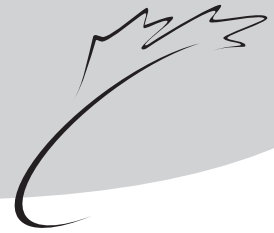




Bi-weekly Bulletin

August 13, 2003 Volume 16 Number 14



CANOLA: SITUATION AND OUTLOOK

For 2003-2004, world production of canola is forecast to increase considerably from 2002-2003 when severe drought affected production in the major canola growing areas. In Canada, with improved growing conditions and increased production for 2003-2004, exports and domestic crush are expected to rise significantly. Canola prices are forecast to average 10-20% below 2002-2003. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for canola.

SITUATION

World Oilseed Situation

For 2002-2003, world production of the seven major oilseeds, excluding flaxseed, is estimated by the USDA (United States Department of Agriculture) at 327.8 million tonnes (Mt), up from 324.4 Mt in 2001-2002, as record soybean production in South America more than offset lower world production of cottonseed, peanuts, and canola/rapeseed. With record high oilseed crush expected for 2002-2003, carry-out stocks for the seven major oilseeds are expected to decrease by 5%, to 38.7 Mt, which is the lowest level since 1998-1999.

World Canola/Rapeseed Situation

For 2002-2003, world production of canola/rapeseed is estimated at 31.7 Mt, down from 36.0 Mt, due to smaller crops in China, Canada, India, and Australia. World crush is estimated at 31.0 Mt, down from 33.2 Mt in 2001-2002, due to tighter supplies and higher seed prices. The exceptions are the European Union (EU) and, to a lesser extent, Poland which increased crushing activities. For 2002-2003, world trade is estimated by USDA at 4.5 Mt, down from 5.8 Mt in 2001-2002, reflecting limited supplies and the relatively high prices of canola/rapeseed.

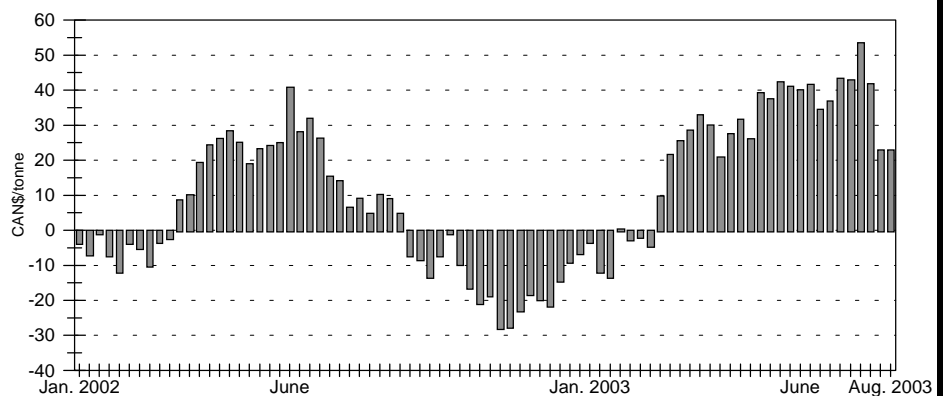
In **Canada**, canola production for 2002-2003 is currently estimated at 3.6 Mt by Statistics Canada (STC), down from 4.9 Mt in 2001-2002. However, there are indications that STC could revise upward 2002-2003 canola production by up to 0.5 Mt. Nevertheless, an anticipated revision would still make it the lowest production in ten years as a record drought in western Canada seriously reduced yields. As well, excessive rainfall in the fall either disrupted or prevented farmers from completing harvest operations. Due to limited supplies for 2002-2003, exports are expected to decrease by 8%, to 2.3 Mt, and domestic crush is expected to decline

by 4%, to 2.2 Mt. Carry-out stocks are estimated at 0.8 Mt, down from 1.2 Mt in 2001-2002, and the lowest level since 1998-1999.

Canadian Oilseed Crush Capacity and Use

The oilseed processing industry is, by volume, the largest primary processing industry for Canadian grains and oilseeds. Canola crushing accounts for three-quarters of Canada's crushing capacity, with the remainder devoted to soybean crushing. The major canola crushers are: Archer Daniels Midland (ADM) Agri-Industries, with plants in Ontario and

CANOLA: BOARD CRUSH MARGINS (VANCOUVER*)



* cash in-store
Source: Chicago Board of Trade, Winnipeg Commodity Exchange

Alberta; CanAmera Foods (Bunge), with plants in Ontario, Manitoba, Saskatchewan, and Alberta; Canbra Foods Ltd. in Alberta; and, Cargill in Saskatchewan.

Canada's canola crushing industry has been operating at about half capacity throughout most of the 2002-2003 crop year. The reduction in crushing activity is largely due to higher canola seed prices, relative to the price of meal and oil. Unlike the Canadian soybean crushing industry, which can access supplies of soybeans from the US, the Canadian canola crushers compete with exporters for limited supplies of canola, making them somewhat captive to the uncertainties of domestic supply.

Canola Crush Margins

The Board crush margin is an index of the general economic well-being of the oilseed processing sector. Board crush margins are not a predictor of crushing activity because the timing of purchases and sales by individual firms does not necessarily coincide with the timing of published prices for oilseeds and their products.

The Board crush margin for canola is calculated by subtracting the cash price of a unit of canola seed from the value of the meal and oil derived from that unit of seed. Chicago Board of Trade prices for soybean and soybean meal are often used as a proxy for Canadian canola meal and oil prices, and those prices are then adjusted for the Canada-US exchange rate. When using soybean meal and soybean meal prices as a proxy, the calculation must take into account the difference between soybeans and canola

in terms of how much meal and oil they yield, and the difference in protein content between soybean meal and canola meal. It must be noted that the Board crush margin does not take into account fixed and variable costs of a crushing operation, but that information must be incorporated to get a rough indication of the profitability of an individual crushing firm.

The Palmoil Market

The oilseed market is strongly influenced by the palm oil market because of the substitutability between palm oil and other vegetable oils in particular. This relationship takes on additional significance when increases in vegetable oil prices exceed those for protein meal, as has been the case during the previous year. For example, the average price of soybean meal for the twelve month period ending in May 2003 increased by 24%, versus 6% for soybean meal. Similarly, the average price of canola meal increased by 35%, versus 2% for canola meal. During the same period, the price of palm oil increased by 38%. Historically, protein meal prices have played a more significant role in determining oilseed prices, and this is especially true for soybeans which yield

80% protein meal by weight.

OUTLOOK

World Oilseed Outlook

For 2003-2004, world production of the 7 major oilseeds is forecast at 351.7 Mt, up from 327.8 Mt in 2002-2003, due largely to increased soybean and canola/rapeseed production. Trade and crush for the major oilseeds are forecast at levels of 75 Mt and 288 Mt, respectively. Carry-out stocks are

CANADA: CANOLA SUPPLY AND DISPOSITION

	2001 -2002	2002 -2003	2003 -2004f
.....thousand tonnes.....			
CANOLA			
Carry-in Stocks	1,088	1,200	750
Production	4,926	3,577	5,930
Imports	<u>226</u>	<u>225</u>	<u>225</u>
Total Supply	6,240	5,002	6,905
Exports	2,524	2,325	3,300
Crush	2,293	2,190	2,450
Other Use	<u>223</u>	<u>N/A ^{1/}</u>	<u>305</u>
Total Use	5,040	N/A ^{1/}	6,055
Carry-out Stocks	1,200	750	850
CANOLA OIL			
Carry-in Stocks	40	30	25
Production	963	920	1,029
Imports	<u>11</u>	<u>12</u>	<u>10</u>
Total Supply	1,014	962	1,064
Exports	500	400	590
Domestic Use	<u>484</u>	<u>537</u>	<u>444</u>
Total Use	984	937	1,034
Carry-out Stocks	30	25	30
CANOLA MEAL			
Carry-in Stocks	43	30	25
Production	1,428	1,364	1,526
Imports	<u>6</u>	<u>7</u>	<u>5</u>
Total Supply	1,477	1,401	1,556
Exports	800	725	990
Domestic Use	<u>647</u>	<u>651</u>	<u>531</u>
Total Use	1,447	1,376	1,521
Carry-out Stocks	30	25	35

^{1/} N/A: not available. Feed, waste and dockage and total domestic use are calculated residually. Based on actual data on exports, crush, and carry-out stocks, it appears that the 2002-2003 Statistics Canada production and/or carry-in stocks estimates for canola may be low, resulting in a smaller than expected residual. If necessary, Statistics Canada will revise the carry-in stocks and/or production estimates in the fall.

f: forecast, AAFC, August 2003

Source: Statistics Canada

HIGH-OLEIC ACID CANOLA

High-oleic acid canola has been developed for health-conscious consumers wishing to limit trans fatty acids and saturated fats in their diet. Cargill Specialty Canola Oils (CSCO) has registered the first hybrid specialty canolas. The two new hybrids, which have a high oleic acid content and are glyphosate resistant, are reported to have a 13% yield advantage over equivalent open-pollinated canola varieties, in addition to providing growers with a premium for high-oleic acid content. Anticipating rapid growth in demand for these specialty canolas, CSCO expects to enter into production contracts as early as 2004. Dow's Nexera/Natreon is also high-oleic. Japan is a target market for high-oleic canola.

forecast to increase by 10%, to 42 Mt.

World Canola/Rapeseed Outlook

World canola/rapeseed production for 2003-2004 is forecast to increase significantly, assuming a return to near normal growing conditions in those areas previously affected by drought. Record high production, forecast at 36.0 Mt, is expected to more than offset low carry-in stocks. The resulting higher supplies are expected to pressure prices in 2003-2004. Exports and crushing activities are expected to increase to more historic levels.

China

For 2003-2004, China's rapeseed production is forecast to increase to 11.6 Mt, from an estimated 10.6 Mt in 2002-2003, largely due to increased seeded area. Demand for rapeoil in China is expected to exceed domestic supply in 2003-2004. As a result, canola/rapeseed imports are forecast at 0.6 Mt, up from 0.15 Mt in 2002-2003.

Australia

For 2003-2004, Australia's canola production is forecast at 2.0 Mt, up from 0.6 Mt in 2002-2003 mainly due to higher seeded yields. As supplies return to near normal levels, exports are forecast at 1.5 Mt, up from 0.5 Mt in 2002-2003.

Genetically Modified (GM) Canola in Australia

Until recently, Australia was officially GM-free, but that has changed and policies with respect to GM canola now vary between states. As a result, there is likely to be a shift in canola production to Victoria, which is the only state with little impediments to growing and selling GM canola. This is in direct contrast to South Australia, Western Australia, and New

South Wales whose governments are considering bans or restrictions on the commercial release of GM canola.

A study by ABARE suggests that the agronomic benefits of GM canola outweigh any disadvantages in terms of limiting market opportunities for Australian canola. The study also acknowledged that GM canola requires fewer herbicides and tends to yield better than non-GM canola.

India

Rapeseed production for 2003-2004 is forecast at 4.6 Mt, up from 3.6 Mt in 2002-2003, but slightly lower than normal due to poor weather conditions in some rapeseed growing areas. Trade in the rapeseed complex will continue to be confined to small amounts of rapeseed oil that are imported and some rapemeal that is exported. However, as the world's second largest consumer of vegoils, India will continue to exert an influence on world oilseed prices. India's vegoil consumption is expected to exceed 11.0 Mt in 2003-2004.

European Union

In the EU, some of the winter rapeseed crops were damaged by frost, affecting yield potential. In Germany, for instance, between 5% to 10% of the crop was damaged by frost, which is considerably more than the 3% damage experienced during an average year. EU rapeseed production for 2003-2004 is forecast at 9.0 Mt, down from 9.3 Mt in 2002-2003 due to lower production in Germany and France. EU rapeseed supplies are forecast to decrease in 2003-2004 due to a combination of low carry-in stocks and decreased production. Increased domestic crush is forecast for the upcoming crop year, and exports are forecast at 0.3 Mt, down from an estimated 0.9 Mt in 2002-2003.

United States

In the US, 2003-2004 canola production is forecast at 750,000 t, up from 706,000 t in 2002-2003, as increased yields are expected to more than offset a 15% decline in seeded area, projected at 1.2 million hectares (Mha). The shift out of canola area is attributed to the following: high input costs associated with canola production; the

WORLD: CANOLA/RAPESEED AND PRODUCTS SUPPLY AND DISPOSITION			
	2001	2002	2003
	-2002	-2003e	-2004f
million tonnes.....		
CANOLA/RAPESEED			
Carry-in Stocks	2.67	2.61	1.26
Production			
<i>China</i>	11.33	10.55	11.60
<i>EU</i>	8.85	9.33	9.00
<i>Canada</i>	4.93	3.58	5.93
<i>India</i>	4.50	3.60	4.60
<i>Eastern Europe</i>	2.61	2.35	1.45
<i>Other</i>	<u>3.77</u>	<u>2.31</u>	<u>3.43</u>
Total Production	<u>35.99</u>	<u>31.72</u>	<u>36.01</u>
Total Supply	38.66	34.33	37.27
Crush	33.20	30.98	33.54
Other Use	<u>2.85</u>	<u>2.09</u>	<u>2.44</u>
Total Use	36.05	33.07	35.98
Carry-Out Stocks	2.61	1.26	1.29
Trade	5.84	4.50	5.03
CANOLA/RAPESEED OIL			
Carry-In Stocks	0.76	0.56	0.47
Production	<u>12.62</u>	<u>11.67</u>	<u>12.56</u>
Total Supply	13.38	12.23	13.03
Total Use	12.82	11.76	12.57
Carry-Out Stocks	0.56	0.47	0.46
Trade	1.19	1.06	1.09
CANOLA/RAPESEED MEAL			
Carry-In Stocks	0.33	0.26	0.27
Production	<u>20.07</u>	<u>18.70</u>	<u>20.29</u>
Total Supply	20.40	18.96	20.56
Total Use	20.14	18.69	20.31
Carry-Out Stocks	0.26	0.27	0.25
Trade	1.89	1.77	1.96
e: estimate, AAFC, August 2003			
f: forecast, AAFC, August 2003			
Source: Oil World, USDA, and AAFC			

CANADA: CANOLA MARKET DEVELOPMENT

Canola oil accounts for 33% of the North American market for bottled oil and salad dressing, which in turn accounts for about 18% of the 10 Mt of vegoils consumed annually. With little growth expected in the bottled oil and salad dressing sector, specialty canola oils are being developed for the massive food processing sector, which has been growing exponentially in recent years.

Canola has long been recognized for its health benefits. On that basis, industry observers expect that one-third of Canada's canola area could be seeded to varieties with special traits within the next five years. The biggest market is the food service and industrial food frying applications, a market in which potato chip manufacturers and full service restaurants are offering customers more healthful alternatives to the hydrogenated oils which have traditionally been used. As an incentive to grow low linolenic and high oleic canola, processors are offering farmers attractive multi-year contracts as a means of ensuring that there are adequate supplies to meet growing demand. Recognizing the increased demand for products aimed at a health-conscious public, ADM has launched a new soybean/canola blend cooking oil to help individuals control their weight. ADM claims that their product, named Enova, is metabolized differently from other cooking oils that have the same caloric and fat content as Enova. The result is that more of the oil is converted into energy rather than being stored as fat. Enova oil was developed by Kao Corporation in Japan and, since being introduced to that market in 1999, has become a top selling cooking oil in Japan. If Enova were to capture 10% of the US vegoil market, the demand for canola oil would increase by about 320,000 t, which equates to about 0.8 Mt of canola seed.

expectation of better returns from alternate crops such as flaxseed; the availability of attractive malting barley contracts; and, increased production of soybeans in North Dakota, which has traditionally been the largest canola producing state in the US.

Canada

Canadian canola plantings are expected to increase significantly in 2003-2004 in response to tight stocks, attractive returns realized in the past year, and a good outlook for canola relative to other field crops being considered. Harvested area is forecast at 4.6 Mha, up from 2.9 Mha in 2002-2003, and production is forecast at 5.9 Mt, up from 3.6 Mt in 2002-2003, assuming below trend yields.

The increase in available supplies as a result of higher canola production is expected to encourage a 12% increase in domestic canola crush, forecast at 2.5 Mt in 2003-2004. Similarly, canola exports are expected to increase considerably and are forecast at 3.3 Mt, up from an estimated 2.3 Mt in 2002-2003.

Market Prospects

The major Canadian markets for Canadian canola are Japan, Mexico, China, and the US. Food processors and customers acknowledge the quality benefits of canola oil but, faced with the uncertainty in

supplies, some processors have switched to other vegoils. This was largely caused by the significant decrease in supply caused by drought in Canada and Australia and by high canola prices. For some processors, this meant changing labeling to reflect the change in contents. However, in the same way that higher prices effectively rationed world demand for limited supplies of canola, lower canola prices forecast for 2003-2004 are expected to help the canola industry regain most of those markets. In addition, increased consumer awareness of canola's health and nutritional benefits is expected to increase the demand for canola oil.

Prices

For 2003-2004, the price of canola (in-store, Vancouver) is forecast at CAN\$335-365 per tonne (/t), down from CAN\$413/t in 2002-2003, which is the highest level in several years. It must be noted that the Canada-US exchange rate will continue to play an important role in influencing the price of Canadian canola in 2003-2004, as was the case during the 2002-2003 crop year. A stronger Canadian dollar undermines the ability of Canada's canola industry to compete in world markets, and it results in lower returns to Canadian producers.

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**Electronic version available at
www.agr.gc.ca/mad-dam/**

ISSN 1207-621X
AAFC No. 2081/E

Bi-weekly Bulletin is published by the:
**Market Analysis Division,
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Issued also in French under title:
Le Bulletin bimensuel
ISSN 1207-6228
AAFC No. 2081/F

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*While the Market Analysis Division assumes responsibility for all information contained in this bulletin,
we wish to gratefully acknowledge input from the following:*

Canola Council of Canada, Statcom, Market and Industry Services Branch (AAFC)