin: Sep 2012		Market Year Begin: Sep 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,272	1,272	1,420	1,418	1,500	1,450
Beginning Stocks	1,263	1,278	1,365	1,350	1,425	1,710
Production	11,359	11,359	13,060	13,060	13,800	13,100
MY Imports	872	872	500	600	500	500
TY Imports	747	747	500	600	500	500
TY Imp. from U.S.	744	744	0	0	0	0
Total Supply	13,494	13,509	14,925	15,010	15,725	15,310
MY Exports	493	493	1,400	1,400	1,000	750
TY Exports	494	494	1,400	1,400	1,000	750
Feed and Residual	6,401	6,431	6,700	6,500	7,100	6,850
FSI Consumption	5,235	5,235	5,400	5,400	5,700	5,700
Total Consumption	11,636	11,666	12,100	11,900	12,800	12,550

Ending Stocks	1,365	1,350	1,425	1,710	1,925	2,010
Total Distribution	13,494	13,509	14,925	15,010	15,725	15,310
1000 HA, 1000 MT, MT/HA						

BARLEY

Production:

In MY 2013/2014, area seeded to barley fell 3% nationally to 2.9 Mha. The greatest losses were seen in Alberta and Manitoba, which were down by 69 THA and 28 THA, respectively. Area harvested is forecast to be 2.6 MHA, down 6% from the previous period.

A forecasted increase in barley production of 4% over MY 2012/2013 is supported by yields that are expected to improve over the previous period, and despite the 3% decrease in area seeded.

Area seeded to barley in MY 2012/2013 was 2.8 MHA, 15% above the previous period but still demonstrative of a longer term downward trend. Area harvested was 17% below the ten-year average of 3,303 TMT.

Alternative crops have put a squeeze on area seeded to barley, and this is expected to continue in periods to come. Farmers continue to be lured away by strong soybean prices, and the marketability of wheat relative to barley.

Harvest quality reports on Western Canadian malting barley are available from the Canada Grain Commission: http://www.grainscanada.gc.ca/barley-orge/hqbm-mqro-eng.htm

Domestic Consumption:

Total domestic consumption for barley in MY 2012/2013 is expected to decrease less than a percent from the previous period at 6.9 MMT due to a small decrease of barley in feed.

In MY 2013/2014, total domestic consumption is forecast to increase by less than 2% from the previous period. This increase is expected to be driven by an increase of barley in feed due to an increase in supplies and lower feed costs.

Barley for food, seed and industrial purposes is expected to remain relatively flat from MY 2011/2012 through to MY 2013/2014.

Trade:

Barley exports are forecast to increase by 8% in MY 2012/2013, and settle again near MY 2011/2012 levels in the following marketing year due to recovering world supplies. Canada, along with Australia, will continue to dominate the export market in China (malt) and Japan (feed). In MY 2013/2014, exports

are forecast to fall 21% due to a recover in world barley production and a comparatively good Canadian domestic price.

Stocks:
Barley stocks in MY 2012/2013 are expected to decrease 21% from the previous period to 984 TMT. This decrease is a result of an increase in exports that were not offset by increases in production.

Barley stocks are expected to be pulled up in MY 2013/2014 but remain well below the historic average. The increase is due to an expected increase in production and decrease in exports.

Barley: Production, Supply and Demand

Barley Canada	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Aug 2011		Market Year Begin: Aug 2012		Market Year Begin: Aug 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2,402	2,402	2,750	2,751	2,900	2,578
Beginning Stocks	1,502	1,541	1,195	1,247	930	984
Production	7,892	7,892	8,010	8,012	9,000	8,302
MY Imports	16	16	25	25	25	25
TY Imports	6	10	25	25	25	25
TY Imp. from U.S.	5	5	0	0	0	0
Total Supply	9,410	9,449	9,230	9,284	9,955	9,311
MY Exports	1,299	1,299	1,500	1,400	1,600	1,100
TY Exports	1,437	1,437	1,500	1,400	1,600	1,100
Feed and Residual	5,707	5,697	5,600	5,690	5,800	5,800
FSI Consumption	1,209	1,206	1,200	1,210	1,200	1,300
Total Consumption	6,916	6,903	6,800	6,900	7,000	7,100
Ending Stocks	1,195	1,247	930	984	1,355	1,111
Total Distribution	9,410	9,449	9,230	9,284	9,955	9,311
1000 HA, 1000 MT, MT/HA						

OATS

Production:
After years of decline, area seeded to oats in MY 2013/2014 increased 18% over the previous period to 1.36 MHA. Production is forecast to remain low but increase 10% to 3.0 MMT.

In MY 2012/2013, oats production fell to 2.7 MMT, 23% below the five-year average.

The long-term trend of decreased area devoted to oats is due to its unpopularity in feed, and the replacement of oats by producers who favor more profitable alternative crops such as oilseeds and wheat.

Consumption:
Total domestic consumption of oats in MY 2012/2013 is expected to fall to 1.6 MMT, 14% below levels of the previous period, due primarily to a decrease in domestic consumption of oats for feed. Total domestic consumption is expected to be 6% below the five-year average of 1,655 TMT.

Total domestic consumption of oats in MY 2013/2014 is forecast to fall 22% from the previous period to 1,190 TMT. This decrease is expected to again be led by a decrease in domestic consumption of oats for feed.

Trade:
In MY 2012/2013, oat exports are expected to decrease 2% to 1.7 MMT due to lower supply and downward pressure on U.S. demand. In MY 2013/2014, exports are forecast to fall another 6% from the previous period due to a continuation of the trends cited, taking them further below the five-year average of 1.8 MMT.

Oat imports in MY 2012/2013 are expected to increase 31% to 17 TMT due to decreased total supplies that were not offset by the decrease in domestic consumption. Imports are forecast to increase 29% to 22 TMT in MY 2013/2014. This will bring imports above the five-year average of 17.2 TMT.

Stocks:
In MY 2012/2013 and 2013/2014, relatively lower production will lead to very low stocks. In MY 2012/2013, ending stocks are forecast to fall 69% to 250 TMT, well below the five-year average of 1,043 TMT. In MY 2013/2014, ending stocks are expected to increase but remain low.

Oats: Production, Supply and Demand

Oats Canada	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Aug 2011		Market Year Begin: Aug 2012		Market Year Begin: Aug 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,084	1,084	960	956	1,100	1,059
Beginning Stocks	733	753	810	812	360	250
Production	3,158	3,158	2,680	2,684	3,100	3,027
MY Imports	13	13	20	17	20	22
TY Imports	11	11	20	17	20	22
TY Imp. from U.S.	10	10	0	0	0	0
Total Supply	3,904	3,924	3,510	3,513	3,480	3,299
MY Exports	1,738	1,738	1,600	1,700	1,700	1,600
TY Exports	1,764	1,764	1,600	1,700	1,700	1,600
Feed and Residual	621	604	850	850	500	500
FSI Consumption	735	770	700	713	750	720
Total Consumption	1,356	1,374	1,550	1,563	1,250	1,220
Ending Stocks	810	812	360	250	530	479
Total Distribution	3,904	3,924	3,510	3,513	3,480	3,299

1000 HA, 1000 MT, MT/HA

PULSE CROPS:

Production:
In MY 2013/2014, area seeded to pulses (lentils, dry peas and dry beans) decreased 2% from MY 2012/2013 levels, led by a 30% decrease in dry beans. Bean production is forecast to fall 38% and lentil production by 1%. Dry pea production is forecast to increase 9%. Increased production of peas is being driven by higher expected returns relative to alternative crops.

Trade:
In MY 2013/2014, exports of dry peas are forecast to increase by 2% y/y to 2.4 MMT in response to higher supplies, resulting from increased production. Exports of lentils are forecast to fall by 7% to 1.3 MMT. Exports of dry beans are forecast to fall 19% to 0.2 MMT due to the expected decrease in production and total supply.

Exports of dry beans and dry peas are expected to increase in MY 2012/2013 from the previous period (19% and 12%, respectively). Increased total supply and strong demand from the EU and United States (in the case of dry beans) is pulling up exports. Exports of lentils in MY 2012/2013 are expected to rise 22% to 1.4 MMT.

POLICY:

The Marketing Freedom for Grain Farmers Act:

The December 15, 2011 decision by Canadian legislators to pass into law the Marketing Freedom for Grain Farmers Act transitioned the CWB from a state trading enterprise into a commercial enterprise over a period of five years. As previously stated, prior to the August 1, 2012 enactment date, the CWB held the exclusive right to purchase and sell western wheat and barley for domestic food use or export for the last 68 years. With the end of the legal monopoly, the CWB now operates as a purely voluntary option; growers who wish to market their products through it may still do so. Under the new framework, if the CWB fails to become a viable commercial entity within five years, the CWB will be dissolved. For more information on the CWB, visit: http://www.cwb.ca/public/en/.

Structural Changes to the CWB:

The 2011 legislation consists of five parts which introduce changes in stages. A detailed description of this legislation is available in a previous GAIN report, located at the following URL address: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Bill%20C-18%20-

%20The%20Marketing%20Freedom%20for%20Grain%20Farmers%20Act_Ottawa_Canada_11-03-2011.pdf

During the period of transition, the CWB continues to retain government guarantees of its borrowing and other financing by the Canadian government. In addition, Canadian producers who contract with the CWB will continue to receive government approved and guaranteed initial payments early in the crop year (to help with operating expenses) and will receive subsequent payments based on the crop that the CWB is able to sell on world markets. If the CWB fails to make sales to cover the initial payments, the government will cover the cost. The Marketing Freedom for Grain Farmers Act ends the government guarantees/backing of the CWB's borrowing, as well as the government-backed initial payments after a period of five years.

Commercial Practices:

Under The Marketing Freedom for Grain Farmers Act, Canadian grain farmers are now free to sell their grain through any entity they choose. The CWB continues to operate as a marketing option. In August, the CWB announced that it completed agreements with all Prairie grain handlers and that farmers can now deliver CWB wheat to any elevator in the West. Among the companies who signed agreements with the CWB are three of the largest grain handlers in the country: Richardson International Ltd, Viterra Inc, and Cargill Ltd. The CWB's agreements also extend to farmer-owned independent grain terminals. Farmers can also choose to deal directly with any of these entities. One of the factors driving farmers to continue to deal with the CWB is the desire for security provided by the pool. There have been some barriers to a smooth transition, including court challenges and reports of elevators refusing to accept CWB grains, citing a number of different reasons – no room in the elevator, easier to handle non-CWB grain, no basis available, no rail cars, etc. A positive market environment will increase the willingness of producers to switch from entering CWB pools to contracting with grain companies. Generally, pools are more attractive in a falling market. Post has heard varying predictions of the quantity of grain that will be handled through the CWB. Another factor affecting these predictions is whether one analyzes the amount of grain handled by the CWB or the number of farmers who sell through the CWB. Post forecasts that 10-20% of crops will be seen by the CWB in MY 2012/2013, and that 20-25% of farmers will continue to use CWB pools. At this point, it is still too early to determine the success of the CWB's transition.

Recently, the CWB initiated marketing of canola, creating pools that they argue meets a demand that always existed among small farmers who lacked confidence and/or sufficient quantities to market their own crop. Time will tell if the canola pools actually succeed, but with the high canola price this year and record crop, it is an ideal year to start. The CWB also suggested that it will announce a marketing program to include pulse crops in the future.

Notably, several strategic purchase agreements have been made by Canadian grain companies since the initial December 15, 2011 decision. On June 21, 2012, grain handler Viterra Inc. and the CWB announced a commercial agreement, whereby Viterra accepts deliveries of grain that farmers commit to CWB contracts at all Viterra locations across western Canada. The agreement also includes port handling services. Subsequently, Glencore International Plc won a bid to take over Viterra for C$6.1 billion. Glencore's takeover was approved by the Canada's Competition Bureau, and on December 7,

2012 it received a nod of approval from the Ministry of Commerce of the People's Republic of China ("MOFCOM"). This was the final outstanding regulatory approval of Glencore's acquisition of Viterra pursuant to a court approved plan of arrangement. On December 17, 2012, Glencore announced that it has completed the acquisition of Viterra and made key management appointments. Glencore agreed to sell C$2.6 billion in assets to Agrium Inc (a Canadian company with a U.S. subsidiary) and Richardson International Ltd (a privately-owned Canadian company). CF Industries Holdings, Inc (an American fertilizer giant) entered an agreement with Glencore to buy a minority 34% interest in a nitrogen facility in Medicine Hat, Alberta, for C$911 million. CF Industries was nominated by Agrium as the buyer of the facility under the support and purchase agreement between Glencore and Agrium. CF Industries is the second largest nitrogen fertilizer producer in the world.

Since the dissolution of the CWB monopoly, millers in Japan have expressed concerns about grain quality, which is largely driven by negative experiences after the dissolution of the Australian wheat board's monopoly. In response to the concerns, the CGC offered their assurance that the Canadian experience will be different. In Australia the marketing board not only marketed the wheat, but it also acted as the quality control agency and looked after varietal registration issues. In Canada, The Canadian Grain Commission deals with quality and variety issues, and they maintain that their ability to control quality won't be impaired. Japan's Ministry of Agriculture, Forestry and Fisheries agreed to split their purchases between the CWB and other grain traders, and plans to conduct their own quality and protein level comparisons.

Not only do recent reforms change the way that Western Canadian wheat and barley producers contract their grain, but there have also been changes to infrastructure, services, and transportation services that were previously handled by the CWB.

Revision of the Canada Grain Act: Inward Weighing

On October 18, 2012, legislation was proposed by the House of Commons, within the federal government's omnibus budget bill, Bill C-45, to make changes to the Canada Grain Act. One of the changes included in this bill, is the removal of the mandatory requirement for the Canadian Grain Commission (CGC) to conduct inward weighing and inspection. Since the dissolution of the CWB's monopoly, some of the CGC's inspection services are redundant; Prairie grain elevators are often shipping grain to a terminal or transfer elevators owned by the same company. Where this is not the case, a shipper or an elevator can request an inspection, to be conducted by a service provider authorized by the CGC. The federal government says that this amendment will eliminate about C$20 million annually in costs from the grain-handling system. The CGC will retain responsibility for outward inspection of vessel cargos.

Revision of the Canada Grain Act: CGC Insurance-Based Producer Payments

Another important change provided in Bill C-45 is a movement towards an insurance-based producer payment security program and away from the single option of bonding, currently found in the Canada Grain Act. The bonding option is considered to be costly and to provide only weak coverage.

CGC: User Fee Changes

On November 1, 2012, the Canadian Grain Commission released its User Fees Consultation and Pre-proposal Notification document, which outlined proposed individual fees, service standards and performance measures. Stakeholders had until November 30, 2012 to provide written submissions regarding the document. The Canadian Grain Commission is proposing to implement a new fee schedule for August 1, 2013, the start of the new crop year.

A summary of the feedback can be found at the following URL:
https://www.grainscanada.gc.ca/consultations/2012/summary-resume/feess-sfrais-eng.htm

CGC: Changes to Other Services and Cost Recovery

New, higher user fees are expected to form the basis of a cost recovery structure that will maintain the Canadian Grain Commission's role in grain quality, quantity and safety assurance, producer protection and the integrity of grain transactions. The CGC plans to move to 91% cost recovery instead of the current 50-50 split between government and industry.

The Canada Grain Commission is continuing its exercise of determining which services should be mandatory and which should be voluntary.

Support for Port of Churchill

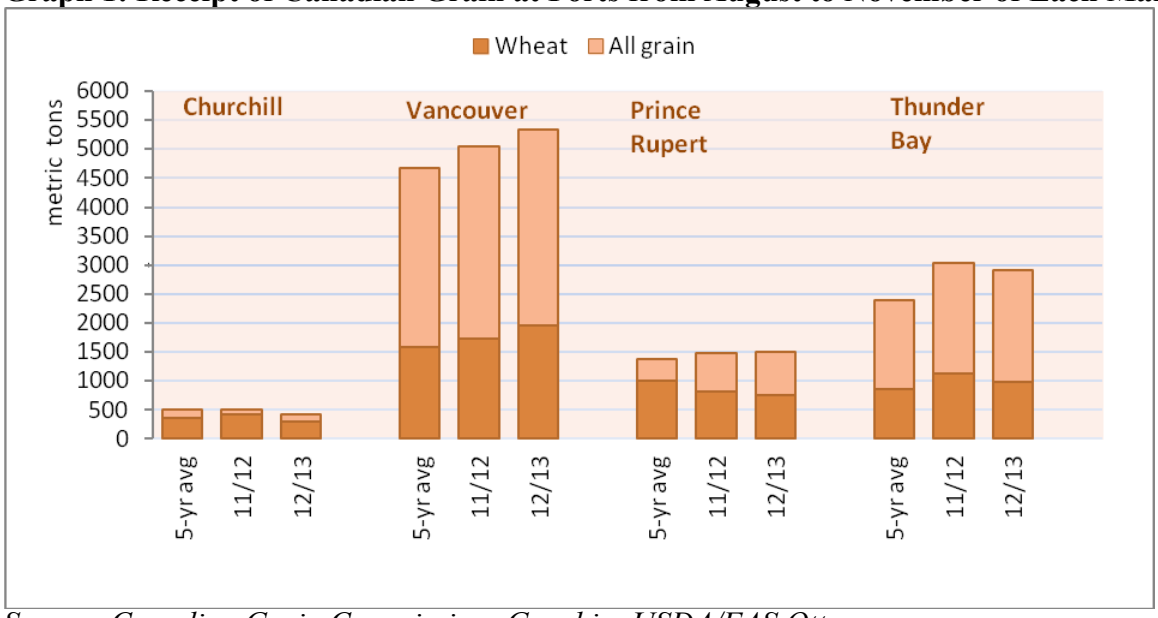
Manitoba's Port of Churchill, on Hudson Bay, part of the Arctic Ocean, is also being affected by the new grain marketing environment. Prior to passage of The Marketing Freedom for Grain Farmers Act, the CWB was the primary shipper (90 to 95% of total grain volumes each year) through the Port of Churchill. There are concerns over whether the port can remain economically viable, especially since its operating season is limited due to weather. In reaction to this concern, in April 2012 the federal government announced the Churchill Port Utilization Program (CPUP), which includes a subsidy for grain handlers shipping grain through the port. In 2012, the subsidy was valued at about C$9 per ton, and in 2013 it increased to $9.20. The subsidy is available to legal entities on a first-come-first-serve basis, for a maximum total of C$5 million. CPUP is a five-year program.

Three entities were awarded the subsidy for the 2012 shipping season, Richardson International, Nearco Transportation Consulting, and the CWB. Richardson loaded its first wheat vessel out of the Port of Churchill on August 25, 2012. The vessel set out for Colombia with 27,500 MT of No. 2 Canadian Western Spring Wheat originating from Richardson Pioneer elevators in Manitoba, Saskatchewan and Alberta. As part of CPUP, Richardson was awarded two grants valued at C$2,346,750.00 and C$355,689.00, Nearco Transportation Consulting was awarded a grant of C$225,000.00, and the CWB was awarded two grants for C$102,060.00 and C$1,470,501.00.

In 2012, use of the port was down 19% from a historic average. During the 2011/2012 shipping season (late July to November), 416,930 tons of grain went through Churchill, compared to the five-year average of 513,050 tons.

As previously mentioned, "economic incentive rate" for 2013 was raised to $9.20 per ton. Funding commitments will consider eligible shipping tolerances of up to 5%. The program recently extended its list of eligible crops to also include fava beans, soybeans, and grain products (eg. canola meal pellets) as eligible grains. Currently, funding applications of up to 125,000 tons per application are accepted.

Graph 1: Receipt of Canadian Grain at Ports from August to November of Each Marketing Year



Source: Canadian Grain Commission; Graphic: USDA/FAS Ottawa

Whether grain will continue to flow through the Port without the push of a subsidy remains to be seen.

CPUP is part of a comprehensive package of government initiatives to support economic development in Churchill that, in addition to the subsidy, includes:

- providing up to C$4.1 million over three years through Transport Canada for Port maintenance;
- extending the project completion date from 2013 to 2015 for infrastructure improvements funded through Western Economic Diversification Canada; and
- exploring options for the development of the community of Churchill.

Rail Transport Reform

CWB monopoly or not, the performance of the railways continues to be a contentious issue and there have been calls for the government to reconsider the Rail Service Legislation.

On December 11, 2012, the government announced the introduction of the Fair Rail Freight Service Act, which became law in June 2013. Rail companies in Canada will now be required to offer a service agreement to companies shipping goods by rail, if the shipper requests one. In the event that rail companies and shippers cannot reach an agreement through commercial negotiations, shippers can use the new arbitration process created by this bill to establish the terms of service to which they are entitled. An administrative monetary penalty of up to C$100,000 could be issued by the Canadian Transportation Agency for each violation of an arbitrated service level agreement. This is in addition to other existing remedies in the Act (e.g. Level of Service Complaint) to ensure railways meet their service obligations.

Under the previous Rail Service Agreement, railroads had the right to charge companies for failure to perform (i.e., not load within specified timelines, failure to provide adequate documentation, etc.) However, shippers did not have the ability to charge for poor performance by the railroads. Under the new legislation, both parties (i.e., railroads and shippers) are allowed to negotiate service level agreements and go to arbitration if there is a failure to perform.

While most producer groups applaud the legislation, many claim that it does not go far enough. Some say that there is limitation on what can be arbitrated under this bill because the bill limits the scope of service agreements to operational terms and does not cover all aspects of the commercial relationship between a shipper and a railway. A further concern is that the bill does not allow the arbitrator to include a process for resolving disputes during the life of a service agreement.

In a presentation to the Senate Transport Committee, Robert Ballantyne, Chairman of the Coalition of Rail Shippers stated concern about the possibilities of protracted and expensive legal maneuvering as people attempt to negotiate service agreements. Mr. Ballantyne pointed to market dominance, commenting that "rail freight is not a normally functioning competitive market; it is dominated by two sellers, CN and CPR."

Aside from the Fair Rail Freight Service Act, there remain serious limits to rail capacity. While there are two rail lines, each operates on separate rails. An elevator is therefore limited to the rail company which operates the rail line located next to their facility, unless they choose to truck to a different rail line.

Movement of Grain

The shift to a new grain marketing environment does not appear to be the source of any significant problems related to the movement of grain by rail or by shipments from port. However, Canadian media have reported that some companies have allegedly faced challenges managing their sales and supply lines. *The Western Producer* newspaper cited reports of grain ships being partially loaded and then sent

to anchor for up to a month before getting fully loaded, something that rarely happened when CWB's monopoly was intact. Whether this is indeed happening is still uncertain at this point. The rational is that formerly the CWB had access to wheat from all port terminals and could send a vessel to be filled at any terminal.

Unrelated to the dissolution of the CWB monopoly, some analysts say that a growing problem is the increasing share of rail cars being used for energy and potash, particularly in Saskatchewan. Reportedly, increased demand on rail resources and the prioritization of energy and potash over agricultural resources means that shipments of agricultural commodities are increasingly being delayed or the "grown in Canada" requirement.

Varietal Registration Requirements and The Grain Classification System

An on-going issue is the challenge posed by Canada's varietal registration requirement for seed wheat, as well as the issue posed by the variety-based wheat grading system. Canadian officials have indicated a willingness to discuss these concerns further. Canadian officials and Canadian industry representatives understand the U.S. objection to unequal treatment for U.S. grains which might move to Canada. The Canadian government acknowledges that non-Canadian-origin wheat and barley is only eligible for the lowest official statutory Canadian Grain Commission grade in the particular class (e.g., Feed Wheat or # 5 Amber Durum). They have agreed to look into eventual changes. In the meantime, the United States and the Canadian industry representatives have worked together to develop contracts based on specification that will give U.S. wheat and barley access to the Canadian market at fair prices. Clearly, sales based on specifications are only a temporary solution to U.S. concerns as it does not address access to the Canadian grain handling system.

Aside from the aforementioned U.S. concerns, some of the Canadian domestic industry has also expressed frustrations, claiming a competitive disadvantage because they do not have access to limited varieties. On the week of February 28, 2013, Federal Agriculture Minister Gerry Ritz requested input from the four committees that form the Prairie Grain Development Committee on ways to speed up the time it takes to approve new prairie grain varieties. Ritz's request to the Prairie Grain Development Committee comes ahead of planned consultations with industry over the next several months.

Further, on March 25, 2013, The Western Canadian Wheat Growers Association proposed a new wheat classification model that is patterned after the wheat classification system that was implemented in Australia in 2011. An outline of the proposed model is available at the following URL:
http://www.wheatgrowers.ca/images/E0334801/Mar_22_13_WGProposeWheatClassificationModel.pdf

Sanitary and Phytosanitary Issues

The Canadian Food Inspection Agency (CFIA) continues to seek and review comments to its draft directive, "D-12-05 Phytosanitary import requirements for grain of field crops including pulses, oilseeds, cereals (other than barley, oats, rye, triticale, and wheat), forages, and other special crops from the continental United States." The objective of D-12-05 is to prevent the importation and dissemination of

viable weed seeds and plant pathogens that present environmental and commercial risk to Canadian agriculture. Due to a significant amount of feedback from industry and stakeholders, the 30-day comment period was extended until February 15, 2013, and the original adoption date of December 1, 2012 was dropped. No new enforcement date was established. On December 5, 2012, the CFIA removed the comment deadline entirely and stated it would continue dialogue with industry and stakeholders.

The CFIA has been actively engaging stakeholders in Canada and the United States since suspending the implementation date. The CFIA plans to continue with implementation although no new date has been established.

Trans Pacific Partnership

The Trans Pacific Partnership (TPP) represents an opportunity for Canada and the U.S. to address SPS and Technical Barriers to Trade (TBT) issues. These Partnerships may provide an effective platform for implementing enforceable measures, creating harmonized, science-based regulations and generally facilitating trade.

Canada-U.S. Grain Industry Task Group

A number of Canadian and U.S. grain industry organizations formed a Task Group to address and resolve current and foreseen impediments to Canada-U.S. bilateral grain trade. The Task Group established a website to provide answers to important questions on cross-border trade. The website includes updated information on the regulatory requirements in both Canada and the United States for cross-border grain and seed trade, including differences in varietal registration, labeling and phytosanitary requirements. As part of a new commercial module that is expected to be published on the Task Group's website this year, the group has distributed a questionnaire to industry in order to assemble some baseline information about the importation and end-uses of commodities from the United States that will be subject to the aforementioned D-12-05 proposed by the CFIA. Preliminary results of this survey are expected to be available in March, 2013.

The Task Group's website, http://canada-usgrainandseedtrade.info, provides a detailed frequently asked questions section. Visitors can also submit comments and additional questions through the website.

Growing Forward 2 – Canada's New Farm Bill

In Canada, agricultural policy is coordinated through a joint five-year initiative among the Federal Provincial and Territorial (FPT) governments called Growing Forward (GF1), which replaced Canada's original agricultural policy, the Agricultural Policy Framework, in July 2008.

Growing Forward 2 (GF2) is the successor to the GF1 and will guide Canada's agricultural policy between 2013 and 2018. Agricultural policy under the Growing Forward programs consists of two branches – first, a suite of Business Risk Management (BRM) programs designed to protect Canadian farmers from severe market volatility and disasters; and second, a set of strategic initiatives intended to advance policy goals, agreed upon in the Saint Andrews Statement, related to innovation, competitiveness and market development.

To better understand the changes to GF2, it's helpful to have an understanding of the political framework. Agriculture Agri-Food Canada's (AAFC) budget constraints, dictated by the federal budget, were to be met in GF2. The federal budget indicated that AAFC needs to find C$310 million in savings by 2014-2015. Budget restrictions for AAFC will begin in 2013-2014, the first year of GF2, with savings of C$168.5 million.

While the federal budget gave no details on where the reductions would come from, the BRM portfolio was considered to be the only area that could provide that level of savings. The AgriStability program was a prime potential source of savings. Grain and oilseed producers had built up large margins, while livestock margins were beginning to recover. There was concern that increasing reference margins in the grains and oilseeds sector had created a significant unfunded liability for governments. AgriStability has been difficult for governments to budget. The design of the program is such that a loss is generally not compensated until 18 months after the disaster occurred. Producer feedback indicated that the program is complex, unpredictable and not bankable.

On September 14, 2012, federal, provincial and territorial (FPT) Ministers of Agriculture reached an agreement on the content of the GF2 policy framework for the sector. The policy framework is Canada's equivalent of the U.S. Farm Bill. The new five-year agreement represents a fundamental restructuring of farm support programs. Governments will continue to deliver a suite of Business Risk Management (BRM) programs to help protect farmers against severe market volatility and disasters, only now they will rebalance the management of risk between government and industry, giving greater responsibility to the latter. GF2 includes changes to AgriStability, AgriInvest and AgriRecovery.

Growing Forward 2: Detailed Changes to BRM Programs

AgriStability is a margin-based program where payments are triggered when the program year margin falls below a percentage of the reference year margin (where the reference year margin is an Olympic average of historic margins). To trigger the AgriStability benefit, the required 15% drop in margin will increase to a 30% drop. Further, producers will no longer be paid for the first 30% of their margin decline. The remaining 70% of the margin decline will be paid out, however coverage will be reduced from 80% to 70%. AgriStability fees for program participation will be reduced accordingly. A further change is that the reference margin will be restricted to the lower of actual or "prior year's allowable expenses."

Changes were also made to AgriInvest, a program that aims to help producers manage small income declines, and provides support for investments to mitigate risks. Up to and including the 2012 program (fiscal) year, producers are able to contribute a matchable deposit based on 1.5 % of their allowable net sales (ANS), meaning gross commodity sales less qualifying purchases, such as seed and plant expenses. The ANS is currently limited to C$1,500,000 at 1.5% for a maximum AgriInvest benefit of C$22,500. Effective 2013, this rate will be reduced to 1%, which has the effect of reducing maximum benefit to C$15,000.

Finally, AgriRecovery guidelines have been tightened to limit the frequency of payouts given to producers who have been impacted by catastrophic events.

Growing Forward 2: Strategic Initiatives and a Push for Innovation

Aside from the changes to the BRM branch of GF2, changes were also made to the set of strategic initiatives intended to advance policy goals, including a significant push for innovation. The three strategic initiatives of focus are innovation, competitiveness and market development. GF2 includes new investments in strategic initiatives of over C$3 billion in innovation, competitiveness and market development, including a 50% increase in governments' cost-shared initiatives.

Information on three new programs, AgriInnovation, AgriCompetitiveness, and AgriMarketing, is available at the following URL: http://www4.agr.gc.ca/AAFC-AAC/display-afficher.do?id=1294780620963&lang=eng