



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

**Date:** 8/1/2006

**GAIN Report Number:** AS6047

## Australia

### Grain and Feed

### Quarterly

### 2006

**Approved by:**

Kathleen Wainio, Agricultural Counselor  
U.S. Embassy

**Prepared by:**

Mike Darby, Agricultural Specialist

---

**Report Highlights:**

The 2006/07 Australian wheat crop is forecast at 20.9 MMT while the barley crop is forecast at 8.25 MMT. Both crops are down significantly on previous forecasts due to late planting rains and historically cold weather. The Australian winter cereal crop remains on a "knife edge" with weather conditions over the next three months expected to have a profound impact on production levels.

---

Includes PSD Changes: Yes  
Includes Trade Matrix: No  
Quarterly Report  
Canberra [AS1]  
[AS]

**Table of Contents**

<b>SECTION ONE: SITUATION AND OUTLOOK.....</b>	<b>3</b>
Summary .....	3
Weather Conditions .....	3
Wheat .....	3
Area.....	3
Production.....	4
Yield.....	5
Exports.....	5
Policy .....	5
The Cole Inquiry .....	5
Single Desk Grain Marketing .....	5
Barley .....	6
General.....	6
Area.....	6
Production.....	7
Yield.....	7
Exports.....	7
<b>SECTION TWO: STATISTICAL TABLES .....</b>	<b>9</b>

## SECTION ONE: SITUATION AND OUTLOOK

### Summary

The Australian wheat crop is currently forecast at 20.9 MMT, down significantly from the 24.0 MMT previously forecast by Post. Dry conditions across much of the Australian continent, particularly during the critical planting period in June, are the primary reason for the downward revision. Exports and stocks have also been revised downwards slightly in line with reduced production.

Planting of winter cereal crops in Australia is now finished with actual planted area falling below prior intentions. Production of winter cereals will likely require revision as the season progresses and yield and production remain on a "knife edge" due to seasonal conditions.

### Weather Conditions

The majority of Australian continent has experienced prolonged drought conditions, which began in 2002/03. The first half of 2005/06 saw a resumption of normal weather conditions, which reverted to drought conditions in the last quarter (April, May and June in 2006). The return to drought conditions adversely affected winter cereal crop planting.

Recent dry conditions have also been accompanied by cold conditions with the Australian Bureau of Meteorology recently reporting that June 2006 recorded "some of the coldest and driest" conditions for decades. These conditions ultimately led to severe frost events in mid June. The accompanying cold weather has on its own not damaged the crop. However, it has to a lesser extent retarded germination and early growth and has contributed to the crop "running late".

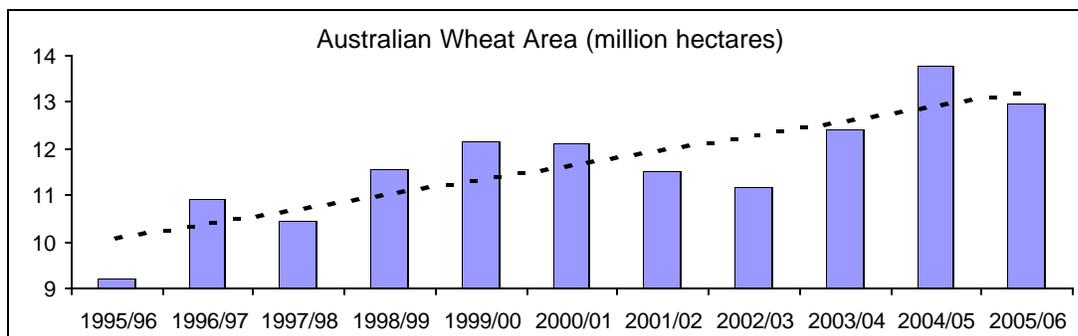
Industry sources suggest that the combination of dry and cold weather has put the crop behind 4-6 weeks nationally. The effect of the crop running late may not be known until midway through spring (September/October). An early spring with warmer and perhaps windier conditions is likely to see a fast deterioration of an underdeveloped crop. Whereby a later, cooler and perhaps wetter spring would likely see production prospects improve.

On a regional basis, Western Australian has suffered the driest conditions, particularly at planting time. The northern cereal growing regions of Western Australia have received very little rain for the month of June and local analysts have suggested that the winter cereal production loss from that region is expected to be higher than 1.0 MMT. The southern crop producing regions of Western Australia have received more rain, however conditions remain well below optimal and production loss in this region is expected to be significant.

### Wheat

#### Area

Post has forecast planted area in 2006/07 at 12.382 million hectares. This remains in line with ABARE's recent revision and slightly lower than Post's previous estimate. Historically, this forecast would be considered to be an average size crop in terms of area planted.



Source: ABARE data (July-June)

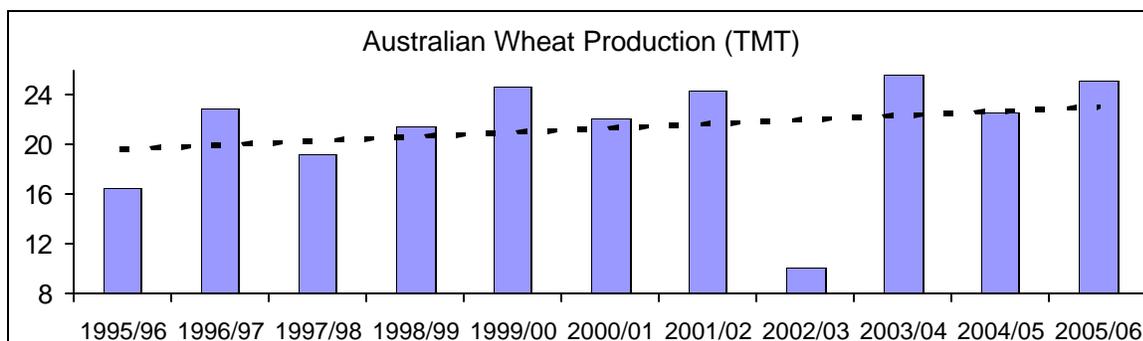
Despite the difficult planting conditions, Post believes that the overwhelming majority of wheat production regions have planted a similar area to their original intentions. Some key regions however, have reportedly fallen short of their original planting target. The northern areas of Western Australia combined with some areas of Victoria and southern NSW have fallen short of their original planting intentions.

Some industry sources have suggested that the national planted area has been achieved and that only yield will be affected. However, Post believes some regions have suffered too much dry weather to have sown their intended area and that conditions in other areas have not been wet enough to adequately compensate for this.

**Production**

Wheat production in 2006/07 is forecast at 20.9 MMT, down 13 percent on the previous figure of 24.0 MMT and down sharply on the 25.1 MMT produced in 2005/06. Dry conditions at time of planting, and colder than expected conditions since planting commenced, have combined to reduce area by three percent and yield by 10 percent. Post advises that the Australian crop remains on a knife-edge at time of writing this report a rebound or sharp decline in production possible over the next three months.

Historically a crop of 20.9 MMT would be considered an average size, with ABARE's historic data indicating the 10-year average to be 20.83 MMT. Despite its size, this crop remains below the trend-line established using the same historic data and contradicts a more recent trend of increased year-on-year grain production due to lower livestock numbers.



Source: ABARE data (July-June)

Post has revised the 2004/05 wheat crop downwards to 21.9 MMT, in line with official ABS statistics.

## Yield

Forecast area and production figures for 2006/07 have assumed an average yield of 1.69 MT per hectare, down significantly on the 1.87 MT per hectare previously forecast and well below the 10-year average of 1.83 MT established using ABARE's historical data.

Later planting due to drier conditions has led industry sources to believe that the crop is now "running 4 to 6 weeks behind" the optimal maturity level for this time of year. In the past, late-planted crops have produced excellent yields and overall production levels. However, late-planted crops remain susceptible to adverse weather events or below optimum growing conditions, particularly in spring. At this point in time, the most prominent threat to the yield potential for the 2006/07 crop remains the early arrival of a dry and windy spring, while a later, cooler and wetter spring would see yield and production prospects improve markedly.

## Exports

Total wheat exports for 2006/07 are forecast at 15.43 MMT, down sharply on Post's previous report and down on the revised figure for the previous year. Lower production in 2006/07 is expected to see a fall in the supply of surplus wheat suitable for export.

Post advises that year-to-date Wheat Export Authority (WEA) data shows that for the period October 2005 to March 2006, authorized wheat exports fell nearly five percent despite the near record harvest in that period. Post believes that this has contributed to the large closing stocks figure for the 2005/06 year. A significant proportion of these stocks will likely be exported in 2006/07 and may somewhat constrain fall in exports in 2006/07, despite the relatively poorer production outlook.

## Policy

### The Cole Inquiry

The Australian Wheat Board (AWB) is undergoing an inquiry into its involvement in the Iraq Oil-for-Food scandal to determine if its actions violated Australian law. Prime Minister (PM) Howard called for the independent Commission of inquiry in November 2005 following the report of an independent United Nations inquiry into the Oil-for-Food program (The 'Volcker report') that found that the approximately \$220 million the AWB allegedly paid for transport services in Iraq was actually funneled to the Iraqi government.

In February 2006, the Iraqi Ministry of Agriculture announced that it would not conduct business with the Australian Wheat Board (AWB) pending the conclusion of the Cole inquiry into AWB's conduct in the United Nations Oil-for-Food program. In May 2006, Wheat Australia reached agreement to sell 350,000 tons of wheat worth A\$90 million to Iraq. Wheat Australia is a consortium formed by the eastern grains group GrainCorp Ltd, South Australian barley exporter ABB Grain Ltd and West Australian grains group Cooperative Bulk Handling. The cooperative was created to compete for sales to Iraq following the February 2006 Iraqi Grains Board (IGB) announcement. (For further information see GAIN report AS 6033.)

The final report of the Cole inquiry is expected by September 29, 2006.

### Single Desk Grain Marketing

The Cole inquiry has served to bring the marketing rights (single desk) enjoyed by AWB into the spotlight, forcing discussion of the costs and benefits. The recurring government review

of the AWB's single desk authorities is not scheduled until 2010. However, in light of the revelations from the Cole Inquiry, some within Australia are calling for more immediate action to determine the future role of single desk wheat marketing.

Federal law currently permits only the AWB to export bulk wheat, while allowing for other parties to export bagged and containerized wheat under the Wheat Export Authority's licensing system. The AWB holds the power of veto over the issuing of all export licenses – effectively giving it control of Australian wheat exports – hence the term “single desk”.

In the six months that the Cole Inquiry has received mainstream media attention, selected industry members have called for reform of single desk wheat marketing arrangements. There are other opinions just as adamant for the continuation of the single desk. A variety of alternatives to single desk marketing have been proposed.

The majority of industry reform proposals include an overhaul of the Wheat Export Authority. For example, a controversial discussion paper on the future of the single desk wheat export marketing system over the next four years was presented at Grains Week 2006 in Canberra on April 5, 2006. The paper, commissioned by the Grains Council of Australia (GCA), proposed that the AWB lose its power of veto to a grower owned and controlled company - Australian Wheat Associates. The company would replace the Wheat Export Authority (WEA) and would have the ability to issue licenses to secondary exporters. The company would also have the responsibility to market and promote Australian wheat. (For further information See GAIN Report AS 6022.)

The final report of the Cole inquiry is expected by September 29, 2006.

## **Barley**

### **General**

Barley is produced in Australia usually as part of a mixed cropping enterprise that includes other winter cereals (such as wheat), pulses, oilseeds and livestock. As a shorter season crop, barley requires the same equipment as wheat while not necessarily competing for capital simultaneously.

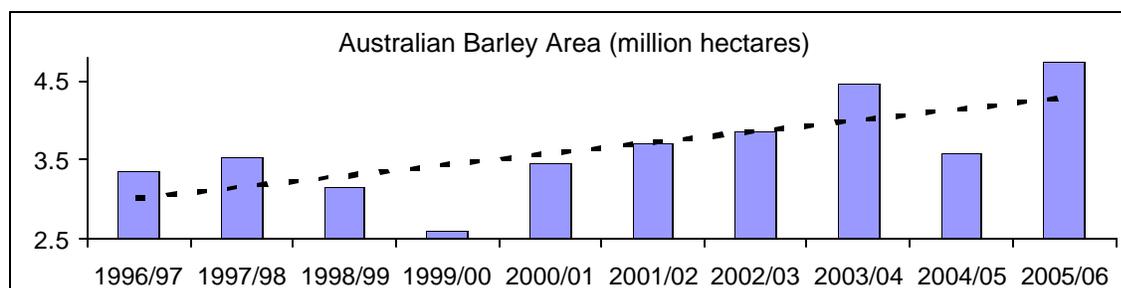
Barley is typically grown in much smaller quantities than wheat although the proportion of wheat to barley nationally can change depending on weather conditions. A “later breaking season” where planting rain arrives late, can often favor barley and so the area planted to barley can increase proportionally under adverse conditions.

### **Area**

Area sown to barley in 2006/07 is forecast at 4.34 million hectares, down significantly on the previous estimate and down on the record level estimated for the previous year. Despite the fall, this forecast remains high when compared to historical data.

Dry conditions and the perception of reduced returns are likely to see the area planted to barley fall. Although later planting rains, and the associated incentive to switch to barley, is likely to see this figure remain at historically high levels.

Area planted to barley in 2005/06 is estimated to have reached record levels due to reduced sheep numbers, the relatively high price of grain more generally and the relatively late arrival of planting rains.

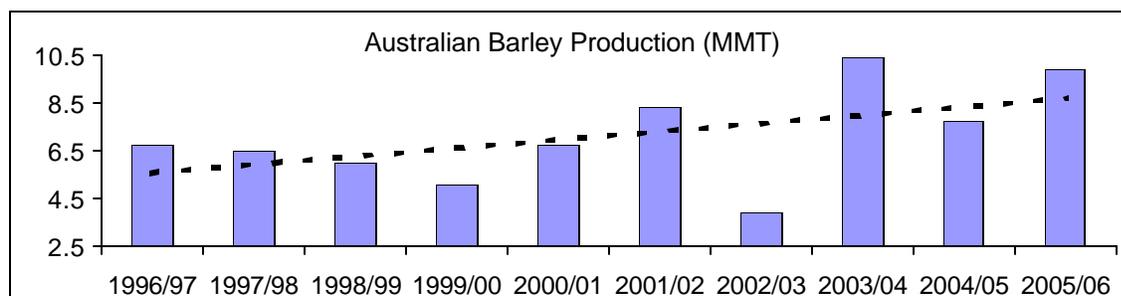


Source: ABARE data (July-June)

## Production

Total barley production for 2006/07 is forecast at 8.25 MMT, down significantly on Post's previous forecast and on the revised estimate for the previous year. If achieved, this figure would be considered slightly above average compared with historical data.

Lower planted area is the biggest constraint for barley production in 2006/07. Industry sources suggest that barley plantings have fallen due to poorer barley prices last season and the comparatively improved prices for wheat. Also, higher barley plantings in recent years has seen many farmers rotating land out of barley for agronomic reasons such as disease build-up. A particularly high quality barley crop in 2005/06 saw barley prices tumble at harvest and has created a poor perception of barley pricing in some areas.



Source: ABARE data (July-June)

## Yield

Post's 2006/07 area and production forecasts assume a yield of 1.9 MT per hectare, slightly below the 10-year average of 1.94 MT per hectare. This below average yield is a direct reflection of the below average planting conditions recently experienced.

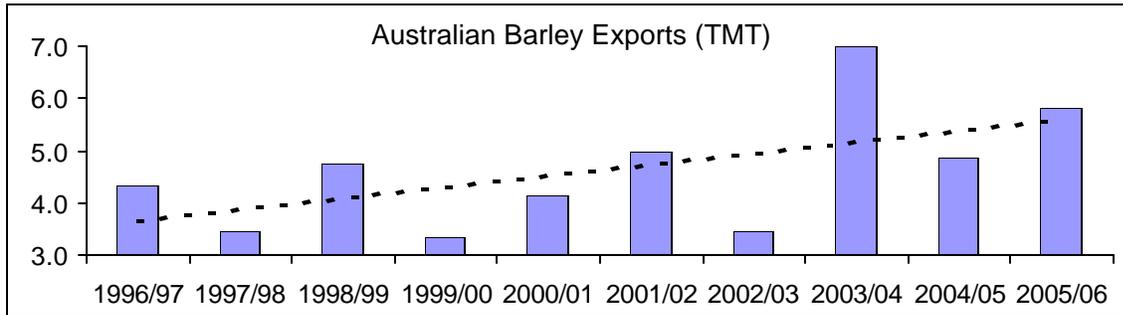
Post advises that above average seasonal conditions over the next three months have the capacity increase production.

## Exports

Total exports of barley for 2006/07 are forecast at 5.52 MMT, up from the previous forecast and from the estimate for the previous year. Exports at this level, if achieved would represent an above average level of production historically.

An historically large 2005/06 crop, combined with the unusually high quality of the crop resulted in a sharply higher exportable barley surplus. Industry sources believe that significant volumes of 2005/06 barley crop, currently in storage in South Australia and

Victoria, are likely to be exported in the 2006/07 crop year. Post removes exports of malt from barley export figures. Malt exports are included with domestic consumption figures.



Source: ABARE data (July-June)

## SECTION TWO: STATISTICAL TABLES

<b>PSD Table</b>							
<b>Wheat</b>							
	<b>2004</b>	<b>Revised</b>	<b>2005</b>	<b>Estimate</b>	<b>2006</b>	<b>Forecast</b>	<i>UOM</i>
	<b>USDA Official [Old]</b>	<b>Post Estimate [New]</b>	<b>USDA Official [Old]</b>	<b>Post Estimate [New]</b>	<b>USDA Official [Old]</b>	<b>Post Estimate [New]</b>	
<b>Market Year Begin</b>		<b>10/2004</b>		<b>10/2005</b>		<b>10/2006</b>	<i>MM/YYYY</i>
<b>Area Harvested</b>	13768	13400	12600	12980	11500	12382	<i>(1000 HA)</i>
<b>Beginning Stocks</b>	5360	5218	6893	6402	7868	8049	<i>(1000 MT)</i>
<b>Production</b>	22600	21900	24500	25090	21500	20900	<i>(1000 MT)</i>
<b>TOTAL Mkt. Yr. Imports</b>	75	79	75	80	0	81	<i>(1000 MT)</i>
<b>Jul-Jun Imports</b>	76	78	75	79	0	80	<i>(1000 MT)</i>
<b>Jul-Jun Import U.S.</b>	0	0	0	0	0	0	<i>(1000 MT)</i>
<b>TOTAL SUPPLY</b>	28035	27197	31468	31572	29368	29030	<i>(1000 MT)</i>
<b>TOTAL Mkt. Yr. Exports</b>	14742	14395	17000	16715	17000	15430	<i>(1000 MT)</i>
<b>Jul-Jun Exports</b>	15826	15440	16000	16500	17500	15500	<i>(1000 MT)</i>
<b>Feed Dom. Consumption</b>	3700	2338	3900	2548	3900	2625	<i>(1000 MT)</i>
<b>TOTAL Dom. Consumption</b>	6400	6400	6600	6808	6600	6700	<i>(1000 MT)</i>
<b>Ending Stocks</b>	6893	6402	7868	8049	5768	6900	<i>(1000 MT)</i>
<b>TOTAL DISTRIBUTION</b>	28035	27197	31468	31572	29368	29030	<i>(1000 MT)</i>

<b>PSD Table</b>							
<b>Barley</b>							
	<b>2004</b>	<b>Revised</b>	<b>2005</b>	<b>Estimate</b>	<b>2006</b>	<b>Forecast</b>	<i>UOM</i>
	<b>USDA Official [Old]</b>	<b>Post Estimate [New]</b>	<b>USDA Official [Old]</b>	<b>Post Estimate [New]</b>	<b>USDA Official [Old]</b>	<b>Post Estimate [New]</b>	
<b>Market Year Begin</b>		<b>11/2004</b>		<b>11/2005</b>		<b>11/2006</b>	<i>MM/YYYY</i>
<b>Area Harvested</b>	4617	4617	4739	4739	4400	4341	<i>(1000 HA)</i>
<b>Beginning Stocks</b>	1887	1847	1834	1794	2503	2861	<i>(1000 MT)</i>
<b>Production</b>	7708	7708	9869	9869	8000	8250	<i>(1000 MT)</i>
<b>TOTAL Mkt. Yr. Imports</b>	0	0	0	0	0	0	<i>(1000 MT)</i>
<b>Oct-Sep Imports</b>	0	0	0	0	0	0	<i>(1000 MT)</i>
<b>Oct-Sep Import U.S.</b>	0	0	0	0	0	0	<i>(1000 MT)</i>
<b>TOTAL SUPPLY</b>	9595	9555	11703	11663	10503	11111	<i>(1000 MT)</i>
<b>TOTAL Mkt. Yr. Exports</b>	4261	4261	5500	5202	4800	5523	<i>(1000 MT)</i>
<b>Oct-Sep Exports</b>	4481	4200	5500	5900	4800	5600	<i>(1000 MT)</i>
<b>Feed Dom. Consumption</b>	2600	2300	2800	2450	3000	2600	<i>(1000 MT)</i>
<b>TOTAL Dom. Consumption</b>	3500	3500	3700	3600	3900	3700	<i>(1000 MT)</i>
<b>Ending Stocks</b>	1834	1794	2503	2861	1803	1888	<i>(1000 MT)</i>
<b>TOTAL DISTRIBUTION</b>	9595	9555	11703	11663	10503	11111	<i>(1000 MT)</i>