



# INTERNATIONAL MARKET ANALYSIS

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## Feed-Quality Wheat Trade Recovers

Recovering crops throughout Europe and the Former Soviet Union will boost feed consumption of wheat and trade in feed-quality wheat this year, although levels will likely remain below those reached 2 years ago.

**Global Situation:** This year, feed consumption of wheat will rebound as crops in the EU-25, the Balkan region, Russia, and Ukraine recover from last year's dismal harvests. Feed use of wheat accounts for over a sixth of total world consumption, often in excess of 100 million tons, and is concentrated in key producers--with Europe and the Former Soviet Union accounting for most of the world total. Nearly all feed-quality wheat is fed domestically, with normally less than 5 percent traded (although this peaked near 10 percent in 02/03). Typically, the amount of trade has been a function of weather-damaged crops in Canada and Australia, as well as subsidized EU exports of low-quality wheat. However, with the emergence of Russia, Ukraine, and Eastern European countries like Bulgaria as wheat exporters, their production has become the primary determinant of feed-quality wheat trade levels.

Trade in feed-quality wheat will climb from last year's low level as larger Black Sea crops allow for greater exports, although these could be partially offset by reduced exports from key Asian suppliers, namely China and India. The level of trade, however, will ultimately depend on the final quality of Black Sea countries' crops, their tendency to blend lower quality wheats for domestic use, their governments' export policies, as well as the price of wheat vis-à-vis other feed grains.

### Selected Exporters

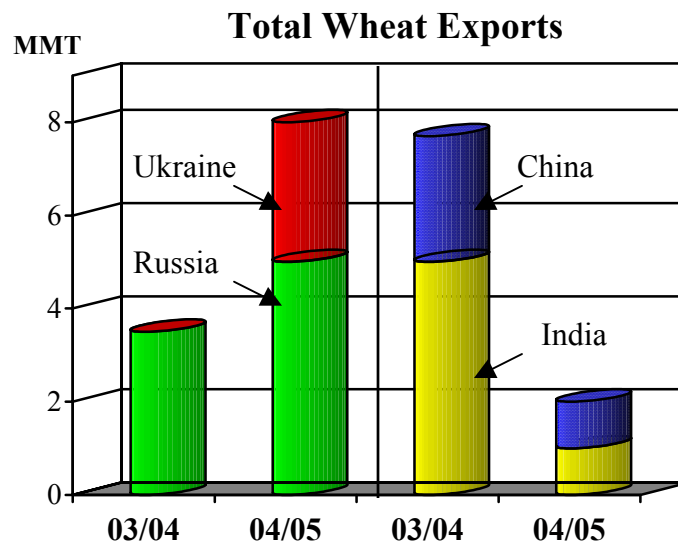
**Black Sea Region:** With production recovering throughout Eastern Europe, Ukraine and Russia, this region should return as the primary source of feed-quality wheat this year. Whereas the EU will remain a major feed-quality wheat market, imports will be capped under a tariff-rate quota at 2.4 million tons, far below previous levels. Therefore Black Sea wheat will also likely go to feed markets in Asia, or be imported by countries to be blended. Sales have already been reported to southern EU markets, Philippines, and South Korea with some contracts at prices nearly \$20 below the landed price of corn.

**India:** Exports of cheap feed-quality wheat will shrink this year as total wheat exports fall from 5.0 million tons to just 1.0 million. With greatly reduced stocks, it is unlikely that the government will subsidize exports, thereby making Indian supplies largely uncompetitive in

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the world market. A string of large harvests, with subsequent swelling stocks, had allowed India to become a net exporter of wheat, supplying milling and feed-quality wheat to nearby Asian markets. Last year, for instance, the Philippines imported over a million tons of Indian wheat, much of which was subsequently fed.

**China:** Following a year of record wheat exports, China is expected to also fade as a source of feed-quality wheat this year. Shipments have already slowed considerably and China has returned as a net wheat importer. Although production is up this year, stocks will continue to decline, reducing exports. China had emerged as an important supplier of feed-quality wheat as the government rotated stocks, some of which had been held for many years. Feed-quality wheat exports went primarily to South Korea and the Philippines, and during a few months last year, China actually exported more wheat than corn.



### Selected Importers

**EU-25:** The EU is the world's largest consistent purchaser of feed-quality wheat. Imports are expected to expand this year, even with a record domestic crop, because of abundant supplies of inexpensive wheat from the Black Sea region, which competes effectively with French and British low quality wheats into the southern EU. However, in contrast to 2002/03 when total wheat imports from those countries approached 9 million tons, feed-quality wheat imports are now capped by a TRQ at 2.4 million tons.

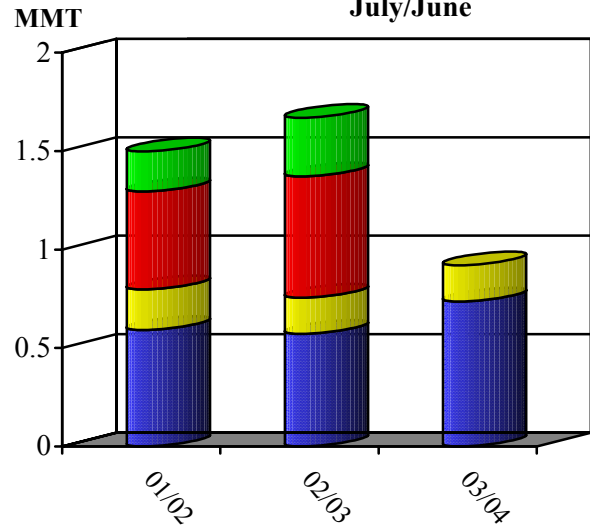
**Israel:** Wheat imports for feed should expand this year with the greater availability of nearby Black Sea supplies. Israeli feed compounders regularly switch between coarse grains and feed-quality wheat depending on price and availability. The dearth of Black Sea wheat supplies last year caused imports to plummet, and consequently corn imports jumped to record levels while sorghum imports reached a 5-year high. As feed consumption of wheat is expected to more than

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triple (from 200,000 to 750,000 tons) this year, corn and sorghum imports will consequently drop.

**South Korea:** Imports of feed-quality wheat are expected to rebound this year with most expected to come from Ukraine and other European suppliers. This will push feed consumption of wheat up from 920,000 tons to an estimated 1.4 million. While last year the absence of Black Sea supplies caused wheat feeding to drop by nearly half and corn imports to reach record levels, more feed-quality wheat will likely cut corn purchases this year. Total imports of wheat for feeding could still remain below past levels, however, due to reduced supplies from China and India, which last year supplied all of South Korea's feed-quality wheat imports.

**South Korea's Imports of Wheat For Feeding  
July/June**



□ China   □ India   □ Ukraine   □ Other

**Philippines:** This year is expected to be the first time the Philippines has become a significant importer of Black Sea wheat.

While in 2002/03 imports of wheat for feeding came primarily from India, and from China last year, the expected retreat of these suppliers this year will force purchasers to look to the greater supplies in Europe and the Former Soviet Union. Feed consumption of wheat annually stands around a million tons, all of which is imported, with volume largely depending on the size of the domestic corn crop and world feed-quality wheat availability. In order to protect the domestic corn producers, the government has levied a 35 percent tariff on corn imports, while the tariff on wheat for feed is only 7 percent and wheat for milling only 3 percent.

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