



International Trade Report

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Kazak Wheat Set to Return to FSU Markets

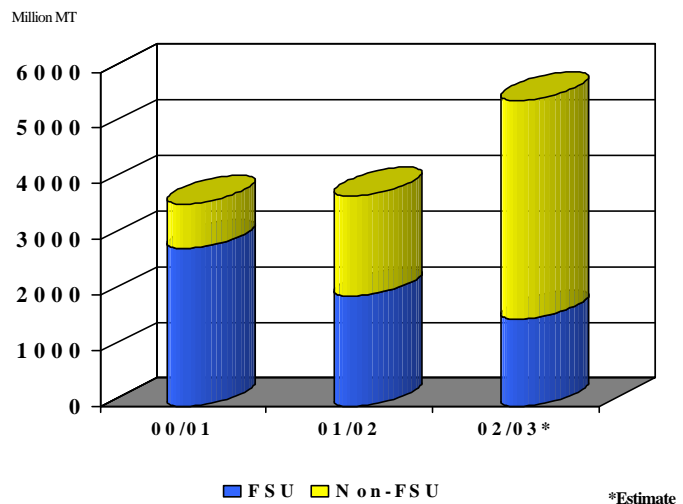
Summary

Diminished wheat production in Russia and Ukraine, coupled with less import demand in last year's major markets, will shift Kazak wheat back to more traditional Former Soviet Union (FSU) markets.

Kazak wheat had moved out of traditional areas

During the decade following the collapse of the Soviet Union, Kazak wheat exports went almost exclusively to other FSU states, especially Russia. This was understandable because Kazakhstan is landlocked and the inherited Soviet transportation infrastructure did not favor exports to other markets. However, the bumper harvests in Russia and Ukraine in 2001 and 2002, and the concomitant FSU reduction in import demand, forced Kazakhstan to adjust and find new destinations for its exports. Thus, last year for the first time in its history, the majority of wheat exports went outside the FSU, primarily to the EU, North Africa and the Middle East.

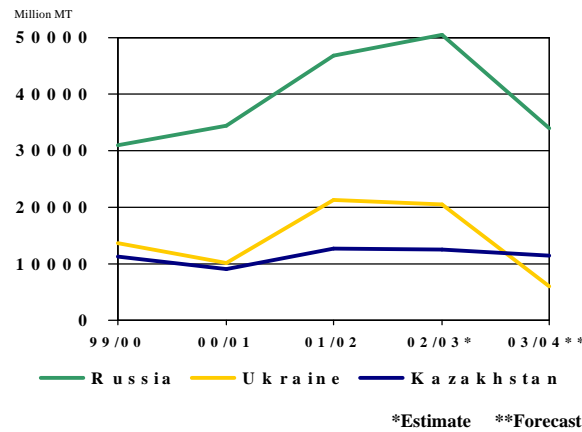
Kazak Exports by Destination



But as FSU production shrinks...

This year, Russian and Ukrainian wheat production is expected to fall dramatically, which will increase FSU demand for Kazak wheat. Ukraine's predominantly winter wheat crop is currently forecast at only 6 million tons, down 70 percent because of the severe winter weather. Russian production is more evenly distributed between winter and spring wheat, so the effect of winterkill - while still very significant - is not as acute. Russia is currently forecast to produce 34 million tons of wheat this year, down 33 percent.

FSU Wheat Production

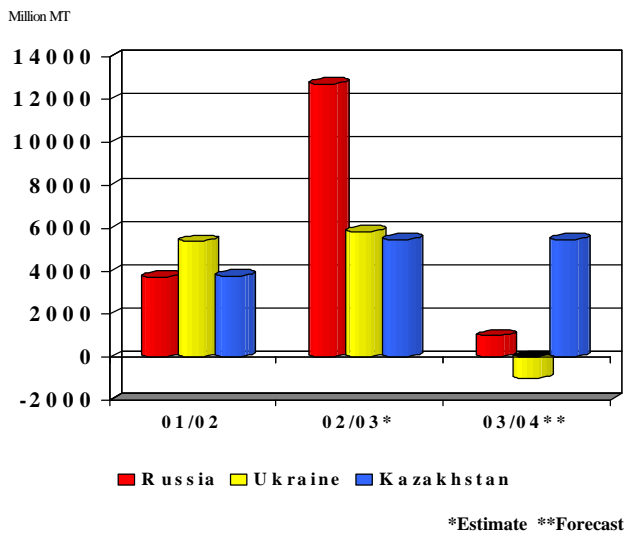


And last year's markets dry up...

The EU was Kazakhstan's largest market last year, accounting for nearly one-third of its non-FSU wheat exports. This year, however, the EU is forecast to reduce imports by 6 million tons and has raised barriers to restrict the flow of low-priced, medium-quality wheat shipped out of the Black Sea. Additionally, while the EU crop is estimated to be smaller, it is also expected to be a higher quality, and therefore demand will be less for good-quality Kazak wheat. North Africa, another major market last year, will likely import less wheat early in the season because of bumper harvests.

Kazak wheat will again fill regional demand

Net FSU trade



Notwithstanding smaller wheat crops in Russia and Ukraine, Kazakhstan's production is forecast to remain relatively steady at 11.5 million tons. This is because its crop is primarily spring wheat, and so was not affected by the adverse winter weather. This year, nearby markets will take most of Kazakhstan's wheat. Iran is likely to become its major non-FSU market as Kazakhstan has invested heavily in upgrading port facilities to allow large wheat shipments across the Caspian Sea. Even so, with traditional transportation links, the majority of Kazak wheat is likely to stay inside the FSU as Ukraine is expected to be a net importer and Russia will also need to import large quantities of milling wheat.

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