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## Wheat Export Letter

Report to State Wheat Commissions, USW Board Members, U.S. Wheat Media and USW Staff

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*U.S. Wheat Associates is the industry's market development organization working in 90 countries on behalf of America's wheat producers. The activities of U.S. Wheat Associates are made possible by producer checkoff dollars managed by 18 state wheat commissions and through cost-share funding provided by USDA's Foreign Agricultural Service. For more information, visit [www.uswheat.org](http://www.uswheat.org) or contact your state wheat commission.*

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### **"Inspecting" Opportunity in Algeria**

When an article that incorrectly stated the U.S. government had cancelled a wheat import contract with the Algerian government's wheat buying agency appeared in a local publication, U.S. Wheat Associates (USW) was concerned. In marketing year 2007/08, after all, Algeria has imported more U.S. wheat than any other market in North Africa—almost all of it by the *Office Algérien Interprofessionnel de Cereales* (OAIC). Now, USW has strengthened its relationship with this influential buyer first by correcting facts about the transaction and then by educating OAIC staff about the integrity of the U.S. inspection, grading and certification system.

"We took the opportunity to emphasize the neutrality and transparency of the U.S. system at three meetings with more than 200 OAIC port inspectors and laboratory technicians," says Goris Van Lit, USW Assistant Regional Director, Europe and North Africa. "More than 200 participants left these meetings with a clear understanding that the Federal Grain Inspection Service and USW can be trusted to look out for the wheat buyer's interests." USW conducted the seminars with USW Regional Technical Director Peter Lloyd in the lead.

Van Lit and Lloyd report that OAIC purchased nearly 4.6 million bushels of U.S. hard red winter (HRW) during the USW program earlier this month. As of April 17, Algeria had purchased nearly 34 million bushels of U.S. HRW and durum in marketing year 2007/08 compared to just over six million bushels of HRW, soft red winter (SRW) and durum by the same time last year. He says opportunities for function-specific U.S. wheat are growing in Algeria and USW will use the success of these seminars to build a more productive relationship with influential OAIC managers.

### **U.S. Exchanges Can Work for Wheat Buyers**

The [Commodity Futures Trading Commission](#) (CFTC) held a public "roundtable" hearing April 22, 2008,

to gather information about whether agricultural futures markets are properly performing their risk management and price discovery roles. More information about the roundtable can be found on the CTFC Web site at [www.ctfc.gov](http://www.ctfc.gov).

U.S. agricultural representatives at the roundtable said volatility has made it more difficult for producers to use the market tools. It has also forced many grain elevators to stop offering forward cash contracts because of the huge margin calls that follow market spikes.

“In the context of historically low U.S. wheat stocks, index fund participation in the markets may be increasing price volatility, so this is an important discussion for U.S. wheat producers, country elevators and the grain trade,” says Alan Tracy, USW President. “Given that about half of the U.S. wheat crop is exported every year, it is also important that the CFTC consider the impact any policy change may have on international buyers.”

USW is working with a wide range of overseas customers to help them take advantage of risk management tools and it is working to help U.S. wheat producers gain market share. For example, Shannon Schlecht, Assistant Regional Director in the Middle Eastern and East African Region, reports that a trading company in Egypt has been able to sell substantial amounts of U.S. wheat in competition with Black Sea and some European origin wheat through favorable market positioning.

“Egypt’s state grain buying organization is the General Authority for Supply Commodities,” Schlecht explains. “GASC buys wheat directly from exporters through the open market, but it also buys from local sources. We have been connecting buyers with U.S. risk management tools and grain exchanges for many years to help fill positions with U.S. wheat, including this trading company. It was able to offer U.S. soft red winter (SRW) at lower than spot prices because they had favorable positions for SRW on the Chicago Board of Trade.”

USW managers Dick Prior and Hassan Abdel-Ghaffar initiated risk management training with the firm a few years ago, Schlecht says additional training in the region followed, including a large seminar in [Sharm el Sheik](#), Egypt, last fall.

“This is a dual success,” he concludes, “for the U.S. marketing system and also for U.S. producers who support the on-going risk management training through their checkoff contributions.”

### **Wheat Producers and Colombians Will Benefit from FTA**

“In a market with a high urban population and strong income growth, wheat and flour consumption has much room to grow.” That is how Jaime Jiménez, President of FEDEMOL, the National Federation of Wheat Millers, in Bogotá, Colombia, described the opportunity for U.S. wheat to three producers who recently travelled to Colombia on a USW Board Team trip.

At FEDEMOL headquarters in late March, Jiménez and his board of directors reviewed the potential benefits of the signed [U.S.-Colombia Trade Promotion Agreement](#) with David Clough, Fessenden, ND, Chet Edinger, Mitchell, SD, and Richard Starkebaum, Haxtun, CO. Colombian millers generally would like to source most of their imported stocks from the U.S., in spite of some concerns about perceived higher dockage in wheat delivered from U.S. Gulf origins. A free trade agreement (FTA) would allow the millers to import U.S. wheat duty free. In turn, U.S. wheat producers would be more likely to build sales and market share over wheat from Canada and Argentina.

“Colombia’s total wheat imports have grown from a little more than one million metric tons in 2000 to more than 1.3 million tons in 2007,” Jiménez said. U.S. market share has been as high as 70 percent and was 60 percent of milling wheat imports in calendar year 2007. The Colombian millers say U.S. market share could fall to 30 percent next year if the U.S.-Colombia FTA is not put into force.

“As an associate member of the Mercosur agreement in South America, Colombia will benefit from a free trade agreement between Mercosur and Canada, with wheat import tariffs dropping to zero at the end of 2009,” Jiménez said. “And Colombia expects to sign a bilateral agreement with Canada in May that will eliminate wheat import duties to zero when that FTA is entered into force—possibly as early as January.”

In addition to at least helping to level trade competition with other wheat exporting nations, the Colombian people will receive a strong economic stimulus from the agreement. Jiménez noted that to get an agreement signed, there had to be substantial advances in greater security and democratic principles. That will lead to greater capital investment and rising incomes in a country where many people still live under the poverty level which, in turn, stimulates food consumption.

“This agreement is very good for Colombians and American agriculture,” Jiménez concluded. “We hope we can put the FTA into force soon.”

On Capitol Hill, the [National Journal](#) reported today, legislators are apparently still talking about how to advance the U.S.-Colombia FTA. “Certainly no one that I’m aware of has thrown in the towel on this,” said House Ways and Means ranking member Jim McCrery (R-LA). The [Latin America Trade Coalition](#) wrote urging support for the agreement. The letter said its members, including USW and NAWG, are willing to back an expanded Trade Adjustment Assistance program if it will lead to a vote on Colombia. House Speaker Pelosi has said she will not schedule a vote before a new economic aid package is approved, but she has reached out to Treasury Secretary Paulson to negotiate.

### **Funding Shortages Reflected in Food Aid Program Awards**

*by Liz Jayankura Jones, USW Trade Policy Specialist*

High fuel and food prices and a shortage of food around the world translate to tight budgets for organizations that carry out food aid programs. USDA’s [Food for Progress](#) and [McGovern-Dole Food for Education](#) programs are no exception to the lack of resources organizations face to fund existing and new programs to feed an estimated 100 million more people who have gone hungry in the past six months due to a surge in food prices.

For fiscal year 2008 the Food for Progress program, which utilizes monetization of wheat and other commodities to generate funds for relief programs, will include 13 proposals totaling \$129 million, compared to 104 applications for \$1 billion worth of programming the Department received for the program. Contributing to the budget strain, only \$35 million of the expected \$40 million limit on transporting commodities to recipient countries will be available for 2009 programs due to committed transportation funds for 2008. USDA received 67 proposals at \$1.8 billion for Food for Education school feeding programs but can only award 11 proposals for \$48 million total, including a United Nations [World Food Program](#) (WFP) project for U.S. wheat to Bangladesh.

Along with USDA’s low acceptance rate for its two food aid programs, WFP reported the organization’s funding gap increased to \$750 million from \$500 million last month. World Vision, a leading private voluntary organization involved in monetizing U.S. commodities, cannot afford to feed 1.5 million people of the 7.5 million that received aid last year. The President’s move to release wheat from the [Bill Emerson Humanitarian Trust](#) will generate much needed additional funds for relief programs, but organizations will need more resources to feed the growing number of hungry people.

USW continues partner with other agricultural groups and the [Alliance for Food Aid](#), a group of private voluntary organizations, to advocate for \$600 million in supplemental funding for PL 480 Title II and \$100 million to replenish the Bill Emerson Humanitarian Trust. USW also continues to partner with private voluntary organizations that monetize wheat to ensure high prices do not deter administrators from continuing to choose wheat as the commodity of choice in food aid programs.

Food for Progress proposals are currently being accepted for 2009. In a change from previous years,

USDA is currently soliciting proposals for Food for Education for 2009 as well as 2010. The deadline for submission is August 1, 2008 and awards for fiscal year 2009 for both programs are expected to be announced in December 2008. Organizations submitting proposals that include wheat monetization are encouraged to contact USW for letters of support and assistance on wheat specifications.

### **AWB Debarment Has Deep Roots**

Australian export state trading enterprise AWB Limited was debarred from participating in U.S. government programs after U.S. administrative law judge Victor W. Palmer this week affirmed an action that USDA proposed in December 2006. The debarment will remain in effect for two years and prohibits AWB and affiliate organizations from using U.S. export credit guarantees and other Federal programs. When plans to debar AWB were announced in 2006, USDA reported that AWB had not participated in its programs since fiscal year 2004.

Debarment and suspension are legal means for Federal agencies to protect the public interest and “the integrity of Federal programs by conducting business only with responsible persons.” That is why USW first suggested AWB be debarred in 2005 as part of its effort to end the inherent trade distortion in administrative pricing by wheat export monopolies like AWB and the Canadian Wheat Board.

USW cited two specific concerns to support its call for debarment. First, AWB provided kickbacks of \$220 million from 1999 to 2003 to Saddam Hussein’s regime to become the exclusive wheat supplier to Iraq—illicit payments of which USW first became suspicious in 2002. AWB actively denied its scheme even after it was officially called out by a United Nations investigation into the Iraqi Oil-for-Food Program in October 2005. USW had also learned that the Portland, OR, office of AWB (USA) had used USDA’s Supplier Credit Guarantee Program to help support several sales of U.S. soybeans to private Indonesian buyers in 2004. When the buyers defaulted, AWB’s assignee, Standard Charter Bank (SCB), applied to the Commodity Credit Corporation (CCC) for reimbursement of 65 percent of the losses on the sale. AWB, which created an international web of undisclosed contracts and financial dealings, in contravention to program rules, separately recovered a significant portion of the default sale from various other sources. American taxpayers ended up covering tens of millions of dollars in AWB “losses” that by law it was required to bear. When this came to light, the CCC refused further reimbursement to SCB, which in turn sued AWB for that loss. Last January, a District Court judge ruled against AWB and ordered it to pay the bank \$24 million plus interest.

In November 2005, USDA briefly suspended AWB and proposed debarment. The U.S. Senate Permanent Subcommittee on Investigations also considered investigating possible violation of U.S. law. However, those actions were rescinded to wait for the findings of an Australian government inquiry into the kickback scandal. When the inquiry recommended in November 2006 that 11 former AWB managers be put forward for possible criminal and corporate offenses, former Secretary of Agriculture Mike Johanns directed USDA to resume debarment. Foreign Agricultural Service (FAS) Administrator Mike Yost issued a notice of suspension and proposed debarment on Dec. 20, 2006.

As was its right, AWB challenged the legal basis for the proposed debarment and received a hearing in April 2007. A series of legal maneuverings by AWB extended the process until Judge Palmer affirmed the debarment this week.

To achieve this result, the judge wrote in his opinion that “...FAS was required to assimilate and analyze a huge mass of information, and my review shows that it did so in a most workmanlike and expedient manner that was in every sense fair to AWB.” That is a testament to the diligent effort of FAS staff and especially of Associate Administrator Constance Jackson who presided over AWB Limited’s hearing and appeals.

### **WMC Announces Asian Noodle Technology Course**

The [Wheat Marketing Center](#) (WMC) will conduct a hands-on course aimed at helping manufacturers, flour millers, ingredient suppliers and food scientists improve the value of Asian-style noodles July 22 to 25, 2008, at WMC's facility in Portland, OR. "The course is designed to provide a better understanding of noodle formulation, processing technology and evaluation techniques," says course director Dr. Gary Hou, WMC's technical manager and Asian foods specialist. The course is open to U.S. and overseas students. For more information, contact Dr. Hou at [ghou@wmcinc.org](mailto:ghou@wmcinc.org), or call (503) 295-0823.

## U.S. Wheat News

**USW Board Meetings Ahead.** USW's Annual Board of Directors Meeting will be held Saturday, July 26 through early afternoon Monday, July 28, 2008 in Kansas City, MO, at the Marriott Country Club Plaza Hotel. USW committees plus joint committees with the National Association of Wheat Growers (NAWG) will also meet. A joint Board meeting with the NAWG Board of Directors will be held Saturday, Nov. 1 through Monday, Nov. 3, 2008 at the Sheraton Dallas Hotel in Dallas, TX. A Web site is available for participants to book hotel rooms for the Fall meeting. Group rates are available a few days before and after the event. Click [here](#) for a link to the Web site. For more information about both meetings, email USW Convention Planner Nancy Fisher at [nancy\\_fisher@uswheat.org](mailto:nancy_fisher@uswheat.org).

**Latin American Buyers Conference.** Influential wheat purchase decision makers from Mexico, Central America and the Caribbean region will gather at the biennial Latin American Buyers Conference June 18 to 20, 2008, at the Hilton Austin Hotel in Austin, TX. This conference provides a proven successful forum for buyers to interact with the grain trade and U.S. wheat producers as well as with USW and state commission staff to discuss U.S. wheat crop progress, wheat supply and demand, and other marketing issues and opportunities. For more information about the Latin American Buyers Conference, contact USW Vice President, Marketing Programs, Rick Callies at (202) 463-0999, Ext. 319, or via email at [rcallies@uswheat.org](mailto:rcallies@uswheat.org).

**Trade Team Visits.** Thirteen teams of overseas wheat buyers, millers or technical experts will visit the U.S. in 2008 to learn more about the reliable supply of high-quality U.S. wheat. Representatives from Japan, Nigeria, Yemen, Brazil, the Middle East, South Africa, Europe and Chile are among the scheduled visitors. Trade teams require a lot of help and commitment from producers, grain handlers, exporters and inspectors, and from state wheat commission staff. Overseas wheat buyers report that making connections with U.S. wheat producers and the U.S. supply chain through trade team visits is an effective way to learn about the U.S. production and marketing system and to reinforce the strong relationships that support purchasing high-quality U.S. milling wheat.

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