USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Required Report - public distribution

Date: 3/23/2005

GAIN Report Number: AS5008

Australia

Grain and Feed

Annual

2005

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Report Highlights:
Wheat and barley production are both forecast to rise in 2005/06, due primarily to more favorable weather conditions. The larger crops are expected to allow exports to also rise in 2005/06. Sorghum production in 2006/07 is forecast at a near-record level, while rice production is forecast to rise from a depressed level. Sorghum exports should remain at a relatively high level, while rice exports are expected to rise. The Australian Government continues to pressure the state-based export monopolies to reform.

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

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SECTION ONE: SITUATION AND OUTLOOK

Climatic conditions appear to have returned to more normal patterns, following severe drought in 2002-03. Post assumes normal weather conditions in forecasting production levels for both the upcoming winter (2005/06) and summer crops (2006/07). Sharply depleted irrigation water reserves are expected to continue to constrain rice production.

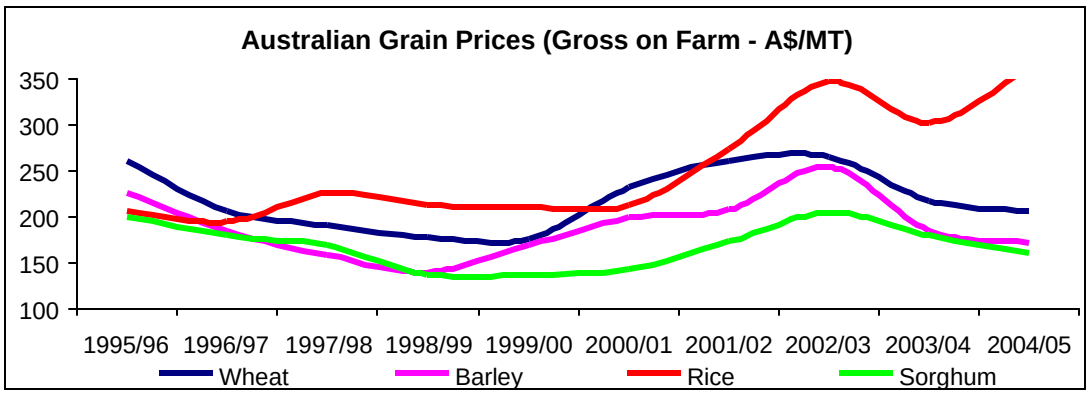
Current conditions indicate a fairly normal start to the main, 2005/06 winter crop (wheat and barley) growing season. Planting of this crop has commenced, and will likely continue for the next three months. Prices received for winter crops are forecast to decline somewhat from record levels achieved in recent years.

Winter grain production prospects for 2005/06, including wheat and barley, are currently more favorable than a year-earlier. Production of wheat in 2005/06 is forecast at 23 MMT, up from an estimated 20.5 MMT, while barley production is forecast at 7.3 MMT, up from the previous 6.5 MMT. These production forecasts assume normal weather conditions during the planting, growing and harvesting season. The more favorable production prospects for wheat and barley are expected to result in a rise in exports in the 2005/06 marketing years. The 2005/06 winter grain crop is currently being planted and will be harvested beginning later in the year.

The 2005/06 summer grain harvest is currently ongoing and will continue over the next several months. Sorghum production is forecast at a record 2.25 MMT, up from the previous year that was also a bumper crop. Rice production in 2005/06 is forecast at 431,000 MT (milled basis), the smallest crop since the mid-1970's. Shortages of irrigation water continue to constrain rice area. Sorghum exports in 2005/06 are projected at near-record levels, while rice exports are expected at near-record lows of recent years.

The 2006/07 summer grain crop will not be planted until late in the year, into the early part of 2006. At this early date, sorghum production is expected to stay at a near-record level, while some recovery is expected in rice production due to an anticipated slow recovery in irrigation water reserves.

The Australian dollar has strengthened significantly against the U.S. dollar in recent years. This upward movement, combined with mostly softer world grain prices, has substantially trimmed export returns for Australian grain when converted to Australian dollars. The Australian dollar, which is now trading at about US$0.79, traded at an average of US$0.74 in 2004, US$0.652 in 2003, US$0.559 in 2002, and only US$0.512 in 2001.



Source: ABARE data.

Single Desk Exporters Pressured by Productivity Council

Much of Australia's grain is exported under government-sanctioned 'single desk' marketing arrangements. On this front, a government-appointed panel conducted a formal review of the management and regulation of Australia's single desk wheat export arrangements in 2004. The panels report, released in October 2004, is not likely to have a material impact on AWB Ltd's bulk wheat export monopoly. Pressure from the Commonwealth's National Competition Council, under National Competition Policy agreements, continues to drive reform in state export monopoly arrangements for barley, canola and lupins in Western Australia, with the Council exerting similar pressure for reforms in export monopoly arrangements for barley in South Australia. In New South Wales, export monopolies for barley, sorghum and canola are due to be eliminated in September 2005.

The Australian grain sector will soon be characterized by four major markets with single-desk exports – national for wheat; Western Australia for barley, canola and lupins; South Australia for barley; and New South Wales for rice. The National Competition Council appears to more-or-less approve of the grain export arrangements that have been put in place in Western Australia. Under this system, a single entity has control of most of the state's exports of barley, canola and lupins, but a monitoring body is allowing competing exports under certain conditions. It appears likely that this type of model may well emerge in South Australia. For rice, the Council is not exerting pressure on the single desk export rights in the State of New South Wales.

Agricultural Biotechnology – Go-Slow Approach for Food Grains

The Gene Technology Act of 2000 established Australia's current regulatory regime for dealings with gene technology and genetically modified organisms. The Commonwealth's Office of the Gene Technology Regulator (OGTR) serves the key role in regulating and licensing GMOs and monitoring and enforcing license conditions. To date, biotech cotton, color modified carnations and canola varieties are the only agricultural crops approved for commercial release into the environment, while biotech cotton is the only crop grown widely in the country.

Most Australian states and territories (using their powers over commodity 'marketing') have recently moved to restrict or ban the commercial planting of biotech crops in their jurisdictions. Biotech canola, which OGTR approved for commercial release in 2004, has been the driving force behind most of these restrictions. The AWB Group (wheat export monopoly), the Australian dairy industry, among others, have voiced serious concerns about introducing biotech canola and have advocated for a 'go-slow' approach, largely because of the potential impact biotech canola could have on their business.

Research is being conducted on other biotech crops, with OGTR-controlled field trials being conducted on some, i.e., rice, white clover, narrow-leafed lupin, grapevines, pineapple, papaya, sugarcane and poppies. OGTR is currently assessing applications for field trials for biotech wheat, while field trials of other biotech wheat varieties were conducted dating back to 1996. Presently, however, there is significant resistance to any commercial growing of biotech wheat. AWB, for example, expresses concern about biotech wheat's potential impact on its existing export markets and argues that commercial releases shouldn't go forward until market preferences change and/or the supply chain can guarantee segregation.

This commercial resistance and the restrictions in place in the states and territories are clearly slowing the introduction of the technology. The Australian cotton crop is over 80 percent biotech, and there is little controversy concerning its cultivation. Indeed, the

significant decline in pesticide and herbicide use for this crop has been widely reported. The experience with biotech canola would seem to indicate that it could be some time before Australia has large-scale commercial plantings of biotech wheat, or any other biotech food grain crop, even when varieties have met the approval of OGTR.

Australia Actively Pursuing Free Trade Agreements

Australia has been very active in negotiating free trade agreements (FTAs) of late. An FTA was implemented with Singapore in 2003, and with Thailand and the United States in 2005. Under these agreements, Australia agreed to immediately eliminate essentially all import tariffs on agricultural products.

Under the Thailand-Australia FTA, Thailand agreed to immediately eliminate import tariffs on Australian wheat and barley, while tariffs on wheat flour and gluten, and milling and bakery products will be phased to zero in 2010. Prior to the FTA, Australian wheat faced a Thai ad valorem import tariff equivalent to about 12-20 percent, while the ad valorem barley tariff was equivalent to up to 25 percent. Thailand's tariffs on wheat flour and gluten, and milling and bakery products range from 30-56 percent.

In the Australia-U.S. FTA, both countries agreed to "work together to reach an agreement on agriculture in the WTO that substantially improves market access for agricultural goods, reduces, with a view to phasing out, all forms of agricultural export subsidies, develops disciplines that eliminate restrictions on a person's right to export, and substantially reduces trade-distorting domestic support."

Australia is now pursuing additional FTAs with a number of countries, including Malaysia, the Association of Southeast Asian Nations, China and most recently the United Arab Emirates. Importantly, FTAs with these countries would be expected to provide Australia with preferential access for grain and products in some key export markets.

Australia has a long-standing Closer Economic Relations Trade Agreement with New Zealand that also provides significant bilateral trade concessions.

Government Export Credits

The Export Finance and Insurance Company (EFIC), which is owned by the Commonwealth of Australia, provides financial support for Australian exporters of goods and services. EFIC provides export finance, insurance, risk management services and advice. EFIC's focus is in areas where the private market lacks capacity or willingness, 'market gap'.

A National Interest Account (NIC) is maintained for cases where the size or risk of the credit exceeds EFIC's operating parameters. In these cases, the Minister of Trade makes the transaction decision and the Commonwealth carries the direct liability. The NIC has traditionally been used to provide export credit support for wheat and other commodities to difficult markets. EFIC left the short-term 'Commercial Account' export credit insurance business in 2004, turning this over to a commercial provider.

There is little publicly available information on EFIC transactions, particularly on credit/finance terms.

SECTION TWO: STATISTICAL TABLES

PSD Table Wheat							
	2003	Revised	2004	Estimate	2005	Forecast	*UOM*
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		**10/2003**		**10/2004**		**10/2005**	*MM/YYYY*
Area Harvested	13024	13024	12200	11991	0	11850	*(1000 HA)*
Beginning Stocks	3142	1708	5459	4603	4434	3663	*(1000 MT)*
Production	26231	26231	21500	20500	0	23000	*(1000 MT)*
TOTAL Mkt. Yr. Imports	73	59	75	60	0	60	*(1000 MT)*
Jul-Jun Imports	71	60	75	60	0	60	*(1000 MT)*
Jul-Jun Import U.S.	0	0	0	0	0	0	*(1000 MT)*
TOTAL SUPPLY	29446	27998	27034	25163	4434	26723	*(1000 MT)*
TOTAL Mkt. Yr. Exports	18031	17895	17000	16000	0	16800	*(1000 MT)*
Jul-Jun Exports	15096	15104	17000	16800	0	16500	*(1000 MT)*
Feed Dom. Consumption	3231	2500	2900	2500	0	2600	*(1000 MT)*
TOTAL Dom. Consumption	5956	5500	5600	5500	0	5600	*(1000 MT)*
Ending Stocks	5459	4603	4434	3663	0	4323	*(1000 MT)*
TOTAL DISTRIBUTION	29446	27998	27034	25163	0	26723	*(1000 MT)*

PSD Table
Barley

	2003	Revised	2004	Estimate	2005	Forecast	*UOM*
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		**11/2003**		**11/2004**		**11/2005**	*MM/YYYY*
Area Harvested	4404	4404	3800	4159	0	4170	*(1000 HA)*
Beginning Stocks	948	873	1787	1720	1337	1024	*(1000 MT)*
Production	10287	10287	7000	6454	0	7300	*(1000 MT)*
TOTAL Mkt. Yr. Imports	0	0	0	0	0	0	*(1000 MT)*
Oct-Sep Imports	0	0	0	0	0	0	*(1000 MT)*
Oct-Sep Import U.S.	0	0	0	0	0	0	*(1000 MT)*
TOTAL SUPPLY	11235	11160	8787	8174	1337	8324	*(1000 MT)*
TOTAL Mkt. Yr. Exports	6398	6374	3800	3900	0	4200	*(1000 MT)*
Oct-Sep Exports	6105	6300	3800	3950	0	4150	*(1000 MT)*
Feed Dom. Consumption	2150	2134	2700	2200	0	2250	*(1000 MT)*
TOTAL Dom. Consumption	3050	3066	3650	3250	0	3300	*(1000 MT)*
Ending Stocks	1787	1720	1337	1024	0	824	*(1000 MT)*
TOTAL DISTRIBUTION	11235	11160	8787	8174	0	8324	*(1000 MT)*

PSD Table Sorghum							
	2003	Revised	2004	Estimate	2005	Forecast	*UOM*
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		**03/2004**		**03/2005**		**03/2006**	*MM/YYYY*
Area Harvested	761	761	700	850	0	734	*(1000 HA)*
Beginning Stocks	54	70	107	178	102	210	*(1000 MT)*
Production	2108	2108	2000	2250	0	2150	*(1000 MT)*
TOTAL Mkt. Yr. Imports	0	0	0	0	0	0	*(1000 MT)*
Oct-Sep Imports	0	0	0	0	0	0	*(1000 MT)*
Oct-Sep Import U.S.	0	0	0	0	0	0	*(1000 MT)*
TOTAL SUPPLY	2162	2178	2107	2428	102	2360	*(1000 MT)*
TOTAL Mkt. Yr. Exports	550	550	350	590	0	500	*(1000 MT)*
Oct-Sep Exports	425	425	500	585	0	500	*(1000 MT)*
Feed Dom. Consumption	1500	1447	1650	1625	0	1650	*(1000 MT)*
TOTAL Dom. Consumption	1505	1450	1655	1628	0	1655	*(1000 MT)*
Ending Stocks	107	178	102	210	0	205	*(1000 MT)*
TOTAL DISTRIBUTION	2162	2178	2107	2428	0	2360	*(1000 MT)*

PSD Table Rice, Milled							
	2003	Revised	2004	Estimate	2005	Forecast	*UOM*
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		**03/2004**		**03/2005**		**03/2006**	*MM/YYYY*
Area Harvested	65	65	65	50	0	60	*(1000 HA)*
Beginning Stocks	604	479	397	295	212	162	*(1000 MT)*
Milled Production	383	383	400	308	0	368	*(1000 MT)*
Rough Production	536	536	559	431	0	515	*(1000 MT)*
MILLING RATE (.9999)	7150	7150	7150	7150	0	7150	*(1000 MT)*
TOTAL Imports	65	88	70	95	0	110	*(1000 MT)*
Jan-Dec Imports	60	88	70	90	0	105	*(1000 MT)*
Jan-Dec Import U.S.	0	0	0	0	0	0	*(1000 MT)*
TOTAL SUPPLY	1052	950	867	698	212	640	*(1000 MT)*
TOTAL Exports	275	275	275	156	0	175	*(1000 MT)*
Jan-Dec Exports	225	225	250	175	0	170	*(1000 MT)*
TOTAL Dom. Consumption	380	380	380	380	0	380	*(1000 MT)*
Ending Stocks	397	295	212	162	0	85	*(1000 MT)*
TOTAL DISTRIBUTION	1052	950	867	698	0	640	*(1000 MT)*

AUSTRALIA: Wheat Exports 2002/03 – 2003/04 (Oct – Sep), in MT

Country	2002/03	2003/04
Indonesia	1,483,754	3,066,300
Egypt	297,850	2,764,737
Iraq	747,198	1,597,991
China	8,120	1,414,893
South Korea	916,823	1,250,642
Japan	1,201,625	1,211,241
Malaysia	437,520	817,142
Sudan	477,926	715,303
Vietnam	251,211	592,835
Italy	124,357	390,951
Thailand	403,634	358,954
New Zealand	300,591	331,591
Yemen	327,978	322,672
Turkey	49,620	308,065
South Africa	25,908	300,550
Others	2,093,316	2,451,705
TOTAL	**9,147,431**	**17,895,572**
Of which in bulk	8,796,442	17,049,190
Of which in bag	8,638	12,446
Of which in container	121,221	511,601
Of which flour	198,013	303,257
Of which wheat products	23,117	19,078

Source: Wheat Export Authority; World Trade Atlas
Note: Flour & wheat products in wheat equivalents.

SECTION THREE: NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

WHEAT

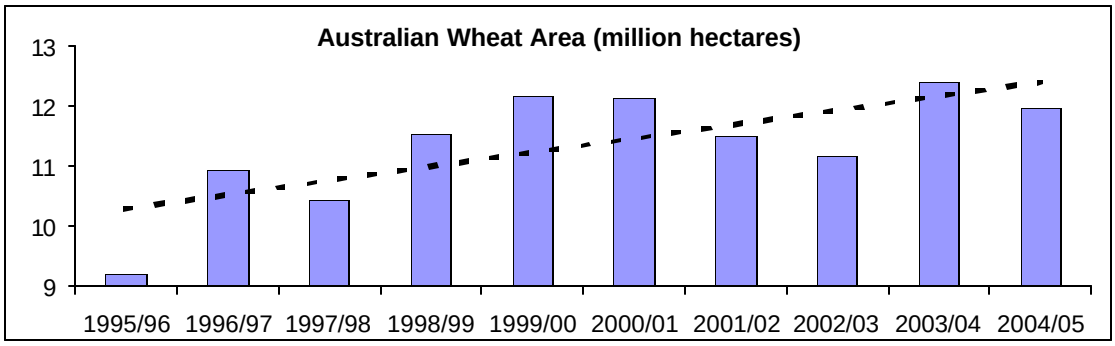
Area

Australian wheat area in 2005/06 is forecast at 11.85 million hectares, down slightly from the revised estimate for the previous year and in line with the Australian Bureau of Agricultural and Resource Economics (ABARE) forecast. Despite the slight forecasted decline in area, this wheat area figure remains high by historical standards. The bulk of the 2005/06 wheat crop will be planted over the next three months.

Lower area for wheat in 2005/06 reflects rising livestock numbers in mixed farming areas due to improved climatic conditions and strong animal prices. This trend is supported by recent ABARE and Australian Bureau of Statistics (ABS) reports showing incremental increases in livestock numbers. Furthermore, agronomic factors, such as the need for crop rotation (following historically high wheat plantings), should also contribute to a slightly lower wheat area.

Wheat area in 2004/05 is estimated at 11.99 million hectares, slightly below Post's previous estimate (see GAIN Report #AS4043 dated 12/30/04). Mixed planting conditions and a dry finish in some areas were the major factors behind the slight downward revision in area. Of note, some areas in southern New South Wales actually reverted back to drought conditions, following a general period of improving conditions.

Wheat area for 2003/04 is estimated at 13.02 million hectares, unchanged from Post's previous report and in line with official ABS statistics. According to historical ABARE figures, this area is an all-time record, surpassing the previous record of 12.93 million hectares reached in 1983/84. ABARE estimates wheat area in 2003/04 at 12.4 million hectares. Given past practice, Post expects that ABARE will ultimately adopt the higher ABS estimate.



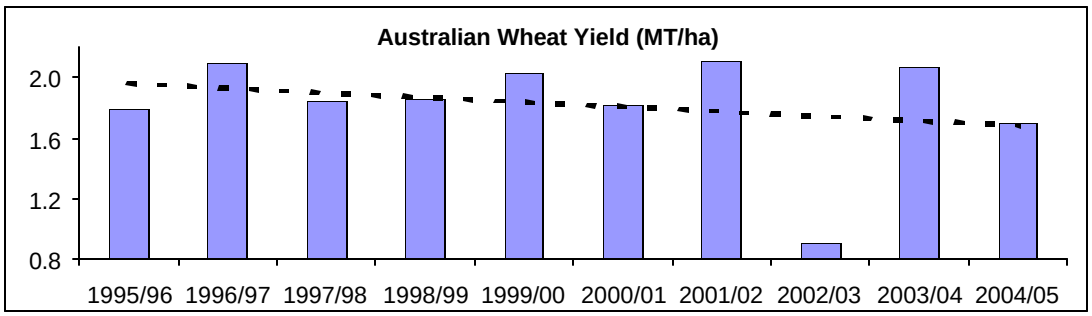
Source: ABARE data.

Yield

Post's area and production forecasts for 2005/06 assume an average yield of 1.94 MT/ha, in line with the long-term trend of steadily improving average wheat yields (excluding the 'abnormal' 2002/03 drought year). ABARE projections show average wheat yields increasing at 0.02 MT/ha per annum, reaching 2.04 MT/ha in 2009/10.

Post estimates assume an average yield of 1.71 MT/ha for 2004/05, slightly higher than the 1.70 MT/ha reported by ABARE. Average yield in 2003/04 is estimated at 2.01 MT/ha, an

historically high figure, although still well under the record of 2.11 MT/ha reached in 2001/02.



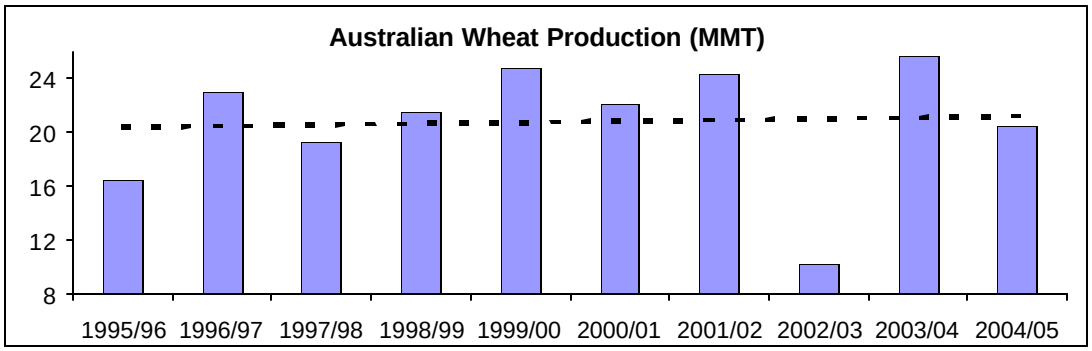
Source: ABARE data.

Production

Wheat production in 2005/06 is forecast at 23.0 MMT, up 12 percent from the previous year. This figure remains slightly above ABARE's forecast of 22.56 MMT, due to a lower assumed yield of 1.90 MT/ha. Post assumes normal weather conditions for the remainder of the 2005/06 season in arriving at this production forecast. Improved yield is expected to more than compensate for the slight drop in wheat area. Furthermore, more normal weather conditions are expected to see some key wheat growing areas more fully recover from drought conditions and contribute to an improved national average yield.

Wheat production for 2004/05 is estimated at 20.50 MMT, unchanged from Post's previous report (see GAIN Report #AS4043). This figure remains slightly higher than the 20.38 MMT reported by ABARE. A past tendency to underestimate the size of the wheat crop under mixed climatic conditions and ABS historical revisions that have typically increased the size of the crop contributed to Post retaining the slightly higher production figure.

Wheat production in 2003/04 is estimated at 26.23 MMT, the same as the official ABS figure. According to historical ABARE data, this remains an all time record for wheat production in Australia, easily surpassing the 25.70 MMT set in 2003/04. ABARE has not adopted the higher ABS production estimate, and currently estimates the crop at 25.7 MMT. Given past practices, Post would expect ABARE to ultimately adopt the higher ABS figure.



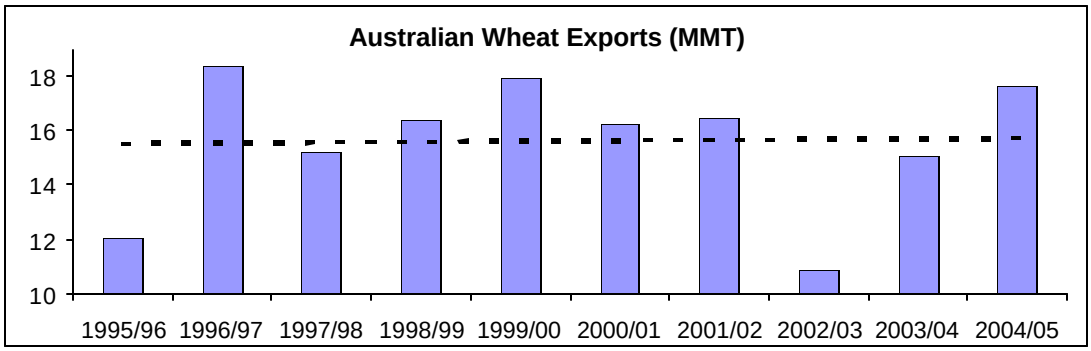
Source: ABARE data.

Exports

Total wheat exports in 2005/06 (Oct-Sep) are forecast at 16.80 MMT, up five percent from the figure for the previous year. Increased wheat production is likely to facilitate a higher export level in 2005/06.

Total wheat exports in 2004/05 are forecast at 16.00 MMT, unchanged from Post's previous forecast, but down 11 percent from the previous year. The reduced size of the 2004/05 crop following the record 2003/04 season was behind the decline in exports. This export level is still largely in line with the long-term trend, according to ABARE historical data.

Total wheat exports in 2003/04 remain unchanged at 17.90 MMT, in line with official Wheat Export Authority (WEA) figures supplemented by ABS figures for wheat flour and products adjusted to wheat equivalents. These figures have Indonesia as Australia's largest export destination at 3.07 MMT, followed by Egypt with 2.76 MMT and Iraq with 1.60 MMT.



Source: ABARE data.

Stocks

Wheat ending stocks in 2005/06 (end September 2006) are forecast at 4.32 MMT, up sharply from the revised estimate of 3.66 MMT for the previous year. The larger 2005/06 crop and the replenishment of stocks that were depleted during the 2002-03 drought is expected to see stocks stabilize at between 4.00-4.50 MMT.

(See the Appendix for a further discussion of stocks.)

Consumption

Total domestic consumption for 2005/06 is forecast at 5.60 MMT, up slightly from the 5.50 estimated for the previous year. Total consumption includes food and industrial use, feed and seed use. A higher number of animals on feed is expected to keep demand high for wheat as feed.

(See the Appendix for a further discussion of stocks.)

Prices

Returns to Australia's wheat growers for the upcoming 2005/06 season are likely to be somewhat lower than in 2004/05 and well under 2003/04, according to AWB International's Estimated Pool Returns (EPR). As of March 2005, AWB's estimated pool range for the benchmark APW (Australian Prime Wheat) for 2005/06 is A$175-$185 per MT (see table below). The 2005/06 Pool is still subject to major price movements, as it is still in its early stages. The 2004/05 Pool will not likely see major price movements, as the marketing program is well under way.

Wheat Pool Returns, 2000/01 – 2005/06
(nominal prices in A$ per metric ton)

2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
234	259	256	231	199	175-185

Note: Estimated Pool Returns for APW 10% protein (FOB, GST exclusive)
Source: AWB Ltd., March 15, 2005.

Marketing Arrangements

The Wheat Marketing Act 1989 (as amended) currently governs wheat marketing in Australia. Under the Act, AWB International Ltd., a subsidiary of AWB Ltd. holds the 'single desk', national monopoly export rights for bulk wheat. The Government's Wheat Export Authority (WEA) has oversight responsibilities for monitoring AWBI's export monopoly and performance and also operates an 'export control' system for bagged and container wheat. AWB Ltd., a publicly listed company controlled by wheat growing shareholders, replaced the former Australian Wheat Board, a Government-owned statutory marketing authority.

In 1999, a review of the Wheat Marketing Act and the privatization of the Australian Wheat Board the National Competition Council was conducted under National Competition Policy (NCP) criteria. The Council determined that the Government failed to meet national competition principles (under the Competition Principles Agreement – CPA) in relation to the privatization. In subsequent annual reviews, the Council has noted that clause 4 of the CPA sets out obligations aimed at ensuring reform paths lead to competitive outcomes. The Council argues that "the protection of some public monopolies from competition through regulation or other government policies has allowed structures to develop that do not readily respond to market conditions … and .. rectifying strategies include removing the relevant legislative restrictions and applying competitive neutrality principles." The Council has repeatedly found that the Australian Government has not met its CPA clause 4 obligations in regards to the Government-sanctioned wheat marketing arrangements.

In 2000, a Commonwealth-funded review of the Wheat Marketing Act and wheat marketing arrangements determined that it would be premature to repeal the Act and recommended that the single desk be retained until a 2004 review, which was already required under the Act.

A Government-appointed independent panel conducted the mandated 2004 review and a summary of its findings and recommendations was released in October 2004 – "Growers' Report". The main focus of this review was to examine the issues affecting the management and regulation of Australia's single desk wheat export arrangements. According to the Australian Minister of Agriculture, the findings reflect favorably on the existing arrangements, but that a set of recommendations was made for improving the system. The panel's report will be tabled in Parliament and the Government will study the recommendations and, according to the Minister, will develop a response. The Government insisted that the 2004 review was not about the continuation of the export single desk, nor was it intended to fulfill NCP obligations.

The National Competition Council, in their last annual assessment ("Assessment of governments' progress in implementing the National Competition Policy and Related Reforms: 2004"), indicated that the incomplete nature of the 2004 review means the Council is still unable to assess the Australian Government as having met its CPA clause 4 obligations in regards to the current wheat marketing arrangements. (See GAIN Report #AS4011 for further information.)

BARLEY

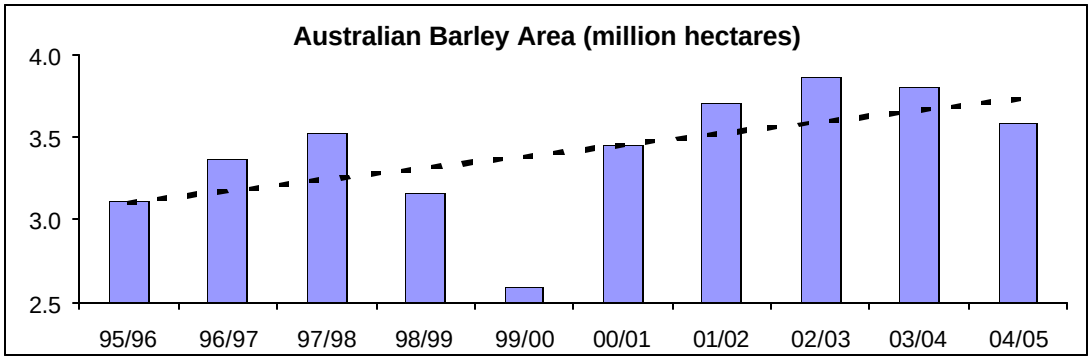
Area

Total barley area in 2005/06 is forecast at 4.17 million hectares, up slightly from the previous year. This area figure is in line with ABARE's forecast, which also shows a slight increase in forecast area, while ABARE is forecasting a lower barley area figure for 2005/06 and 2004/05.

Post assumes normal weather conditions in arriving at this area forecast. However, barley faces a slightly different agronomic outlook than wheat as it is typically planted later in the crop rotation and is less likely to be constrained by agronomic or livestock considerations. Furthermore, quicker maturing barley sometimes is used in the shorter growing conditions associated with drought.

Barley area in 2004/05 is estimated at 4.16 MMT, down about six percent from the previous year. Difficult planting conditions in key barley producing areas of southern New South Wales contributed to the drop from the record area of the previous year.

Total barley area for 2003/04 is estimated at 4.4 million hectares, the same as the official ABS statistics. This remains an all time record according to ABARE's historical data. ABARE has not adopted the ABS area estimate, but would be expected to at some point consistent with past practice.

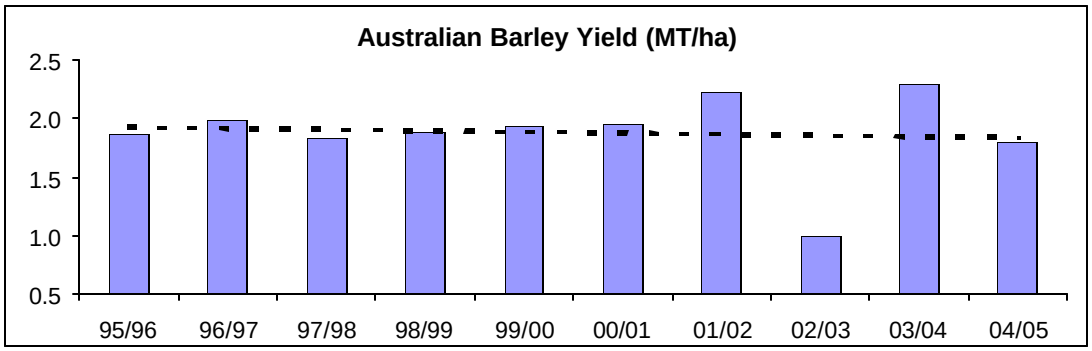


Source: ABARE data.

Yield

Barley yield in 2005/06 is forecast at 1.75 MT/ha, in line with the long-term trend established using ABARE's historical data. Post has assumed normal weather conditions in arriving at this figure. (The 'abnormally' poor 2002/03 barley yield results in a downward sloping trend over the period in the following barley yield graph.)

Barley yield in 2004/05 is estimated at 1.55 MT/ha, well below the historical high of 2.33 MT/ha recorded for the previous year. Difficult planting conditions combined with drier than average growing conditions in key barley growing areas contributed to the historically low yield in 2004/05.



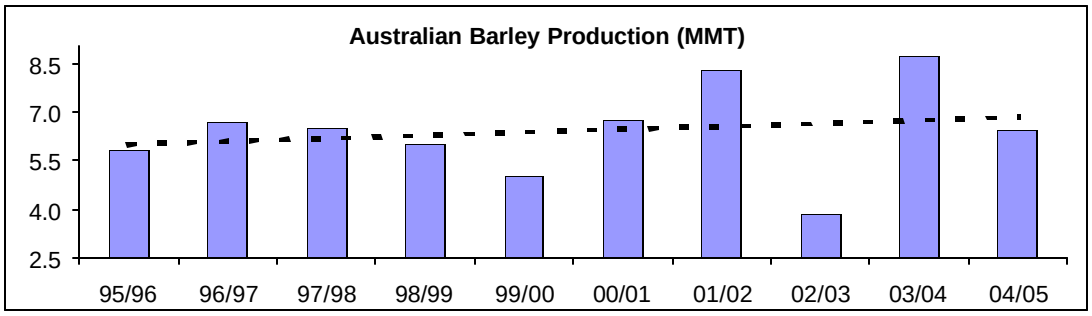
Source: ABARE data.

Production

Australian barley production in 2005/06 is forecast at 7.30 MMT, up nearly 13 percent from the revised estimate for the previous year. This figure is largely in line with ABARE's current forecast of 7.27 MMT. A slight increase in planted area and yields more reflective of the long-term average are likely to drive the expected rise in production.

Barley production in 2004/05 is estimated at 6.5 MMT, unchanged from the previous estimate (see GAIN Report #AS4043). Difficult growing conditions in key barley growing areas significantly lowered both national area and yield. Despite the decline, barley production remains at historically high levels according to ABARE's historical data.

Barley production for 2003/04 is estimated at 10.29 MMT, unchanged from Post's previous report and the same as official ABS statistics. Like wheat, ABARE has not adopted the ABS production estimate for 2003/04, but would be expected to given past practices.



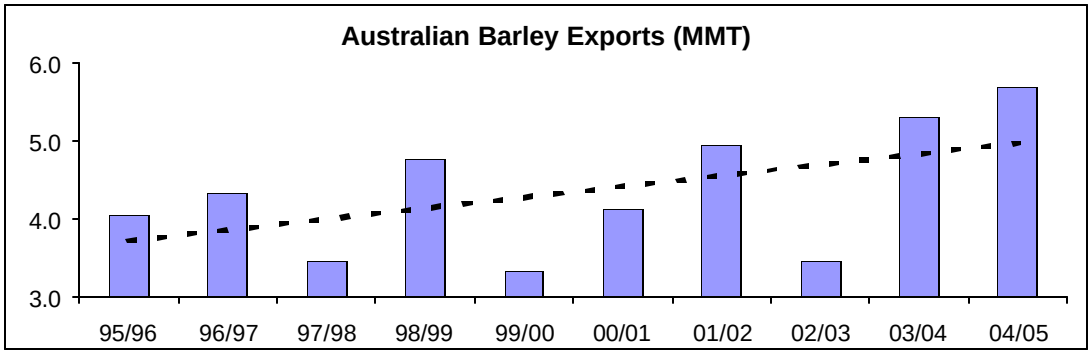
Source: ABARE data.

Exports

Barley exports in 2005/06 (Nov – Oct) are forecast to rise about eight percent to 4.20 MMT. The larger expected 2005/06 barley crop is expected to increase the availability of barley suitable for export. Barley exports used in this report do not include barley malt exports (in grain equivalent), which is instead included in the domestic consumption figures.

Barley exports in 2004/05 are estimated at 3.9 MMT, down sharply from the previous year, but up slightly from Post's previous estimate. Reduced production and poor harvesting conditions greatly reduced the availability of barley suitable for export.

Barley exports in 2003/04 are estimated at 6.37 MMT, an all time record according to ABARE's historical data. This record export level was due to record production and average to above average grain quality.



Source: ABARE data.

Stocks

Ending stocks for 2005/06 (end October 2006) are forecast at 0.82 MMT, down from the 1.02 MMT forecast for the end of the previous marketing year. Post anticipates that more normal weather conditions will improve average grain quality levels and should see exports improve at the expense of stocks.

(See the Appendix for a further discussion of stocks.)

Consumption

Post forecasts total barley consumption in 2005/06 at 3.3 MMT, up slightly from the 3.25 MMT projected for the previous year. The 2005/06 consumption forecast is largely in line with ABARE's forecast, taking into consideration Post includes malt (grain equivalent) exports in domestic consumption, while ABARE does not. Strong economic growth combined with historically high livestock numbers is likely to support higher barley consumption.

Prices

Returns to Australia's barley growers for the upcoming 2005/06 season are likely to be below 2004/05 and well under 2003/04, according to ABB Grain's opening export barley gross pool indicators. In February 2005, ABB Grain announced the opening export pool indicator for barley in South Australia for the 2005/06 season at A$180-$190 per MT for malting #1 barley and A$140-$150 for feed #1 barley. ABB Grain announced the same opening export pool indicator for barley in Victoria in March 2005. These prices are roughly similar to the opening barley gross pool indicators announced for the 2004/05 barley season. ABB Grain is the primary domestic marketer and exporter of Australian barley and holds the export monopoly rights for barley produced in South Australia.

Marketing Arrangements

Barley exports are currently dominated by statutory state monopolies ('single desks') in all the major barley producing states, except Victoria. ABB Grain and Grain Pool Pty Ltd. hold the single desk export rights in South Australia and Western Australia, respectively. The monopoly export rights in New South Wales, presently controlled by GrainCorp, is due for

elimination in September 2005. Statutory export monopolies for barley have been eliminated in the states of Victoria and Queensland.

Western Australia

Under the Grain Marketing Act 2002, the Western Australian state government legislated changes to the export monopoly for barley, canola and lupins grown in the state, which opened exports to some competition. Under the new arrangements, the Grain Licensing Authority (GLA) acts as the regulator of the exports of these commodities from the State. Grain Pool Pty Ltd. (GPPL), a subsidiary of Cooperative Bulk Handling and the former Grain Pool of Western Australia, holds the 'Main Export License', while GLA can issue 'Special Export Licenses' for certain markets, for certain time periods. These changes resulted from an amalgamation of the Grain Pool of WA (then a statutory marketing authority) and CBH, and from pressure by the Commonwealth's National Competition Council, which threatened to withhold payments to the state pending 'reform' of the export monopoly.

Under the new licensing procedures for the 2003/04 season, GLA issued Special Export Licenses for 433,000 MT of feed barley, 35,000 MT of malting barley, 48,000 MT of canola and 20,000 MT of lupins. Of this, about 340,000 MT of feed barley was actually shipped to the Middle East. Thus far for the 2004/05 season, GLA has issued over 500,000 MT of Special Export Licenses. However, to date only about 50,000 MT of feed barley has been shipped, all to the Middle East.

Subsequent reviews of the new export arrangements indicate that the granting of the Special Export Licenses have had no significant impact on GPPL's marketing strategies and any premiums that they may be extracting through the use of market power. For example, in a report on the operation and effectiveness of the new operating procedures for the 2003/04 season, the GLA stated that the new procedures "have had a very positive impact on the cash market for prescribed grains in WA." Further, the GLA stated that "the issue of whether the GPPL can attain price premiums for the export of prescribed grain through the exertion of market power through the 'single desk' is something that is clearly very difficult to show." An independent review conducted on behalf of the WA state government, which was released in January 2005, came up with similar findings.

The National Competition Council, in their 2004 Assessment, finds that the Grain Marketing Act 2002 and associated reforms made by the State essentially put the current grain marketing system in compliance with National Competition Policy. The Council is still calling for some improvements in the guidelines to improve the predictability of the export licensing arrangements.

In a recent interesting twist, AWB International, applied for and the GLA issued a Special Export License for 38,000 MT of canola from Western Australia to the subcontinent. GPPL criticized this action, indicating that the GLA is undermining Western Australia's single desk grain marketing system and questioning why AWB Ltd., a strong advocate of the single desk, would work against a similar state-based system. In response, AWB has stated that "there is no conflict of interest and growers should realize that AWB is well within its rights to apply for a GLA license."

South Australia

There is a monopoly on all bulk barley exported from the State of South Australia, typically the largest barley producing state. The rights to the monopoly are held by ABB Grain Ltd., the former Government-owned Australian Barley Board. ABB Grain Ltd. has been a publicly

listed, grower-controlled company since 2002. In 2004, ABB Grain Ltd. purchased AusBulk, the major South Australian commodity bulk handler.

The National Competition Council has recommended changes in the barley marketing arrangements in South Australia, including the elimination or reform of the export monopoly. In its 2004 Assessment, the Council notes that the South Australian Government introduced the Barley Exporting Bill to Parliament, which would remove the barley export monopoly by repealing the States' Barley Marketing Act 1993. Under the Barley Exporting Bill, ABB Grain Ltd. would be given the main barley export license, and a licensing authority would be established to grant special export licenses to other barley exporters (somewhat similar to the Western Australian system). It is not clear when/if the State will pass the Barley Exporting Bill. Meanwhile, the Commonwealth Government continues to withhold competition payments to the State pending reform.

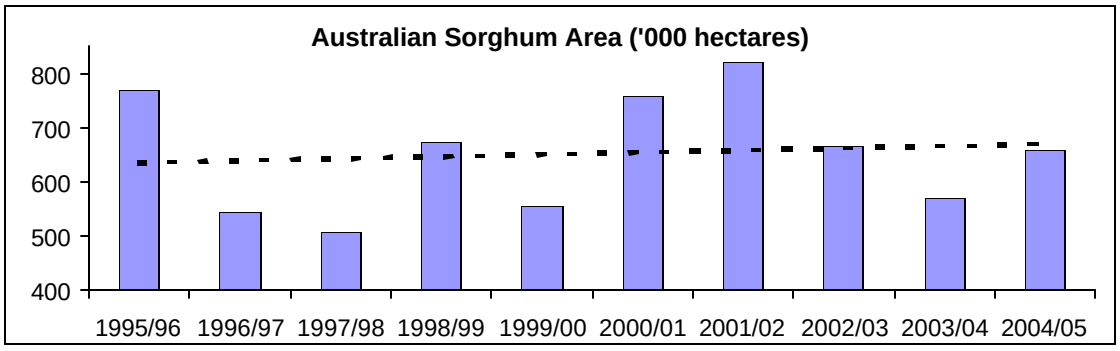
SORGHUM

Area

Sorghum area in 2006/07 is forecast at 734,000 hectares, about 14 percent lower than the estimate for the previous year. Despite the forecasted decline, this area is still at a relatively high historical level.

Sorghum area in 2005/06 remains unchanged from Post's previous report at 850,000 hectares (see GAIN Report #AS4043). This figure is in line with recent ABARE figures and represents a record sorghum area. Historically high prices and widespread favorable rainfall at planting provided the incentive to grow sorghum.

Sorghum area sown in 2004/05 is estimated at 761,000 hectares, equivalent to the official ABS statistic.

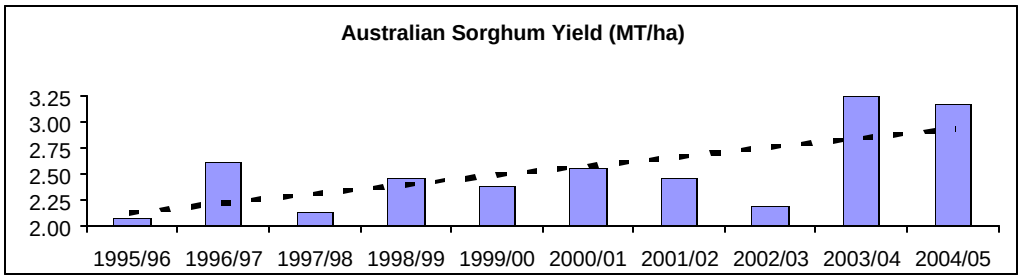


Source: ABARE data.

Yield

Post forecasts sorghum yield at an average of 2.92 MT/hectare in 2006/07. This yield figure is largely in line with the historic trends established using ABARE's historic data.

Yield in 2006/07 is estimated at 2.64 MT/ha. Mixed climatic conditions including drier condition in central Queensland reduced the national average yield. The five-year average for sorghum yield is about 2.73 MT/ha.

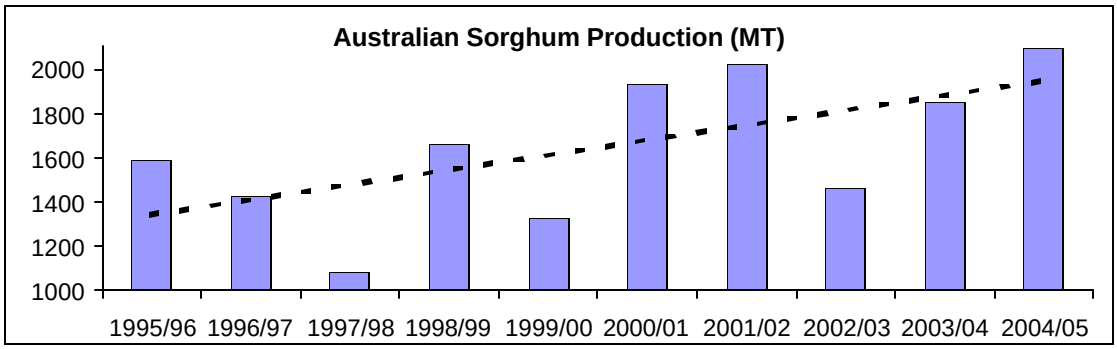


Source: ABARE data.

Production

Sorghum production in 2006/07 is forecast at 2.15 MMT, down slightly from the projection for the previous year. Lower expected area is expected to more than compensate for higher forecasted yield. Despite the lower production forecast, this level of production remains historically high, according to ABARE historical data.

Production in 2005/06 is estimated at 2.25 MMT, down 0.15 MMT from the previous estimate (see GAIN Report #AS4043), but still an all-time record for sorghum production. A poor finish to the season in Central Queensland was largely responsible for this downward revision.

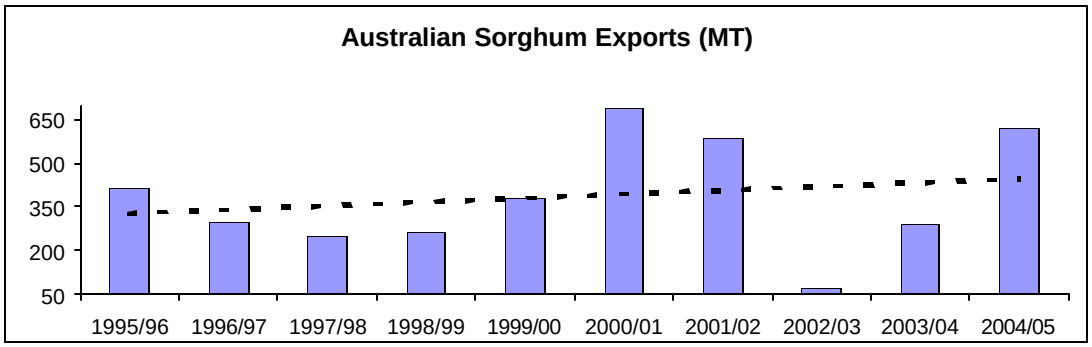


Source: ABARE data.

Exports

Post forecasts sorghum exports in 2006/07 (Mar – Feb) at 0.5 MMT, down slightly from the level projected for the previous year.

Projected sorghum exports in 2005/06 have been revised downwards slightly to 0.59 MMT, in line with the downward revision in production. This level of exports is historically high, only surpassed by the record 0.69 MMT of exports achieved in 2000/01, according to ABARE's historical data.



Marketing Arrangements

The monopoly export right in New South Wales for sorghum (also canola and barley), presently controlled by GrainCorp, is due to be eliminated on September 30, 2005. GrainCorp has allowed other parties to export sorghum under permit for a fee of A$5 per metric ton. The export monopoly for sorghum produced in Queensland has already been eliminated.

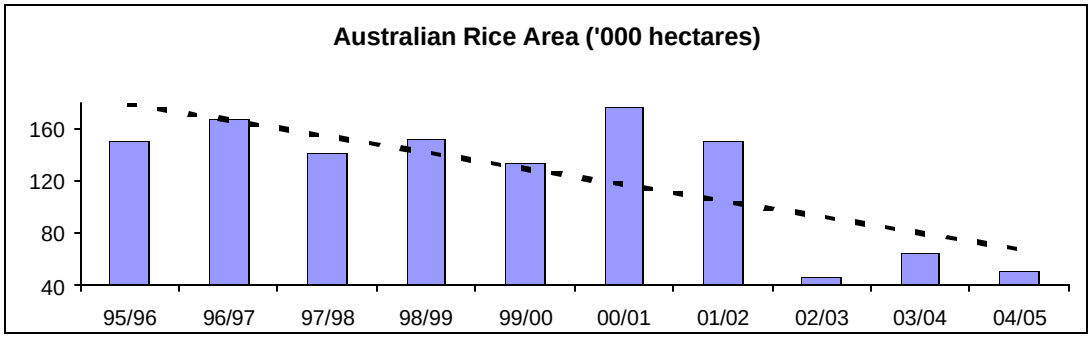
RICE

Area

Rice area in 2006/07 is forecast at 60,000 hectares, up 10,000 hectares from the previous year and in line with the current ABARE forecast. Despite this increase, rice area remains well below the historical average.

Severe drought conditions that sharply reduced the last three rice crops continues to constrain the availability of water for rice production. The area dedicated to rice production in 2006/07 will likely be constrained by water storage levels that have not yet fully recharged. According to government sources, key irrigation schemes have allowed producers to bring forward future entitlements of water for rice during the recent drought. These entitlements are being repaid over 2005/06 and 2006/07, further constraining the recovery in planted area.

Estimated area for rice in 2005/06 is 50,000 hectares, down from the 65,000 hectares for the previous year and in line with current ABARE figures. This is the lowest rice area since 1972/73. Depleted irrigation water reserves due to the severe drought greatly reduced the area dedicated to rice production.

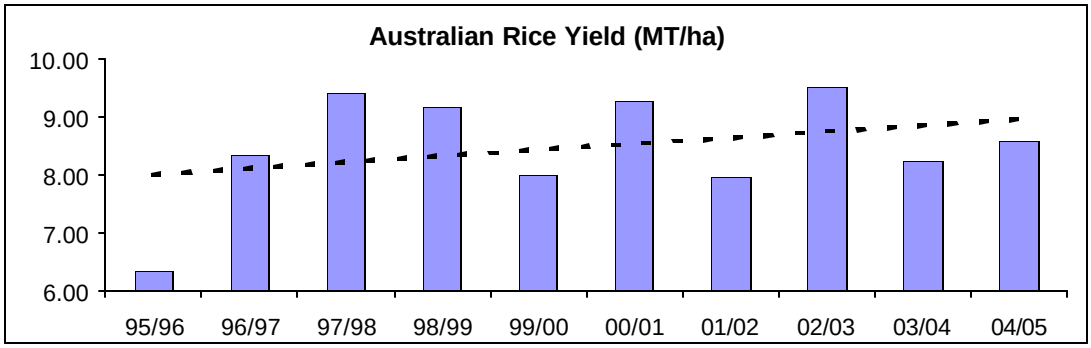


Source: ABARE data.

Yield

Forecast area and production in 2006/07 assumes an average yield of 9.58 MT/ha (paddy rice). This figure is above the five-year average, but in line with the long-term trend of steadily increasing rice yields.

Rice yield in 2005/06 is estimated at 8.66 MT/ha, largely in line with the five year average and unchanged from the previous year. Cooler than average conditions during the growing period constrained production, despite an above average amount of sun.

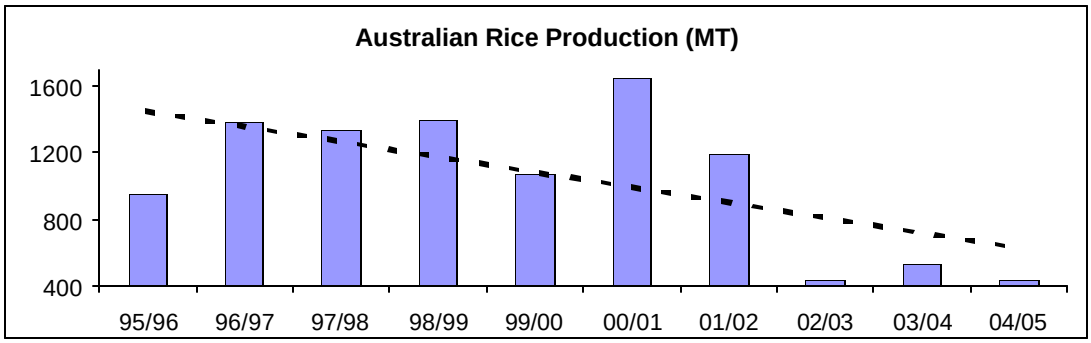


Source: ABARE data.

Production

Rice production in 2006/07 is forecast at 575,000 MT (rough), up 144,000 MT on the previous year. Despite this relatively large increase, rice production still remains well under historically average levels. Above average rainfall in the key catchments areas of New South Wales would be required before this figure could be increased appreciably. Relatively high rice prices and a favorable price outlook help to partially offset the relatively poor production outlook.

Rice production in 2005/06 is projected at 431,000 MT, in line with ABARE's current estimate. This figure is the lowest production level since 1974/75.



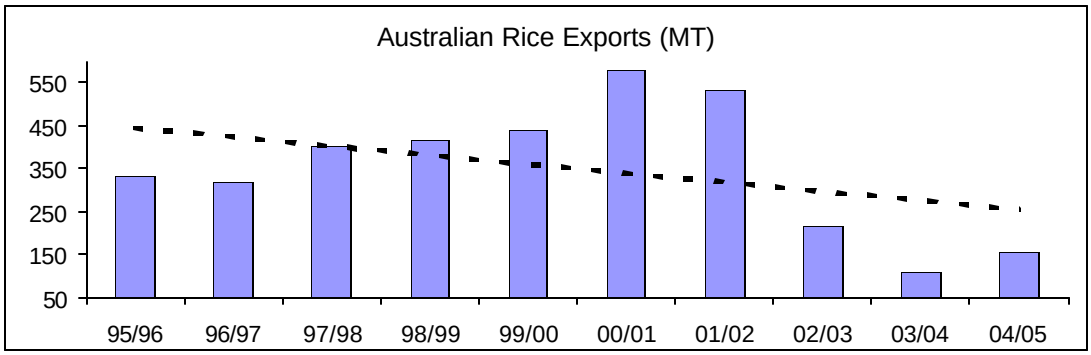
Source: ABARE data.

Exports

Rice exports in 2006/07 (Mar-Feb) are forecast at 175,000 MT. The larger 2006/07 rice crop is expected to somewhat improve the availability of rice for export.

Rice exports in 2005/06 are estimated at 156,000 MT, well below the figure for the previous year. Poor production levels constrained exports to the lowest level since the 1970's.

There appears to be a fairly significant difference in rice exports reported by Post and those maintained by ABARE. Post analysis suggests that over a period of years the differences converge, but they are significant in single years. Part of the problem is data availability – release of official rice export statistics are subject to confidentiality restrictions.



Marketing Arrangements

The New South Wales Rice Marketing Board has the export and domestic marketing monopoly for rice produced in New South Wales. The Board has delegated this right to Ricegrowers Cooperative Limited (RCL), a grower-owned company, under an exclusive licensing arrangement. RCL also controls the storage and processing of rice.

The National Competition Council has found that New South Wales' Marketing of Primary Products Act 1983 (rice marketing) does not meet obligations under National Competition Policy (NCP), notably because the State government has not removed the domestic (not export) rice marketing monopoly as recommended by NCP review. In their 2004 Assessment, the Council notes that New South Wales State Government will conduct a NCP review of the rice marketing arrangements under the State's Marketing of Primary Products Act, with a final report expected early in 2005. The Council will be looking for the State to remove the domestic rice marketing monopoly.

PULSES

Australia grows over two million hectares of pulses annually, about double the area devoted to these crops in 1990. In Australia, grain legumes are generally referred to as pulses. The five major pulse groups grown in Australia are: chickpeas, faba beans, field peas, lentils and lupins. In addition, there are a number of smaller pulse crops grown, including mungbeans, broad beans, azuki (Adzuki) beans, navy beans, cow peas and pigeon peas. Pulses play an important role in crop rotations in Australia, where they are used to break root disease cycles and positively impact soil nutrition. The stubble residues are also used as stock feed. Pulse grain or seed is primarily used in Australia for animal feed, with the remainder mostly destined for the export market. The industry is represented by Pulse Australia, the peak industry body.

Lupins are the primary pulse grown in Australia. The major lupin species grown is *L. angustifolius*, also known as the narrow-leafed or Australian Sweet Lupin, followed by a much smaller crop of *L. albus*, or the Sweet Albus Lupin. Lupins, particulary the narrow-leaved species, is used as a stock feed in Australia, with the remainder exported. The major lupin

producing state is Western Australia, which typically accounts for about three-quarters of all producing area.

Field peas are Australia's second most important pulse crop, in terms of area. The major field pea variety in Australia is Dun peas, or dun dimples, which are primarily used as an animal feed, with limited quantities also destined for food use. Dun peas account for over 90 percent of Australia's field pea production. Relatively smaller quantities of blue round, white round and maple round varieties are also grown. The blue and white rounds are typically for human consumption, while the maple round is used as animal feed. Dun peas are mostly grown in South Australia, Western Australia and Victoria. Most blue and white peas are grown in New South Wales. The bulk of Australia's field pea production is exported.

Chickpeas, *Cicer arietinum*, are grown mostly in northern farming systems in the states of New South Wales and Queensland. There are two groups of chickpeas: Desi and Kabuli. Desi is normally dehulled and split to obtain 'dahl' and are heavily consumed in India. Kabuli, a larger seed, is usually consumed whole and are particularly popular in the Mediterranean region. Most Australian chickpea production is exported.

AUSTRALIA: PULSE AREA, PRODUCTION, USE & EXPORTS
(2003/04 – 2005/06)

Pulse type / attribute	2003/04	2004/05 e	2005/06 f
Lupins			
- area ('000 ha)	638	634	950
- production ('000 MT)	953	758	1,160
- apparent domestic use ('000 MT)	376	462	415
- exports ('000 MT)	430	388	651
Field Peas			
- area ('000 ha)	301	321	372
- production ('000 MT)	178	407	311
- apparent domestic use ('000 MT)	85	90	90
- exports ('000 MT) (a)	209	201	301
Chickpeas			
- area ('000 ha)	152	113	195
- production ('000 MT)	178	114	189
- apparent domestic use ('000 MT)	5	30	16
- exports ('000 MT)	164	135	161

(a) includes field peas and cowpeas.
Note: Marketing year for pulses is November-October; apparent domestic use is calculated as a residual of production less exports less change in stocks.
Source: ABARE, Australian Commodities, March Quarter 2005;
2004/05 estimated, 2005/06 forecast.

RECENT GAIN REPORTS ON GRAIN

-- Grain Update – January 2005, 12/30/04, AS4043
-- Grain Update – December, 12/06/04, AS4040
-- November Lockup, 10/26/04, AS4036
-- Grain Update – October, 9/21/04, AS4030
-- Grain and Feed Annual 2004, 3/19/04, AS4011

APPENDIX: Grain Stock and Consumption Estimates

Grain Stocks

In Post's estimation, there are no reliable statistics publicly available on national grain stocks. ABARE does publish estimates of relative changes in stocks for wheat in their periodic Australian Crop Report, but not for the other major grains. For more historical periods, ABARE's annual publication, Australian Commodity Statistics, presents closing wheat stocks, but again not for the other major grains. In this instance, the ABARE wheat stock figure is footnoted as "including AWB Limited Pool and Trading Division closing stocks." For the other grains, an 'ABARE' stock figure can only be determined by deriving a figure using their corresponding production, net exports and domestic consumption estimates.

This shortcoming in assembling reliable national grain stock figures is generally recognized by the Government. As such, the Australian Bureau of Statistics (ABS) has begun assembling and publishing quarterly estimates of the quantity of grain stored in grain storage facilities operated by bulk handling companies and major grain traders. These quarterly ABS stock statistics are available from the 4th quarter of 2002 (December 31, 2002) for wheat, barley, oats, triticale and a category that includes "other feed grains, pulses and oilseeds." For wheat and barley, separate stock estimates are published for milling (wheat), for malting (barley), and for feed and other purposes. (These ABS quarterly stock estimates are presented in Table 1.)

Post notes that, during the brief period that the ABS quarterly stock figures are available, the ABS estimates fall roughly in line with similar figures used by ABARE. Further, Post notes that the ABS estimates specifically exclude grain not held by the bulk handling companies and major grain traders, e.g., on-farm and food/feed company storage, and, as such, would be expected to actually underestimate actual national grain stocks.

Post factors-in the ABS and ABARE stock estimates, when available (i.e., wheat and barley), to prepare grain stock estimates. Post also analyzes stock figures derived from using set estimates of production, consumption and net exports, when appropriate. (See consumption for a discussion of estimating this PS&D component.) In some years, Post's grain stock estimates/forecasts may vary from official sources, depending on the perceived reliability and internal consistency of the other PS&D figures. For rice and sorghum, there are no publicly available official stock estimates.

Grain Consumption

As discussed for stocks, finding reliable official consumption estimates for grain in Australia can be problematic. ABARE publishes estimates of human and industrial use, feed and seed for wheat, barley, oats; and feed and seed use for sorghum. For wheat, ABARE's 'feed' consumption estimate is actually derived as a residual of production less exports less other domestic uses less change in stocks. (Also of note, ABARE's supply and disposal estimates typically do not include grain imports, which may be significant in some years.) ABARE uses area estimates and seeding rates to derive a seed use estimate for the major grains. (ABARE domestic use estimates for wheat, barley and sorghum are presented in Table 2.)

Post factors-in the ABARE use estimates, when available, to prepare grain consumption estimates. Post also analyzes consumption figures derived from using set estimates of production, net exports and net stock changes, when appropriate. In some years, Post's grain consumption estimates/forecasts may vary from official sources, depending on the perceived reliability and internal consistency of the other PS&D figures.

(TABLE 1)
AUSTRALIA: Quarterly Grain Stocks
(million metric tons)

Quarter / End-of-month	Wheat / milling	Wheat / feed / other	Barley / Malting	Barley / feed / other	Oats
Dec. 2002	9.63	2.56	1.84	1.63	0.13
Mar. 2003	7.38	1.86	1.27	1.23	0.08
June 2003	4.61	1.36	0.84	0.87	0.06
Sept. 2003	2.27	0.58	0.50	0.42	0.04
Dec. 2003	17.08	3.43	2.97	4.87	0.29
Mar. 2004	13.58	3.04	2.14	3.22	0.24
June 2004	9.17	1.55	1.69	2.42	0.17
Sept. 2004	4.58	0.58	0.96	0.92	0.10
Dec. 2004	16.63	1.82	1.65	3.17	0.15

Source: ABS quarterly publications – "Stocks of Grain Held by Bulk Handling Companies and Grain Traders, Australia"

(TABLE 2)
AUSTRALIA: Grain Domestic Use
(million metric tons)

Commodity	2001/02	2002/03	2003/04	2004/05
Wheat				
- human/industrial	2.21	2.42	2.44	2.46
- feed a)	2.10	2.70	2.19	2.24
- seed b)	0.50	0.56	0.54	0.53
Barley				
- malt/other human	0.16	0.17	0.17	0.17
- feed	2.20	1.65	2.10	2.20
- seed b)	0.17	0.17	0.16	0.15
Sorghum				
- feed	1.64	1.40	1.27	1.63
- seed b)	*	*	*	*
Oats				
- human	0.13	0.13	0.13	0.13
- feed	1.09	0.67	1.13	0.73
- seed	0.04	0.04	0.04	0.03

*) 3,000-4,000 metric tons.
a) Feed is calculated as a residual of production less exports less other domestic uses less change in stocks; imports not included.
b) Estimated using seeding rates: wheat and barley, about 45 kg/ha; sorghum 5 kg/ha.
Source: ABARE, Australian Crop Report, February 2005.