



August 21, 2001

Drop in EU Wheat Supplies Resonates Globally

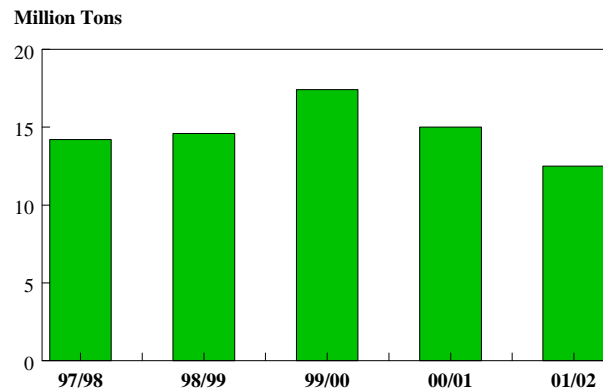
Summary

Production problems and structural changes in the EU translate into stronger import prospects as well as less competition facing the United States.

EU Production and Quality Fall

Lower winter wheat seedings and poor growing conditions have caused the EU wheat crop to plunge 11 million tons, with smaller exportable crops of bread wheat out of France and feed-quality wheat out of the United Kingdom. Wheat crops in the largest importing countries (Spain and Italy) and the Spanish barley crop are also estimated to be significantly smaller. In addition, there are concerns about the quality of the French crop and the consequent supply of quality milling wheat.

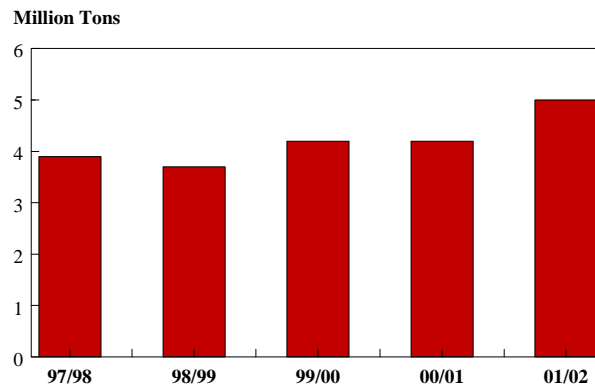
EU Wheat Exports



Constraining Exportable Supplies

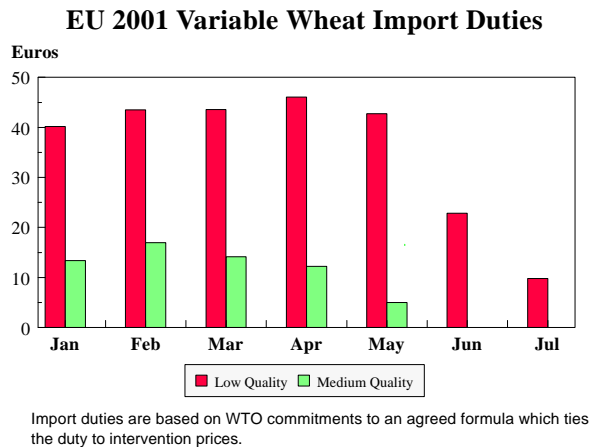
Domestic prices are unseasonably high because cooperatives and producers are reportedly holding grain off the market. Farmers are able to limit selling or contract forward a portion on their crop because they receive compensatory and set aside payments. But the Commission, faced with small carry-in intervention stocks of only 700,000 tons, may limit export licences in order to dampen prices to ensure adequate supplies to mills and compounders.

EU Wheat Imports



And Raising Import Needs

The EU historically imports about 4 million tons of hard wheats and durum for blending with its own bread wheats. However, this year with smaller crops in Italy, Spain, and the United Kingdom and rising domestic prices, those countries will import more high and medium quality wheats, especially since the import duty has shrunk to zero. Perhaps even more significant is the shrinking duty on “low quality” wheat, which for the first time in 30 years allows soft red winter wheat to compete in the higher-priced EU market.



With E. Europe and FSU as Primary Suppliers

Romania, Bulgaria, Hungary, Russia, and Ukraine will have bumper crops available to the world in contrast to past years when trade was limited to the Soviet Bloc. However Hungary, with its large exportable supplies of quality wheat in the range of 1.5 to 2 million tons, coupled with its freight advantage and a duty-free allowance of 440,000 tons, is the most likely supplier to the EU.

But Both Weaker Competition and Stronger Import Prospects will Favor the United States

Higher domestic EU prices, tight supplies, and lower or zero duties have expanded U.S. exports to the EU of both milling and feed quality wheats. Export commitments already stand at 792,000 tons compared with 571,000 this time last year. Furthermore, with the strengthening euro the EU is at a competitive disadvantage in exporting milling quality wheat to North Africa and the Middle East. We also benefit because Eastern European and FSU feed quality wheat taken off the market by the EU will mean less competition for U.S. corn and feed wheat in South Korea and Mediterranean markets.

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