



June 15, 2001

Indian Wheat Exports Increase Global Competition

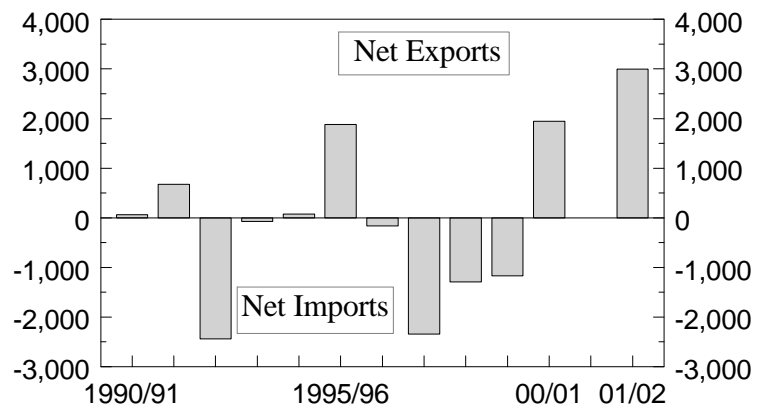
Summary

India's policy to subsidize surplus stocks for export is expected to have a short-term, indirect impact on U.S. export sales.

India Becomes an Exporter

High procurement prices paid to farmers along with favorable growing conditions led to back-to-back record production years turning India into a surplus wheat producer after years as a deficit producer. The resulting record stocks buildup, estimated at 21.5 million tons or nearly triple the average of the previous ten years, has led the government to opt to export even though it requires a subsidy. A goal of exporting two million tons this year has nearly been met, with a new commitment set for five million tons in the upcoming year.

Indian Wheat Trade
(thousand metric tons)



However, There are Constraints

In order to make the wheat competitive in a price-depressed global market, it is being offered to government trading houses, contingent on it being exported, at less than 2/3 the price of procurement, which amounts to an inherent subsidy of \$32 a ton. However, the fact that they are willing to subsidize exports has drawn complaints from WTO member countries. In addition to prices, there are physical constraints as many traders don't believe India's ports have the capacity

to meet such an ambitious export program. Real and perceived quality problems are an additional constraint to sales, although millers in Indonesia have indicated that the wheat, though poor quality, is still millable. To combat concerns over quality India is planning to install cleaners, though many traders believe that quality uncertainties will continue.

Even so , There will be a competitive impact

While India's turnaround from a net importer to a net exporter translates into increased global exportable supplies, certain regions and exporters are more directly impacted than others. India's exports are concentrated in Southeast Asia, the Middle East, and South Korea which particularly impacts Australia because it traditionally ships nearly 60% of its exports to these areas. Compounding the impact is the fact that it has also lost India as a major import market. Canada, to a lesser extent, is also being displaced, particularly in the Middle East where a large share of their exports are concentrated.

That Eventually Hits the U.S.

So with many of their traditional markets under pressure from Indian wheat, Australia and Canada are likely to try to push more into markets where they directly compete with the United States. This intensified competition comes at an inopportune time as smaller production, tighter supplies, and higher prices, are expected to make our wheat less price-competitive.

But Hopefully not for Long

With India's notoriously unpredictable weather and production variability, surpluses can quickly turn to deficits and export plans can easily be changed if stocks are needed to offset a production shortfall. This year's crop, for instance, is expected to be nearly 8 millions tons lower than last year.

For further information, please contact Oliver Flake at (202) 690-4200.