



Bi-weekly Bulletin

April 23, 2004 Volume 17 Number 7

FINLAND AND SWEDEN: OATS

Canada is the main exporter of oats to the United States (US), generally accounting for about 70% of US oat imports. However, competition provided by subsidized oats from Sweden and Finland often pressures Canada's market share and prices. This issue of the *Bi-weekly Bulletin* examines the role of Finland and Sweden in the international oat market.

FINLAND

The northernmost agricultural country in the world

Finland is located in northern Europe and shares borders with Sweden to the west, Norway to the north and Russia to the east. Finland has about 1100 kilometres of shoreline, as it sits on the Gulf of Bothnia and the Baltic Sea. About 5.2 million people live in Finland, with the highest concentration in the south.

Finland is about half the size of Manitoba, with only 33.8 million hectares (Mha) of land and water. Of this, only 6%, or 2.2 Mha is considered arable. While the northern climate is moderated by the Gulf Stream, the majority of crop production occurs in the south. Barley and oats are the main crops produced. Cattle farming is more widely distributed in the central, eastern and northern areas. The average

farm size is 30 ha and crop production is the main type of farming for 54% of farmers.

Finland is a member of the European Union (EU) and uses the euro (€) as its unit of currency. The country has a highly industrialized, largely free-market economy, with per capita Gross Domestic Product (GPD) of US\$25,200 in 2003, roughly that of Germany or the Netherlands. Finland's key economic sector is manufacturing - principally forestry, metals, engineering, telecommunications and electronics industries. Because of the country's northern climate, agricultural development is limited to maintaining self-sufficiency in basic products. Agriculture contributes to about 3% of the GDP and 5% of employment.

SWEDEN

Western Europe's third largest country

Sweden is located in a strategic location along the Danish Straits, which link the Baltic and North Seas. It is bordered to the west and north by Norway and to the east by the Baltic Sea and Finland. Nearly 9 million people live in Sweden, but only 17% live in rural areas.

Sweden is the third largest country in Western Europe with a total land area of 45 Mha. About 2.7 Mha, or 6% is arable. Sweden's climate ranges from temperate in the south to subarctic in the north. Animal husbandry is the main type of farming practised, although crop production is dominant in central Sweden. The main crops produced are cereal crops and fodder crops, with an emphasis on barley, wheat and oats. The average farm size is 38 ha.

Sweden joined the EU in 1995, although it has retained its own currency, the *krona*. Forestry, hydro power and iron ore are the main natural resources and the economy is heavily oriented toward foreign trade. Sweden's per capita GDP was US\$25,800 in 2003, similar to that of Finland. Agriculture is a minor industry, accounting for only 2% of GDP and 2% of employment.

Agricultural Policy

The income support for agriculture in Finland and Sweden is based on the support measures of the Common Agricultural Policy (CAP) of the EU. In 2003, the EU member countries agreed to a reform of CAP. Changes include a

EUROPEAN UNION: EXPORT SUBSIDIES ON OATS

crop year	Average Refund (US\$/t)	Volume (kt)	Average Oats Price (CBoT nearby futures, US\$/t)	Average Corn Price (US\$/t)
1997-1998	32.64	771	99.58	100.77
1998-1999	66.74	524	77.14	84.11
1999-2000	62.23	476	75.21	82.00
2000-2001	31.53	683	75.14	81.50
2001-2002	3.78	44	125.40	83.92
2002-2003	18.71	346*	128.10	94.02
2003-2004 (to date)	23.24	318	102.37	101.84

* 2002-2003 includes 132 kt of oats exported, but not subsidized
Source: European Commission, Pacific Exchange Rate Service and Chicago Board of Trade, April 2004

WORLD OAT TRADE IS HIGHLY CONCENTRATED

- World production of oats has averaged 28 million tonnes (Mt) over the past ten years. The major producers are, in descending order: Russia, the EU, Canada, the US and Australia.
- Within the EU, the main producers are Finland, Germany, Sweden, Spain and the United Kingdom.
- World trade of oats has averaged only 2 Mt, or 7% of production.
- The major exporters and their percentage of world trade are: Canada (61%); EU (27%), and Australia (7%).
- On average, US imports represent about 85% of world trade.

single farm payment which will be decoupled from production, a reduction in direct payments and a strengthened rural development policy. The single farm payment will come into effect as early as January 1, 2005. Special provisions have been included in this reformed policy to provide extra compensation to Finland and Sweden for the drying costs associated with cereal production in a colder climate. CAP reform is not expected to impact oats production in Finland and Sweden.

Trade Policy provides Export Subsidies on Oats

Finland and Sweden adopted the EU internal market practices in 1995, which define their trade relations both inside the EU and with non-EU countries. Under the Common Market Organisation, cereals can be traded freely within the EU. Internal prices for most grains are supported by an intervention price which provides a floor to the market. Unlike for wheat, barley and rye, the EU does not offer an intervention price nor maintain intervention stocks for oats.

In recognition of the importance of the oat trade to Sweden and Finland, special provisions were made when they joined the EU for subsidies on their oat exports. Subsidies are granted through a weekly tendering process available only on oats from Sweden and Finland. An open tender does not guarantee export subsidies and each bid can be accepted

or rejected on an individual basis.

Export Subsidies on Oats to Discourage Increased Barley Production

In October 2003, the European Commission (EC) set a maximum level of subsidized oat exports from Finland and Sweden at 400,000 tonnes (t) collectively for the year. The EC supports the continued use of export subsidies on oats from Finland and Sweden, as the removal of these subsidies would result in increased production of barley, which would qualify for intervention arrangements.

Factors determining Export Subsidy Level

The main factors that determine the required export subsidy for oats to be exported to the United States are: 1) the intervention price for barley, 2) the Chicago Board of Trade (CBOT) oat futures price, 3) the euro/US\$ exchange rate, 4) transportation costs, and 5) the cash basis level in the US south.

Subsidies have been provided for oat exports from Finland and Sweden since 1997-1998. Export subsidies have been paid out on an average of 452,000 t each year and have ranged from a high of 771,000 t in 1997-1998 to a low of 44,000 t in 2001-2002. The average refund has followed a similar pattern, ranging from €59.88/t (CAN\$91.63/t) in 1999-2000 to €3.95/t (CAN\$5.79/t) in 2001-2002.

The uncertainty behind what level of subsidy will be paid provides ongoing pressure to the international price of oats. Export subsidies affect the absolute price that Canadian farmers can receive for their oats. By offering export subsidies in the spring, the subsidized shipments can affect the price of forward contracts.

Export Markets limited to the United States

Within the EU, Finland, Sweden and Germany are the main producers of oats. In general, trade of oats is limited to intra-EU trade and exports from Finland and Sweden to the US.

Following decades of reduced oat production, the US became a net oats importer in the early 1980s and currently relies on imports for about 40% of the country's total use. US oat production has decreased significantly over the last 20 years due to unfavourable expected returns, as US farm policy and progressive increases in yields of competitive crops tend to favour other crops. Oats are a very thinly traded commodity and US imports constitute about 85% of world trade.

Three Distinct Markets within the United States

In the US, oats serve three markets: (1) the **horse market** in the southern US, (2) the **milling market**, which is largely concentrated in the US Midwest, and (3) the **general feed market**. Each of these markets has distinct requirements.

For the performance **horse market**, oats are the preferred energy source. Oat starch is more digestible than the starch in corn or barley. This market demands the highest quality oats on the market. Oats for this market typically have a 40 pound per bushel (lb/bu), or extra-heavy, test weight, are bright white in colour and have a plump kernel size. In addition, these oats should be relatively dust free, with high protein and high fat content.

For the **milling market**, oats must have a 38 lb/bu, or heavy, test weight, meet stringent purity requirements and possess uniform kernel size. Generally milling oats are graded as number one, or two, but number three oats are sometimes acceptable.

UNITED STATES: OAT IMPORTS BY COUNTRY

<i>calendar year</i>	2000	2001	2002	2003
thousand tonnes.....			
Canada	1,457	1,369	816	1,045
Sweden	208	289	300	246
Finland	47	293	295	228
Other	<u>15</u>	<u>11</u>	<u>42</u>	<u>36</u>
Total	1,727	1,962	1,453	1,555

Source: US Department of Commerce, US Census Bureau, March 2004

The lowest grade of oats is for livestock **feed**. Kernel size, test weight, colour and purity are not as important in this market, although nutrient content is important.

Transportation costs greatly shape trading patterns

In general, Canada has a transportation advantage to the US **milling** market, while Finland and Sweden have a transportation advantage to the southern US **horse** market. In 2002-2003, however, reduced supplies in Canada created an opportunity for EU oats in the US milling market. For 2003-2004, significant increases in ocean freight rates and reduced feed grain supplies in the EU may have resulted in increased opportunities for Canadian oats.

Oats Prices Currently at a Premium to Corn Prices

The oat contract on the CBoT generally reflects the feed value of oats, and in general the CBoT oat prices track the CBoT corn prices. With steady US oat demand, both for milling and feed uses, oat supplies in Canada, Sweden and Finland strongly influence oat prices. When ample supplies of oats are available in Canada and the EU, oat prices generally follow corn prices. As well, the premium for milling oats relative to feed oats is lowered by large supplies. However during periods of low oat supply, such as in 2001-2002 and 2002-2003, CBoT oats were at a significant premium to CBoT corn, reflecting the shortage of oats in general and the shortage of high quality oats for milling purposes in particular. After four years of trading at a

discount to corn, the premium for oats relative to corn increased to 40% and 50% for 2002-2003 and 2001-2002, respectively. For 2003-2004, oat prices are trading at a slight premium to corn prices.

SITUATION: 2003-2004

Production of oats in **Finland** and **Sweden** has been fairly stable over the past 10 years, averaging about 2.3 million tonnes (Mt), which is about 8% of world production and about 35% of the EU's production. For 2003-2004, **Finland** and **Sweden** collectively produced 2.4 Mt, an 8% decrease from 2002-2003. Finland's production fell 10% to 1.3 Mt because of a reduced area harvested, while Sweden's production fell 8%, to 1.1 Mt, mainly due to decreased yields. The widespread drought that affected crop production throughout most of Western and Eastern Europe did not significantly impact yields in **Finland** and **Sweden**.

In general, most oats are used on farm for animal **feed** in their country of origin. Human **consumption** is also an important part of the distribution in the UK, Germany and the US. In general, Sweden and Finland are more than self-sufficient in oat production and **export** up to 30% of their oats to the US and the EU.

In **Finland**, **feed** use has remained flat and is expected to total 800,000 t in 2003-2004. **Food** use, at 130,000 t is fairly low as food processing is not undertaken on a large scale in Finland.

For Finland, **exports** have ranged from 9% to 30% of production over the past eight years and have averaged 235,000 t, or 19% of production. The main market of Finnish exports is intra-EU trade. On average 50% of Finnish exports are destined for intra-EU markets, specifically Germany, the Netherlands and the UK, but this has ranged from as low as 9% in 1996 to as high as 66% in 2002 and 1997. Exports to the US account for about 33% of total exports. For 2003-2004, Finland's exports are expected to fall by 25% to 450,000 t, because of increased competition from Canada and reduced feed grain supplies in the EU and higher freight rates.

For **Sweden**, domestic usage has also been flat. For 2003-2004, **food** use is forecast at 80,000 t, while **feed** use is expected to grow marginally to 700,000 t. On average, **Sweden exports** 240,000 t, or 21%, of its annual production. The export share has ranged from as low as 6% to a high of 40% in recent years. The main market for Swedish exports is the US, which in most years accounts for over 65% of all exports. Over the past few years Sweden has become increasingly dependent on the US market for exports, and in calendar year 2003 88% of all exports went to the US. Intra-EU trade accounts for about 20% of Sweden's exports and Norway and Switzerland are also frequent purchasers of Swedish oats. For 2003-2004, Sweden's exports are forecast to fall 13% to 350,000 t.

FINLAND: OATS SUPPLY AND DISPOSITION

<i>July-June</i>	2001	2002	2003	2004
<i>crop year</i>	-2002	-2003	-2004e	-2005f
Harvested Area (kha)	423	451	424	390
Average Yields (t/ha)	3.09	3.20	3.07	3.20
.....million tonnes.....				
Carry-in Stocks	0.23	0.26	0.23	0.19
Production	<u>1.31</u>	<u>1.44</u>	<u>1.30</u>	<u>1.25</u>
Total Supply	1.54	1.70	1.57	1.45
Food, Seed	0.10	0.13	0.13	0.13
Feed, Waste & Dockage	0.75	0.75	0.80	0.75
Exports *	<u>0.43</u>	<u>0.60</u>	<u>0.45</u>	<u>0.37</u>
Total Consumption	1.28	1.48	1.38	1.25
Carry-out Stocks	0.26	0.23	0.19	0.20

e: estimate; f: forecast; * includes EU intra-trade

Source: Statcom, Coceral; March 2004

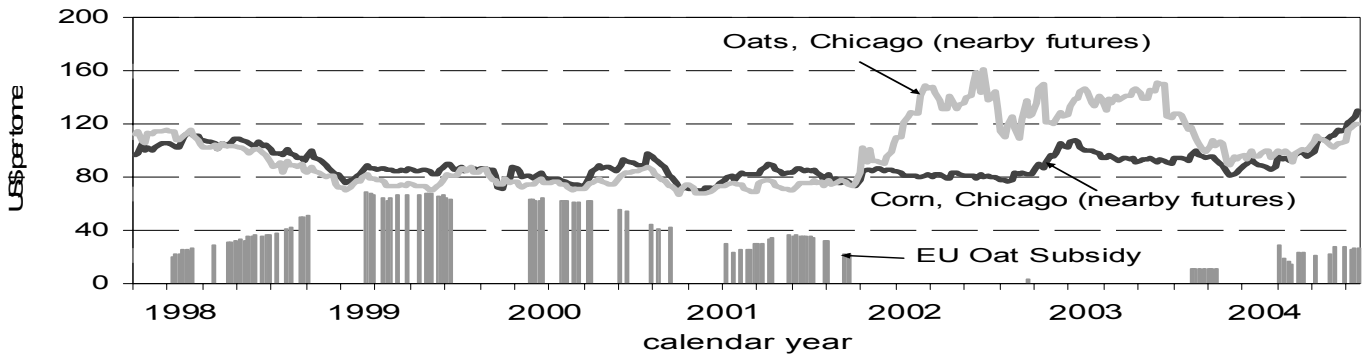
SWEDEN: OATS SUPPLY AND DISPOSITION

<i>July-June</i>	2001	2002	2003	2004
<i>crop year</i>	-2002	-2003	-2004e	-2005f
Harvested Area (kha)	271	289	275	220
Average Yields (t/ha)	3.55	4.10	3.99	3.81
.....million tonnes.....				
Carry-in Stocks	0.14	0.11	0.16	0.13
Production	<u>0.96</u>	<u>1.19</u>	<u>1.10</u>	<u>0.84</u>
Total Supply	1.10	1.29	1.26	0.97
Food, Seed	0.08	0.08	0.08	0.08
Feed, Waste & Dockage	0.68	0.65	0.70	0.65
Exports *	<u>0.25</u>	<u>0.40</u>	<u>0.35</u>	<u>0.20</u>
Total Consumption	1.00	1.13	1.13	0.93
Carry-out Stocks	0.11	0.16	0.13	0.04

e: estimate; f: forecast; * includes EU intra-trade

Source: Statcom, Coceral; March 2004

US CORN AND OAT PRICES AND EU OAT SUBSIDIES (WEEKLY)



Source: European Commission, Chicago Board of Trade, Pacific Exchange Rate Service, April 2004

To date, the EU has granted export licenses for 317,500 t of Swedish and Finnish oats, the largest amount of subsidized oat exports since 2000-2001. For 2003-2004, subsidies have averaged €19.08/t (CAN\$30.59/t) and have ranged from a low of €11.95 (CAN\$18.38) to a high of €24.95 (CAN\$38.64). Total subsidized exports could reach as high as 400,000 t by June 2004.

Prices for 2003-2004 Remain Relatively High

For 2003-2004, the CBoT oat prices have remained relatively high in spite of a large Canadian crop. The CBoT nearby oats contract, which generally reflects the price for No. 2 Heavy oats, is currently trading at US\$1.65/bu (US\$120.05/t) and is expected to average US\$105-110/t for 2003-2004 versus about US\$128/t for 2002-2003 and US\$125/t for 2001-2002. Increased supplies in Canada, the strength in the Canadian dollar and weak demand for animal feed have pressured oat prices from about CAN\$194/t to \$140/t expected for 2003-2004.

OUTLOOK: 2004-2005

Production of oats in the EU is forecast to decrease significantly from 2003-2004, because of decreased seeded area. The expansion of the EU from 15 countries to 25 countries is not expected to impact world production of oats or world trade patterns, as the use of export subsidies on oats is limited to Sweden and Finland only.

US production is also expected to fall, creating more opportunity for Canada. US prices are expected to remain similar to 2003-2004 and the per tonne spread between corn and oats is expected to be near zero. The price of oats in Canada, however, is expected to decrease marginally due to the stronger Canadian dollar.

Over the medium-to-long-term, EU subsidization of exports remains a concern to Canada. In general, world grain prices have been negatively affected by high domestic subsidies such as the US Loan Deficiency Payment Program in the US and the high domestic support and export subsidies offered by the EU. To a large extent, low prices in Canada reflect over-production that occurs in these countries as a direct result of those subsidies. The Government of Canada is taking measures to address these issues. The government continues to negotiate in the World Trade Organization for the removal of EU export subsidies and substantial reductions in trade distorting domestic support by both the EU and the US, to ensure that there is truly a level playing field among the major exporters.

For more information please contact:

Deanna Gower,
Market Analyst
Phone: (204) 984-8474
E-mail: gowerd@agr.gc.ca

© Her Majesty the Queen in Right of Canada, 2004

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,
Marketing Policy Directorate
Strategic Policy Branch
Agriculture and Agri-Food Canada.
500-303 Main Street
Winnipeg, Manitoba, Canada R3C 3G7
Telephone: (204) 983-8473
Fax: (204) 983-5524

Director: Maggie Liu
Chief: Fred Oleson

Editor: Gordon MacMichael

To receive a free e-mail subscription to
Bi-weekly Bulletin, please send your request to
bulletin@agr.gc.ca.

Issued also in French under title:
Le Bulletin bimensuel
ISSN 1207-6228
AAFC No. 2081/F

© Printed on recycled paper

While the Market Analysis Division assumes responsibility for all information contained in this bulletin, we wish to gratefully acknowledge input from the following:
Prairie Oat Growers Association, Canadian Embassies (Sweden, Finland)
and Market Industry Services Branch (AAFC)