



Bi-weekly Bulletin

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UNITED KINGDOM: WHEAT AND DURUM

The United Kingdom (UK) is a very important market for Canadian wheat and was Canada's third largest market for Canadian wheat excluding durum in 2002-2003 after Japan and Mexico. Over the medium-term, UK wheat (excluding durum) imports from Canada are projected to remain stable as the European Union (EU) decouples most of its farm subsidies from production beginning in 2005. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for the UK's wheat sector and the prospects for trade with Canada.

Agricultural Policy

The UK consists of: England, Scotland, Wales, and Northern Ireland. The UK government is committed to a free trade, market oriented approach for agriculture. The UK supports Common Agricultural Policy (CAP) reforms that reduce support price payments and encourage producers to base their seeding intentions on market signals and consumer needs. UK agricultural policy emphasizes environmental and safety issues.

The UK government's 2001-2006 Strategic Policy Plan sets out food safety policy. The goal of the plan is to promote healthy eating habits, reduce food borne illnesses by improving safety throughout the food chain, promote reliable labelling in the food

industry, increase food law enforcement and establish policy making through public consultations.

Wheat Policy

As part of the June 2003 CAP Reform, the EU announced in July 2003, that it will fully decouple most of its farm payments from production between 2005 and 2007. It will merge them into a 'single payment' linked to meeting certain environmental, food safety and animal welfare standards.

It is expected that a reduction in area-based payments to EU durum producers over the next three or four years may result in a decrease in EU durum production by 2007, which could potentially create new export opportunities for Canada. In traditional

growing areas such as Italy, direct support payments to producers will be reduced from €313 (CAN\$504) per hectare (/ha) in 2004 to €285 (CAN\$458)/ha. The payments will also be fully decoupled from current durum production and will be based on historical payments. As a result, EU producers will be able to grow crops other than durum on durum land and still receive the subsidy. An important caveat is that each EU country will have the option of decoupling only 60% of the durum subsidy and keeping the rest tied to current production, which would likely keep area seeded to durum similar to historic levels. Also, a new durum quality program is being introduced that will link support payments to recommended agronomic practices, such as certified seed. This is expected to increase the quality of EU durum and may limit imports.

In addition, the EU introduced separate annual import quotas for low and medium quality wheat at the start of 2003 to curb wheat imports from Russia and Ukraine. Canada was given access to 38,000 tonnes (t), the US 572,000 t and all other third countries have an annual 2.37 million tonnes (Mt). Canada has filled 3,805 t of its 2004 quota, and as of April 19, 2004 there were about 2.19 Mt available under the general third country quota and 449,460 t under the US quota. All in-quota shipments carry a preferential duty of €12 (CAN\$19/t) per tonne (t) and the after-quota duty is €95 (CAN\$153)/t.

Production

The climate and topography of the UK are quite varied. The area of southern England is suitable for the production of wheat and

UNITED KINGDOM: ALL WHEAT SUPPLY AND DISPOSITION

July-June crop year	1999 -2000	2000 -2001	2001 -2002	2002 -2003	2003 -2004f	2004 -2005f
Harvested Area (kha)	1,847	2,086	1,635	1,996	1,837	1,965
Average Yields (t/ha)	8.05	8.01	7.08	8.00	7.78	8.24
.....thousand tonnes.....						
Carry-in Stocks	1,569	1,555	2,382	1,978	2,038	1,831
Production	14,867	16,704	11,580	15,973	14,288	16,200
Imports*	1,244	1,194	1,490	1,107	950	1,000
Total Supply	17,680	19,453	15,452	19,058	17,276	19,031
Food, Seed, Industrial Use	6,744	6,787	6,738	6,739	6,716	6,735
Feed Use	6,246	6,894	6,158	6,876	6,529	6,800
Exports*	3,135	3,390	578	3,405	2,200	3,000
Total Consumption	16,125	17,071	13,474	17,020	15,445	16,535
Carry-out Stocks	1,555	2,382	1,978	2,038	1,831	2,496

* includes EU intra-trade

f: forecast, AAFC, May 2004

Source: UK Department for Environment, Food and Rural Affairs

this provides a comparative advantage to UK growers. The UK produces winter wheat, spring wheat and durum which are seeded on two-fifths of the UK's arable land. England accounts for nearly 95% of all wheat grown in the UK. The regions of the East Midlands and South East England produce the largest amount of wheat, accounting for 40% of the UK's total wheat supply. Winter wheat is seeded between September and November and spring wheat in March or April. UK wheat is harvested around the first of August and running through September. Durum is harvested a little earlier than the spring wheat, beginning around the first of July and ending around the end of August.

UK producers are among the most productive and efficient in the world. Wheat yields have tripled in the last 50 years, with the UK holding the world record for the highest wheat yield. The five-year average for UK wheat yields is 7.8 tonnes per hectare (t/ha) compared to 2.1 t/ha in Canada. UK plant breeders have developed high yielding varieties and agronomists have developed efficient growing methods.

For 2004-2005, UK wheat harvested area is projected at 1.97 million hectares (Mha), up slightly from 2003-2004. In 2003-2004, seeded area was affected by overly wet conditions which delayed planting and negatively affected crop development. Average yields were also impacted by late season dryness which led to a downward revision of the earlier forecasts for production. For 2004-2005, assuming a return to normal weather conditions, total wheat production is forecast at 16.2 Mt, up 1.9 Mt from last year.

For 2004-2005, UK durum harvested area is estimated at 1,000 ha and production is again projected at 6,000 t, unchanged from last year. The climate of the UK is suitable for growing durum in only a very small area of the country.

Consumption

Wheat consumption is largely in the form of feed, followed by human food, industrial and seed use. Traditionally, the UK has been known for its soft wheats, which are used to make breads, biscuits and rolls. This also includes cakes, pies, and pizza bases. Recently, however, improved spring wheat varieties suitable for breadmaking have been developed, allowing millers to use more domestic wheat instead of importing wheat from North America. The shift by growers towards breadmaking wheat

varieties can also be attributed to the relatively large price difference between feed and milling wheat prices in recent years. Currently domestic wheat makes up 80% of the flour produced by UK millers compared to less than 20% in the 1960s. Currently, per capita wheat flour consumption in the UK is about 76 kilograms (kg) per annum versus 68 kg in Canada.

New varieties, combined with advances in baking technology have helped reduce wheat imports from over 2.5 Mt in the 1960s to between 1.0-1.2 Mt. For 2004-2005, domestic use is forecast at 13.5 Mt, up marginally from last year. Feed use of wheat rose in 2000-2001 to 6.9 Mt, as a result of the Bovine Spongiform Encephalopathy (BSE) crisis in the EU and the meat and bone meal ban in feeding. Feed use is expected to rise slightly from 2003-2004 to 6.8 Mt for 2004-2005.

Baking Flour Milling

UK research in flour resulted in the introduction of high energy or Chorleywood Bread Process (CBP) mixing in 1961 by the British Baking Research Association, now the Campden and Chorleywood Food Research Association (CCFRA). This process enabled higher yields to be achieved in much shorter fermentation times, using a higher proportion of domestic wheat than had previously been possible and giving longer shelf life.

The UK flour milling industry is a highly concentrated industry with 33 companies that operate 68 flour mills. Three large companies make up 60% of the flour market share and the industry is highly competitive. As a result, UK consumers are able to

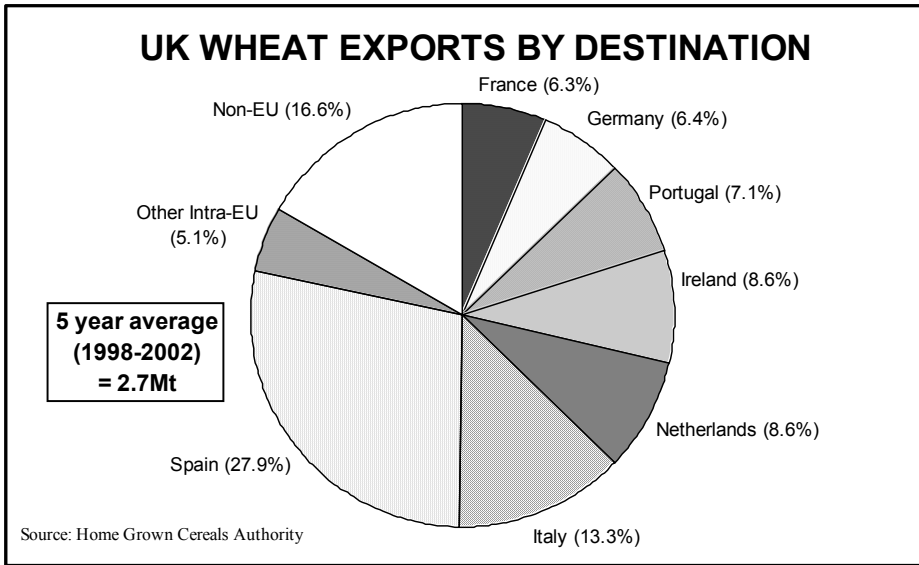
purchase some of the least expensive bread in the western world. Average total flour production is about 4.5 Mt annually from 5.6 Mt of wheat. This has largely been due to increases in the production of wheat flour for starch following a shift from corn to wheat as the main raw material for starch production. The average output is 66,000 t annually per mill, compared to Italy, which produces 4.7 Mt of flour annually, but only 13,100 t per mill.

The UK is unusual in that the majority of wheat is delivered to the end-user, including millers, direct from the farm without going through an elevator or storage facility. The main advantages are in traceability, varietal segregation, the ability to source small tonnages of specific quality and cost efficiency. The main disadvantage is that wheat will not have been sorted in terms of quality, leading to variation at the point of delivery. Currently, the UK is focussing on improving on-farm sampling and encouraging market awareness among producers.

Imports and exports of flour between the UK and other EU member states have increased over recent years but remain relatively small. The UK retains, however, a healthy, positive trade balance. UK exports of bread wheat flour, largely to Ireland, reached a high of about 125,800 t in 2001-2002. For 2004-2005, UK flour exports are forecast between 100,000-120,000 t, up marginally from 2003-2004, due to large UK wheat supplies.

UK millers are highly conscious of quality, both in the wheat ground and the flour produced. Traders and millers demand wheat with specific characteristics from a reliable supply source and are willing to pay

UNITED KINGDOM: DURUM SUPPLY AND DISPOSITION						
<i>July-June crop year</i>	1999 -2000	2000 -2001	2001 -2002	2002 -2003	2003 -2004f	2004 -2005f
Harvested Area (kha)	1	1	1	1	1	1
Average Yields (t/ha)	6	6	6	6	6	6
 thousand tonnes.....					
Carry-in Stocks	0	0	14	17	24	22
Production	6	6	6	6	6	6
Imports*	55	41	43	64	58	60
Total Supply	61	47	63	87	88	88
Food, Seed, Industrial Use	33	33	46	61	66	68
Exports*	28	0	0	2	0	0
Total Consumption	61	33	46	63	66	68
Carry-out Stocks	0	14	17	24	22	20
* includes EU intra-trade						
f: forecast, AAFC, May 2004						
Source: ONIC						



premium prices. UK winter wheat tends to be softer and lower in gluten and protein than Canadian wheat. As a result, when Canadian wheat is milled, the result is a strong flour characterized by elevated insoluble protein (gluten forming) content and diminished starch content. By contrast, when UK winter wheat is milled, the result is a weaker flour with elevated starch content and a diminished insoluble protein content.

About 65% of domestic wheat flour is used for bread, with 12% used for biscuits and the remainder used for various domestic cake and confectionery products, according to WORLD GRAIN. In recent years, bread flour production increased slightly in line with increased demand for flour in pizza, fast food products and to a lesser extent in the white bread market.

Two sectors form the basis of the baking industry in the UK: the plant bakers producing predominantly wrapped bread on a large scale and the supermarket bakeries which offer a range of crusty breads baked from scratch or finished off in-store. Large bakeries retain the largest share of the market, still producing around three quarters of bread consumed in the UK, the equivalent of 9 million loaves each day. Economies of scale allow plant bakers to produce bread extremely efficiently and at excellent value. The last decade has, however, seen the overall balance of the industry change as multiple retailers have moved into in-store baking thereby exerting pressure on the position of the craft/high street sector.

Pasta

Most of the durum wheat used in pasta production in the UK is imported from the south of France and Italy, as the climate in the UK is not suitable for large areas of production. Currently, per capita pasta consumption in the UK is 2.5 kg per annum versus 6 kg in Canada.

Industrial Use

The expansion of UK industrial use of wheat is mostly centered on potential replacement of fossil fuel derived energy and chemicals. It is largely dependent on relative prices and government policy.

Imports

The UK is expected to import 1.0 Mt of wheat in 2004-2005, up marginally from last year, due to higher expected production in the EU. About 65% of UK wheat imports have come from other EU countries with France and Germany as the largest suppliers. For 2004-2005, the share of imports from other EU states is expected to rise, largely due to larger expected exportable EU supplies. Imports from non-EU countries, primarily Canada, are therefore expected to fall. For 2004-2005, UK wheat imports from Canada are

projected to fall slightly from 2003-2004, to about 0.3 Mt. This largely consists of high protein No.1 and No.2 Canada Western Red Spring wheat, used to blend with lower protein wheat domestically produced.

The UK imports nearly all of its durum and is forecast to import 60,000 t in 2004-2005, similar to last year. The largest proportion of durum imports are expected to occur from EU countries such as France, Germany, and Spain. For 2003-2004, UK durum imports from Canada are forecast at 25,000 t, largely lower grades of Canada Western Amber Durum. For 2004-2005, UK durum imports from Canada are forecast at zero, largely due to a return to normal EU durum production.

Exports

For 2003-2004, the dry weather conditions which reduced crops in many key EU wheat regions has led to an increased demand for UK feed grains. Spain, Italy, and Ireland, traditionally main markets for UK wheat, have imported more UK wheat to-date in 2003-2004. This has been offset by reduced exports to the smaller market countries of Belgium, France, and the Netherlands. Following an early harvest in the UK, over 0.4 Mt of wheat were exported in August alone as a result of the uncertainty of the unharvested French corn crop. UK wheat exports dropped off in the following months and are currently forecast at 2.2 Mt, down 35% from 2002-2003. For 2004-2005, UK wheat exports are forecast to rise to 3.0 Mt, due to an expected increase in exportable wheat supplies.

The UK has not exported durum since 1999-2000, as it is largely consumed domestically. The UK has kept carry-out stocks in the 15,000-20,000 t range.

The rise in the number of working women and single-person households is offering new market opportunities in the UK agri-food sector. The desire to spend less time on meal preparation and the hectic pace of life in major cities have created increased consumer demand for convenience, variety and value added. Furthermore, outbreaks of BSE, foot and mouth disease and concerns over genetically modified organisms have led consumers to scrutinize what they eat. Consequently, convenience foods, health-oriented foods including organics and value-added products continue to dominate food trends in the UK.

CANADA: WHEAT AND DURUM EXPORTS TO UNITED KINGDOM						
August-July crop year	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004f	2004-2005f
.....thousand tonnes.....						
Wheat*	410	318	360	313	310	300
Durum	0	0	2	0	25	0

* excludes durum
f: forecast, AAFC, May 2004
Source: Canadian Grain Commission

Medium-term Outlook

In the medium-term, UK's wheat and durum import needs will continue to be dependent on production in other EU countries. With the EU beginning to decouple its farm subsidy program in 2005 through to 2007, EU durum acres and production are expected to decline. Canadian wheat exports to the UK are expected to remain

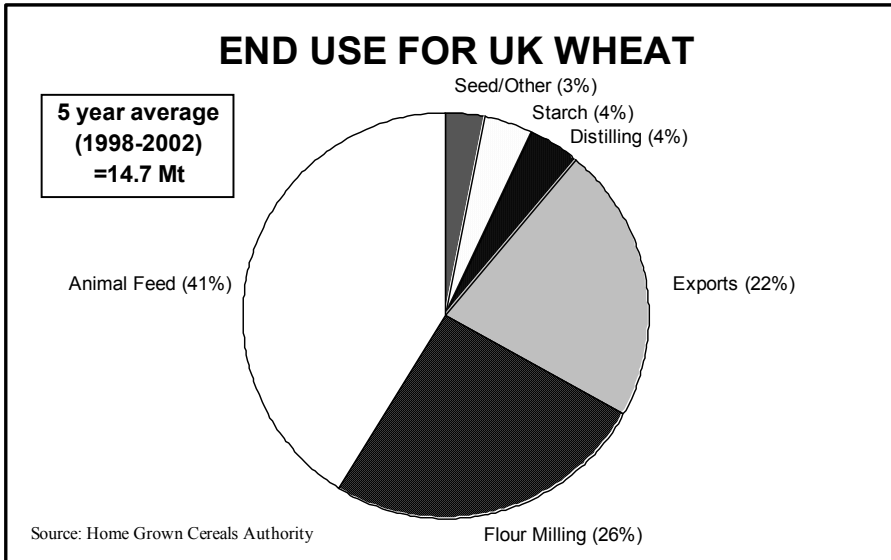
stable and Canada is expected to be well positioned to continue to service this market.

For the UK flour milling industry, it is likely that production will remain stable over the next few years while household bread consumption remains static. Growth opportunities still exist, however, in the

production of flours for specialized products, morning foods and the pizza/fast food market.

Opportunities for Canadian Exporters

Canadian exporters will continue to find opportunities to supply commodities such as wheat to the UK food processing industry. Canadian wheat is sourced specifically because of its high quality and helps UK millers and bakers meet the growing demand for premium breads.



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WARBURTONS PAYS PREMIUM FOR CANADIAN WHEAT

Warburtons was founded in 1876 and consists of 11 bakeries and 9 depots. The company is the leading independent baker in the UK. Warburton's bread is made from a blend of two-thirds Canadian wheat and one-third UK wheat. The company uses high quality Canadian wheat, which is grown under their contracting program with Canadian wheat producers. Warburtons pays growers a premium over the price paid for all Canadian wheat exports to the UK. Warburtons is contracted with about 800 Canadian producers to grow approximately 185,000 t of wheat for the 2003-2004 crop year.

According to Canadian Wheat Board (CWB) "Grain Matters" the company sells bread that contains Canada Western Red Spring wheat varieties, Teal, Elsa and Barrie. Since 1994, Warburtons has worked with farmers, first in Manitoba and later in Saskatchewan, to source the identity preserved high-quality wheat they need for their bread products. A Warburtons research centre in Brandon, Manitoba tests wheat samples for protein and moisture, test weight, grade and falling number to ensure that the wheat meets their quality specifications. Separate elevator storage and shipment ensure that the Canadian wheat which Warburtons buys is not co-mingled.

The farmers who grow wheat that meets Warburtons' strict requirements are paid a premium, and some of this is captured in the CWB's wheat pool.

Canadian producers must submit samples of wheat produced under contract to Warburton's laboratory in Brandon. It is then called into the elevator system based on the laboratory assessment. While not all wheat is accepted, Warburtons is currently using about 160,000 t or an 86% acceptance rate. Warburtons works with two Canadian grain companies who identity preserve the contracted wheat when it is shipped to the UK.

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