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Australian Wheat Exports Threaten U.S. Position in Asia

Summary

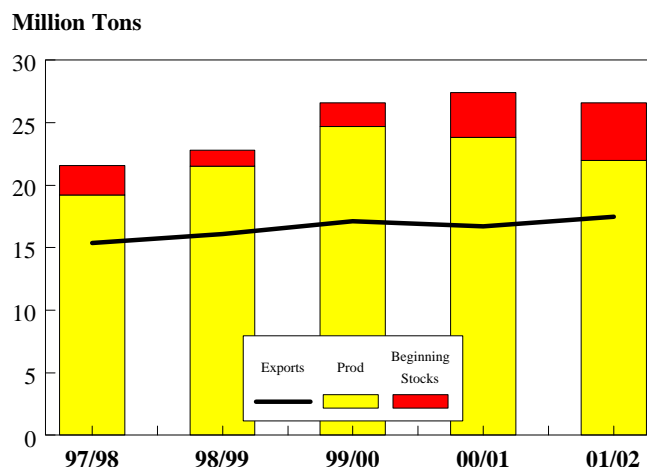
A surge in Australia's exportable wheat supplies will lead to increased competition for the United States in key Asian Markets.

Abundant Wheat Supplies Push Exports

Estimates of last year's Australian crop were recently revised up sharply by 2.6 million tons. While roughly half of this wheat is believed to have been fed to livestock, the rest was apparently stored, causing stocks to soar to the highest level in 9 years. In addition, this year's harvest, from October to December, is expected to yield a crop 1.5 million tons larger than previously forecast. The net result is that Australia is expected to have an additional 2.5 million tons in exportable supplies. These additional supplies are expected to bring exports to more than 17.5 million tons which would be the highest level in five years.

As a result of these factors in conjunction with Canada's poor harvest, Australia is forecast to return as the second leading exporter of wheat, a position lost to Canada for the past two years.

Australian Wheat Supply and Exports

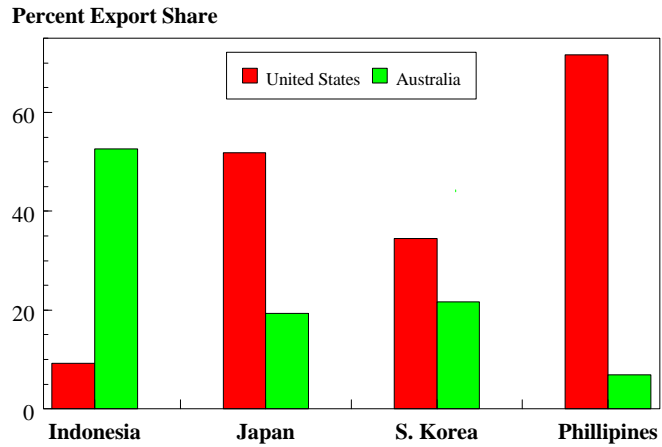


Leading to Intensified Competition

Australia is expected to gain some ground in quality conscious Iran and Iraq because of fewer EU exports and recent quality concerns with the Argentine crop. However, it is Southeast Asia and the Far East where much of the excess supply will be marketed. This, in turn, will mean more competition for the United States, as a large share of our exports are bound for these markets. In particular, the large U.S. white wheat markets of Japan, Indonesia, South Korea, and the Phillipines may be vulnerable to that intensified competition. Protein levels of U.S. white wheat

are much higher this year with 86% of the crop over 9% protein compared to just 36% last year. The result is much higher prices for the low protein white wheat demanded by these markets. There is already evidence of stronger competition, with U.S. sales to these four markets down 10% from this time last year.

U.S. & Australian Shares of Battleground Asian Markets



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