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Wheat Letter

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USW is the industry's market development organization working in more than 100 countries on behalf of America's wheat producers. The activities of USW are made possible by producer checkoff dollars managed by 19 state wheat commissions and through cost-share funding provided by USDA's Foreign Agricultural Service. For more information, visit www.uswheat.org or contact your state wheat commission. Original articles from *Wheat Letter* may be reprinted without permission; source attribution is requested.

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Online Edition: [Wheat Letter - February 3, 2011 \(http://bit.ly/hJAZ0I\)](http://bit.ly/hJAZ0I)

PDF Edition:

1. Freight Rates Fall Amid Slow Economic Recovery, Increased Tonnage *by Chad Weigand, USW Market Analyst*

With wheat prices climbing to their highest levels since 2008 and some exporters closing their doors, the challenges for wheat importers are growing. One positive piece of news for grain buyers, however, is that the cost of shipping is down to a two-year low. Ocean freight rates have steadily declined due to a combination of a slow economic recovery and an oversupply of vessels.

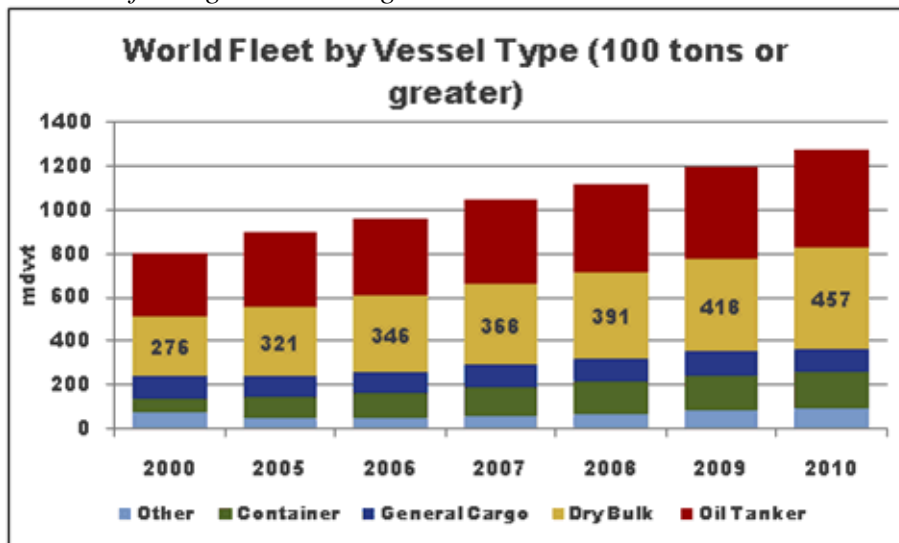
In the freight market, there are currently too many vessels chasing too little demand. According to the [United Nations Conference on Trade and Development](#) (UNCTAD), vessel tonnage* increased by seven percent in 2010 from the previous year. Dry-bulk tonnage grew at an even faster rate, from 418 million deadweight tons (dwt) to 457 million dwt, a nine percent increase from 2009 (*see chart*). In the past year, a total of 830 vessels were added to the dry-bulk fleet, a 13 percent increase in fleet size.

The result of new vessels and increased tonnage has been lower freight prices. The Baltic Dry Index (BDI), which measures the cost of shipping bulk commodities, has fallen for eight consecutive weeks. The BDI fell this week to 1,084, its lowest point since January 30, 2009. According to the United States Department of Agriculture's (USDA) [Agricultural Marketing Service](#), destination rates are also down significantly in the beginning of 2011.

In its latest grain transportation report, USDA noted the average rate from the Pacific Northwest to Japan in 2010 was \$36 per metric ton. That rate has currently fallen to \$27 per metric ton, a 25 percent decrease. From the Gulf to Japan, the current rate is down \$16 from the 2010 average of \$64 per metric ton. Rates from the Gulf to North Africa and Nigeria are also down from the 2010 average. The current rate to Egypt is \$34 per metric ton, a 22 percent decline from the 2010 average, while the Gulf to Nigeria is down 10 percent to \$45 per metric ton.

With more vessels scheduled for delivery in 2011, increased tonnage will continue to weigh on the freight market in the year ahead. Jay O'Neil, senior agricultural economist at Kansas State University's [International Grains Program](#), believes cargo demand will not be able to keep pace with the delivery of new vessels. He stated that, "Cargo demand is expected to grow by about five to six percent in 2011, but the world dry-cargo fleet will grow by 16 percent, even after vessel scrapping and order slippage is taken into account." UNCTAD noted in their [Review of Maritime Transport 2010](#), that there is an additional 258 million dwt currently on order for dry bulk carriers. With oversupply already pressuring the freight market, wheat importers could see some very favorable shipping prices this year.

**vessels of 100 gross tons or greater*



**Source: UNCTAD Review of Maritime Transport 2010*

2. USW Affirms Its Commitment to Middle East, North African Markets

Many people are interested in, or concerned about, U.S. Wheat Associates (USW) staff and export market development activities managed by our Middle East, North and East Africa

Regional Office in Cairo. The USW office in Cairo has eight employees, including two Americans.

The safety and well being of our colleagues and their families remains our first priority and so far all are safe. In fact, Assistant Regional Director Ian Flagg and his wife Serena have returned to the United States while we monitor the situation. Regional Vice President Dick Prior has decided to remain in Cairo. Our headquarters office and Cairo office are in touch with the American embassy and continue to follow state department recommendations. We have temporarily closed the office so our people do not have to commute, but they are communicating with each other and USW headquarters and conducting any critical work as best they can both inside Egypt and in the other countries in the Middle East.

In spite of many unknowns about how the situation is affecting or will affect the logistical and financial processes for wheat trade, USW remains committed to fulfilling its mission in Egypt and other countries in the region. To conduct our work moving forward, for now we will first assess any personal risk to our colleagues and then assess their ability to conduct export market development activities efficiently and effectively. That is important for U.S. wheat producers, but also for the region's importing countries. U.S. wheat export bids are very competitive in the region this year, especially with freight costs trending down recently. To see USW Price Reports, visit <http://www.uswheat.org/reports/prices>.

Egypt is the world's largest wheat importer and is a very important market for U.S. wheat producers. So far in marketing year 2010/11 (June-May), Egypt has purchased more than 2.7 million metric tons (MMT), or nearly 100 million bushels, of U.S. wheat, including:

- 2 MMT of hard red winter;
- 349,000 MT of white wheat;
- 238,400 MT of soft red winter;
- 150,000 MT of hard red spring.

Sales to date in 2010/11 are more than 500 percent above 2009/10 when Egypt was purchasing most of its wheat from Russia and other Black Sea exporters that are, for all intents and purposes, not participating in world wheat trade today. On average over the past five years, Egypt has imported more than 1.8 MMT (66 million bushels) of U.S. wheat each year.

The Middle East, North and East Africa region also represents a very large market for U.S. wheat. Total U.S. wheat sales to the region so far in 2010/11 are just under 5.8 MMT (more than 213 million bushels) compared to 1.9 MMT (70 million bushels) in 2009/10. Sales to date include:

- 3.9 MMT of hard red winter,
- 852,000 MT of white wheat,
- 260,000 MT of soft red winter,
- 705,000 MT of hard red spring.

3. Market Development Programs Support Jobs and Lift Economic Capacity

Washington, DC, is abuzz about reducing the federal budget deficit, and the U.S. wheat industry understands that agricultural programs will be part of the budget discussion over the next several months. It is important, however, to note that cutting agricultural export market development support would put U.S. jobs at risk and have a chilling effect on economic capacity overseas.

The [Market Access Program](#) (MAP) and [Foreign Market Development](#) (FMD) program administered by USDA's [Foreign Agricultural Service](#) (FAS) form the core of a highly successful partnership between non-profit U.S. agricultural trade associations, farmer cooperatives, non-profit state-regional trade groups, small businesses and USDA to share the costs of overseas market development efforts. These programs continue to have a positive and significant impact on U.S. agricultural exports. As such, MAP and FMD are crucial for the U.S. wheat industry to maintain sales and market share in an increasingly competitive trade environment.

MAP was established in 1985. Since then, USDA notes, U.S. agricultural exports increased by nearly 300 percent at their peak in 2008. For FY 2011, U.S. agricultural exports are expected to reach \$113 billion.

Furthermore, USDA estimates that every \$1 billion in agricultural exports create 8,000 jobs. Thus, more than 800,000 Americans have jobs that depend on these exports thanks in part to MAP, FMD and related programs. We can expect increased demand for agricultural products as the global economy recovers, which reinforces the need for such valuable programs as MAP and FMD that help create, expand and maintain markets for U.S. agricultural products.

The benefits of export market development extend beyond U.S. shores. Nigeria imported more U.S. wheat than any other country in 2009/10. Since 2001 when USW opened a technical service office in Lagos supported by FMD and MAP funds, average annual wheat sales to Nigeria have doubled to almost 3 MMT. Nigerian flour milling executives say wheat export promotion is helping build economic capacity in their country. One senior executive said, "MAP and other programs provide training for our employees and if we can do more together, the potential for significant growth is there."

Noting that USW uses MAP funds for technical training that helps build new wheat-based food markets, the CEO of Nigeria's Honeywell Flour said, "Whatever we have achieved, the foundation has been laid by USW. We know that USW is funded by farmers and USDA. It is money well-spent."

An Effective Public-Private Partnership

Industry funds are now estimated to represent almost 60 percent of total annual market development spending, up from about 45 percent in 1996 and less than 30 percent in 1991, which demonstrates farmer commitment to the effort (USDA). Like other cooperators, U.S. wheat farmers are strongly committed to this partnership. These cost-share programs provide a critical incentive to invest in U.S. grain export market development. Without them, it is highly unlikely that there would be sufficient private funds to maintain a strategic, coordinated export

promotion in the increasingly competitive global wheat market.

Protecting MAP and FMD makes good economic sense for U.S. farm families, the rural economy and our agricultural export customers. For more information on what you can do to help, please contact USW at info@uswheat.org.

4. Cuba Represents a Missed Opportunity

by Tyler Jameson, USW Assistant Director of Policy

With close proximity to U.S. ports, the Caribbean region is a natural destination for U.S. wheat exports. Shipments from the Gulf of Mexico can reach destinations within a fraction of the time and cost it takes other wheat exporters to deliver their products to this region. As a result, the United States maintains a wheat market share of at least 80 percent in the Caribbean due not only to close proximity, but also high quality product and proven reliability as a supplier. Unfortunately, American wheat farmers are missing out on a critical Caribbean market — Cuba.

With a population of 11 million people and wheat imports averaging over 800,000 metric tons (MT), Cuba is the largest wheat importer in the Caribbean. While the United States could supply the majority of these imports, the longstanding embargo and other barriers inhibit trade between the two countries.

American wheat farmers are missing out on at least \$150 million in potential sales based on current export levels and prices. U.S. wheat sales to Cuba have fallen from a high of 500,000 MT in 2007 to 119,000 MT in 2009/10. Sales to date for 2010/11 to Cuba are only 32,500 MT, while U.S. wheat exports to the entire Mexico, Central America and Caribbean region are up 32 percent.

USW has long supported elimination of sales barriers to Cuba and, with the entire U.S. wheat industry, has actively promoted open access to the Cuban market for more than 12 years. In early 1998, USW and state wheat commissions organized and funded charitable donations of wheat flour to humanitarian groups working in Cuba.

Industry representatives then traveled to Cuba over the next two years to expose their bakers to U.S. wheat flour, before the United States permitted sales of food and medicine. [The Trade Sanctions Reform and Export Enhancement Act](#) in 2000 finally allowed agricultural sales to Cuba. After a devastating hurricane in late 2001, Cuba made its first wheat purchase of 40,000 MT of hard red winter wheat and 10,000 MT of wheat flour in 2001.

U.S. wheat exports began to flow and exports increased every year until a change in the rules made agricultural sales more burdensome and expensive. As a result of tightened U.S. restrictions and the lack of credit for U.S. purchases, Cuba began sourcing more wheat from competitors such as the EU, Canada and Argentina.

Last week, the Obama administration announced that it will take steps to allow more Americans to travel to Cuba for religious, educational and family purposes. While these changes are

welcome, more steps are needed to ensure a steady supply of safe and high quality food produced by U.S. wheat farmers to the people of Cuba.

5. Going West: How Wheat Moves Through the Pacific Northwest

By Julia Debes, USW Communications Specialist

Wheat is planted and harvested from coast to coast, north to south, in the United States. Getting overseas customers exactly the wheat that meets their specific needs, however, requires an extensive grain handling system that involves the work of everyone from farmers to longshoreman to grain traders to river pilots...just to name a few.

In the west, that process comes together in Portland, OR, where four classes of wheat produced in the western states are delivered to ports along the [Columbia-Snake River System](#). From there, transportation providers and grain companies work together to supply wheat to Asia, Latin America, the Middle East and other destinations.

The [Idaho Wheat Commission](#) has conducted a Pacific Northwest Wheat Marketing Tour for nearly 20 years to educate Idaho wheat farmers about where their wheat goes after leaving the farm. This year, I was fortunate enough to join 11 wheat farmers from across the state who participated in the January tour that covered inspection services, grain shipments, analytical testing, product development and domestic and international uses for their wheat.

Moving Grain in the Pacific Northwest

Wheat arrives in Portland by rail, truck or barge. Grain companies in Idaho use all three — moving 36 percent of the state's wheat to market by rail, 35 percent by barge and 29 percent by truck.

Once wheat arrives at an export facility, like Columbia Grain, eight to 10 hours are required to unload a single shuttle train or barge. Terminal 5 at Columbia Grain has a storage capacity of more than 109,000 MT, which the terminal typically turns over four to five times a month.

The control center of Columbia Grain is akin to an air traffic control center. A wall-sized board filled with circles and squares depict each of the storage bins and their contents. Grain movement both in and out of bins is controlled via computers that can dictate the exact speed at which grain is moved from point to point in the system.

Columbia Grain is also home to a high-speed cleaning facility and an on-site USDA inspection service. At the [Federal Grain Inspection Service](#) (FGIS) facility, the Idaho farmers watched as samples flowed in from each subplot of grain, a sample that represents from 250 to 1,600 MT of wheat, depending on the elevator's loading rate and the ship's capacity. The diverted samples are taken every 30 seconds directly from the flow of grain into a container. FGIS officials must inspect and certify the samples of wheat before the ship leaves port, guaranteeing that the wheat meets the specifications outlined in the buyer's tender.

On the river system, transportation companies like Shaver Transportation, help maneuver barges and ships into position at port and upstream and downstream on the river system. Shaver Transportation is a fifth-generation, family-owned tug and barge company that has transported grain down the Columbia-Snake River System since 1880.

The Idaho farmers on the tour had the chance to experience just how powerful the engines on each tug need to be to allow the boat to stop mid-river, change direction quickly and guide grain barges and Panamax ships (ships that are the maximum width that will fit through the Panama canal) alike up and down the Columbia-Snake River System.

To get to export markets, however, ships filled with grain need another guide. Captain Gary Lewin is one of 14 [Columbia River Bar Pilots](#), mandated by maritime law to guide ships in and out of mouth of the Columbia River, an area known as the bar.

In the bar, 1 to 1.5 million cubic feet of water per second flow out of the Columbia River into the Pacific Ocean, creating conditions that can double ocean swells inside the mouth of the river. When conditions in the bar are [too dangerous](#) for pilot boats, Captain Lewin, who joined the bar pilots in 1983 after nearly 20 years of ocean-going experience, or another bar pilot is flown to ships offshore by helicopter, then scale down to the deck of the ship to help guide it safely into port.

Developing the best use of wheat

Back on shore, in the old Albers Mill, the [Wheat Marketing Center](#) (WMC) works with USW and eight state wheat commissions to help overseas millers, bakers, quality control personnel and other customers determine exactly how they specify, then use the grain shipped to them out of Portland.

Nick Frei, a young producer who farms 3,000 to 4,000 acres of wheat with his father in Craigmont, ID, was impressed with the effort to promote U.S. wheat to buyers from around the world.

“As farmers, we sometimes don’t realize all the work that keeps foreign markets going,” Frei said. “Those efforts are really important to what we do.”

The Wheat Marketing Center led the Idaho group through both the hands-on and analytical/research aspects of product development and improvement. Executive Director Dr. David Shelton and Technical Manager, Asian Foods Specialist, Dr. Gary Hou introduced the Idaho farmers to a wide range of international products made from U.S. wheat, including steam rolls, ramen noodles, pita bread and naan. The farmers had the chance to make naan in a traditional tandoori oven that can reach temperatures of more than 800 degrees Fahrenheit. They also compared the perfect motion for placing pita dough in the oven to shoveling.

In the WMC Laboratory Services* area, the farmers saw how their wheat is tested for quality, including testing for falling number, gluten strength and dough elasticity. Each test demonstrates how different varieties or field conditions could significantly alter end-use characteristics.

**Note: WMC Laboratory Services is an affiliate of Wheat Marketing Center that does confidential, proprietary wheat, flour and finished product research and analyses for clients worldwide.*

To demonstrate just how wheat quality affects end products, the Idaho group visited Franz/United States Bakery, the largest family-owned bakery west of the Mississippi, and Grand Central Bakery, which sources its ingredients locally, including flour from Shepherd's Grain, a farmer's cooperative in the Northwest.

Taking knowledge home

The primary goal of the Pacific Northwest Tour is to educate Idaho wheat farmers, but the hope is to foster an understanding of the complexity and sophistication of the U.S. wheat grain handling system. With more than 200 farmers having participated in the tour since its inception, Tereasa Waterman, information and education manager for the Idaho Wheat Commission, believes they are achieving that goal.

“Every year we tweak the tour so it is better than the last,” she said. “Farmers say it’s a worthwhile educational activity that helps them make better decisions back on the farm.”

Sid Cellan, who farms 2,100 acres (including 700 acres of Hard Red Winter (HRW) and Soft White (SW) wheat) in Soda Springs, ID, with his wife Janet, would agree.

“We don’t get to see how they handle and ship our grain in Soda Springs. We go to the elevator and our wheat is gone,” he said. “This tour opened up my eyes to the way the world works, and I’m really glad I got to participate.”

Thank you to the Idaho Wheat Commission for sponsoring Julia’s participation in the 2011 Pacific Northwest Wheat Marketing Tour.

6. Improvements to Columbia-Snake River System Help Ensure Reliable Supply Chain

The Columbia-Snake River System is a primary example of why the U.S. wheat industry is the world's most reliable wheat supplier. Major investments are being made to ensure that the system continues to serve our overseas customers even more effectively and efficiently for decades to come.

Above all is the work being done now to repair and renovate locks at The Dalles and John Day dams on the Columbia River and at the Lower Monumental dam on the Snake River. This forward-looking maintenance is scheduled for completion in late March.

According to a recent article in the Spokane (WA) [Spokesman-Review](#), after 20 years of planning and work, the first 103 miles of the Columbia River have been deepened three feet to allow ocean-going ships to pass with deeper drafts. About 40 percent of the wheat exported from the United States passes through the mouth of the Columbia River, said Glen Squires, vice

president of the Spokane-based [Washington Grain Commission](#). He added that about 80 percent of the wheat produced in the Pacific Northwest is exported.

“It’s huge,” Squires said of the channel-deepening project that allows deep-draft ships to fill to capacity. “We can put more grain on a ship. So it not only lowers the cost per ton for moving the grain out, it makes the region more competitive.”

The article notes that Dave Hunt, executive director of the Portland-based Columbia River Channel Coalition, said the channel deepening will allow ships to load an additional 6,000 MT of grain per trip.

Several export elevators on the CSRS are also upgrading or expanding their capacity. In addition, construction of the first new grain terminal in the United States in a quarter century is progressing at the [Port of Longview](#) (WA). The [Export Grain Terminal](#) is still scheduled to be ready to handle exports for the fall 2011 harvest.

7. Wheat Industry News

- **Oregon Wheat Groups Join Forces.** The Oregon Wheat Growers League and the Oregon Wheat Commission voted Jan. 10 to pursue joint administration. For more information, visit <http://bit.ly/igKtrf>.
- **FAS Names New General Sales Manager.** USDA Foreign Agriculture Service Administrator John Brewer has named Suzanne Heinen, a career FAS officer, as general sales manager and associate administrator of the agency. Additionally, Associate Administrator Janet Nuzum, who has been the general sales manager, will shift her duties to associate administrator for policy.
- **Drought-Tolerant Corn Arrives.** DuPont has announced it will sell a limited quantity of conventionally bred drought-tolerant corn this year. Biotech corn seed with drought tolerance will not be available until mid-to-late decade. Drought-tolerant corn could further encroach on dryland acres traditionally planted to wheat in Kansas, Colorado, Texas and Oklahoma. For more information, visit <http://bit.ly/hey9GB>.
- **NCI Announces Short Courses.** The Northern Crops Institute will hold an Advanced Grain Procurement Strategies Short Course in Fargo, ND, from May 16 to 20, 2011. Registration deadline is April 25. Additionally, the Pasta Production and Technology Short Course will be held April 12 to 14, 2011. Registration deadline is March 21. For more information, visit <http://bit.ly/hvMiO>.
- **Condolences to the family of Brute Otte** on his passing on Jan. 7. Bruce was a longtime leader in the Kansas Association of Wheat Growers.
- **Congratulations to Goris van Lit**, USW European Regional Director based in Rotterdam, The Netherlands. On Feb. 1, 2011, he celebrated 25 years with USW, and on Feb. 8, he will

celebrate his 65th birthday. Goris is well known for both his professional knowledge and hobby of rally racing. With Goris behind the steering wheel, his staff notes, you will never miss your flight!

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