INTERNATIONAL MILLING DIRECTORY 2006

REGIONAL HIGHLIGHTS - ASIA

Asian feed grain consumption has continued to grow at a steady pace in recent years, adding about 3m tonnes in 2004/05 and expected to repeat that in 2005/06. Most of the expansion in southeast Asian demand has been in China while India has been the main factor in south-Asian growth. Wheat consumption in the region has trended lower in recent years. Chinese demand especially has been in long-term decline as consumers upgrade diets to reduce cereal-based foods in favour of more feedgrain-based meat and poultry products. China has used less wheat in feeds too, displacing it with maize and low quality rice. India has recently suffered wheat crop setbacks that have restrained demand. In many other countries in the region - Malaysia, Philippines, Thailand and Taiwan, wheat demand has stabilised. However, Indonesia - once one of the fastest-growing regional markets - seems to be resuming demand growth interrupted by the Asian economic crisis of the latter nineties.

COUNTRY SNAPSHOTS

China After years of using stocks to support expanding feedgrain consumption and exports, Chinese officials now appear to acknowledge the existence of a long term structural deficit - for maize especially. Growing population and industrial development are boosting demand and livestock numbers are now estimated to be growing at some 5% per annum. With corn supply only increasing at only 2% a year, officials assume the next five years will see a regular supply gap opening in excess of 23m tonnes per annum. This suggests big imports will be regularly needed from other top maize producers like the USA and Argentina - quite a stark contrast to recent years when China regularly topped Argentina as second largest world corn exporter (shipments ranging up to 15m tonnes in 2002/03). Indeed, China could well become the engine of demand growth for maize, offering potentially big export opportunities to suppliers including the US, Argentina, Brazil and Central Europe.

Although Chinese wheat production this year is about 20m, tonnes below the peak levels reached in the latter nineties, it has recovered about 4m tonnes from last year's low. Wheat consumption has been declining since 2001/01 when it reached a peak of 113m and is expected to reach only 101m in the season ahead. The long term deficit in China's wheat market has been filled by drawing down reserve stocks which have dropped from 103m in 1999/00 to only 38m tonnes this season. USDA suggests these will decline by another 4m mid-2006 which, with the slightly larger crop, will enable China to reduce imports to about 4m. Last season, China imported 7m tonnes, overtaking Egypt as the top world wheat importer.

China has been making efforts to stem its reliance on wheat imports, raising area by about 2.3% this year amid a rise in total area for grain, tubers and pulses of about 5% (following seven successive years of sowing cutbacks. Government polices to encourage grain production were introduced in 2004, including direct payments, removing agricultural taxes and offering subsidies on seed and machinery. Almost 30% of the total wheat area will get a special subsidy for quality seed this year, focusing on high and low gluten varieties which it is hoped will reduce dependence on imports (mainly needed to blend up flour quality). When it joined the World Trade Organisation earlier in the decade, China agreed to offer low-duty access to imports of up to 9.3m tonnes by year-5 of its membership. The past season's imports were dominated by Canada (2.4m tonnes), Australia (1.9m) and the USA (1.8m) with the EU also supplying 700,000 tonnes.

INDIA - stock falls may mean wheat imports

Less than optimum Monsoon rains this year could adversely affect India's production of several crops including cereals, turning it from net wheat exporter to importer in the coming year. Early official estimates of a 74m tonne wheat crop have been scaled back to around 70/72m tonnes - figures that seem to be confirmed by unusually low government procurement from farmers. India also starts the 2005/06 season with its lowest carryover wheat stocks for several years (just 4m tonnes compared with 15m two years ago), making for even lower total supplies. Although government officials have maintained they can scrape by without imports, some grain traders believe 1m to 2m tonnes will eventually need to be shipped in from overseas. Not only would this keep domestic prices - which have been rising all summer - under control. It will also ensure that India's vast and convoluted public distribution system and other state food programmes are kept filled.

After several surplus crops, India's wheat exports had risen to 6.4m tonnes in 2003/04, falling back to about 1.4m last season. The loss of these supplies mainly affects the lower grade outlets and, in a year of abundant world feed/lower grade milling wheats, the reduced competition should have little impact, apart from being welcomed by rival exporters. However, additional imports of food grade wheats could provide support to world prices in this sector.

USDA estimates there are 200 large flour mills in India, with a combined capacity of around 15m tons, most manufacturing flour & semolina. Although demand for speciality flour for pizzas, burgers, and bakery products has risen with rapid growth of the fast food sector, the import duty has discouraged imports of high quality wheat.

India's maize consumption has been gradually increasing in recent years with its expanding poultry production. Food use accounts for a major share of India's total coarse grain offtake, mainly sorghum and millet. About 6.5m tonnes of maize is consumed by the feed sector, 1m by the starch industry. High tannin content of Indian sorghum restricts its use in poultry rations but offtake in alcohol and starch production has been rising in recent years. Barley is mainly used for food. Some observers believe growth of the poultry and starch industries may outpace domestic maize production in the near future, requiring imports of this grain too.

The Philippines - Plans to increase maize production with an eye to the export market appear to have been thwarted this year by dry weather. Although the government initially targeted a crop in excess of 5.6m tonnes, most observers believe it will probably end up close to last year's 5.1m, requiring imports oif at last 1m tonnes. Longer term, the Philippines government had drawn up an ambitious expansion programme which plans to 'cluster' small farms in their production, harvest and marketing activities to raise yields and as well as obtain economies of scale to cut costs. By using higher yielding seed, including GM varieties, some agronomists have suggested yields could rise 5-fold to 10 tonnes/ha. The government also planned to integrate activities of hog and chicken producers to increase efficiency, as well as linking livestock producers, abattoirs, storage and logistics facilities and improved inspection standards.

Indonesia - With economic growth running at over 5% per annum, consumer-spending power is improving, raising demand for wheat-based foods, including instant noodles and bakery products and enabling mills to operate at nearly 65% of capacity this year. With extraction rates from 70 to 74%, flour production is expected to reach 3.1m in 2005/06. Local millers have continued to complain about cheap, lower grade flour imports from the United Arab Emirates, Australia, the EU and other countries which they say forces them to slash margins to hold market share, in turn encouraging purchase of lower quality wheat and to produce inferior flour. US wheat sales, mainly soft white and western white wheat are used in special biscuit flours while hard red spring types are used for blending up cheaper grades to produce high protein flour. Australian wheat continues to dominate half Indonesia's wheat imports due to its competitive price, which can be up to 20% below US wheat.

Plans to build a new mill in North Sumatra have been shelved, but two existing mills have invested in new blending plant to raise output of higher quality flours. The industry has undergone greater concentration with the takeover of other mills by the main operator who now controls an estimated 80% of wheat imports. Indonesia's annual exports of wheat products, mainly pasta and couscous have been increasing and are estimated at almost 100,000 tonnes a year to countries including Malaysia, Japan, and Singapore. Bakery products continue to diversify, with new brands of instant noodles and modern bakeries increasing in number and more product outlets. The noodle industry (wet, dry and instant) represents the largest single user for flour (nearly 60 percent) with bakeries and the snack food industry consuming 30% and household use at about 10%. Flour output consists of 75% high-protein (12%) with the rest medium (10%-12%) and low protein (8%-9%). The government protects the local industry with a 5% duty on flour imports.

Maize consumption and imports are expected to remain flat in the near term, due to continued presence of bird flu in poultry flocks. High freight costs and inability/unwillingness of local buyers to finance Panamax-sized vessels have also tended to restrict imports of maize from the US but these could pick up as Chinese export supplies dwindle. Maize yields remain low with certified/hybrid seed used on less than a fifth of planted area due to its high price compared to locally-sourced seed. The animal feed industry consumes about 50% of maize offtake and has reduced demand since bird flu outbreaks from early 2005. However, feed demand for this grain is expected to improve in 2005/06 to 3.7m, mainly for use in the poultry sector. If flu outbreaks are kept in check, total compound feed production (including farm-mixed poultry feed) is forecast to rebound to around 7.4m tonnes in 2005/06, despite the higher feed ingredient costs of the past year. Although half Indonesia's maize production is used in traditional meals and dishes as a rice substitute, more has been used in the growing feed industry in recent years.

South Korea - Maize processing was estimated to drop in 2004/05 due to a slowing economy, higher feed wheat imports and a drop in total compound feed production from 15.6m to 15m tonnes, mainly due to lower consumption of pig and poultry meats. In contrast, compound feed output for beef cattle has grown steadily since 2001/02. Although dairy cattle numbers have tumbled, demand for home-produced beef has risen due to a ban on imports of US beef since late 2003 after the latter's first case of BSE. Several outbreaks of swine diseases also resulted in a 5% fall pig compound feed output, along with higher compound feed costs which rose faster than livestock prices.

Markets were also affected by new regulations demanding all pig farms covering over 50 square meters register with the Government and install pollution control facilities as well as meet minimum space per animal requirements - adding further costs to the industry.

Output of compound feed for poultry was estimated to have stagnated in 2004/05 at 3.8m tonnes after a 3% drop the previous year after an outbreak of avian influenza that saw the loss of 4m birds, mostly layers and ducks and a drop in consumption of poultrymeat.

Import demand for both wheat and maize was affected by lower feed output in 2004/05. Currently USDA has imports slightly higher, at 8.5m tonnes (8.3m) and 3.7m (3.6m) tonnes respectively. Given China, which normally sells half its corn exports to Korea, has a smaller surplus this year, there may be more opportunities for the US to enlarge its export presence in this market. However, maize exports will also come under fairly intense competition from large world suppliers of feedwheat.