



June 7, 2002

India Pushes Wheat Into U.S. Export Markets

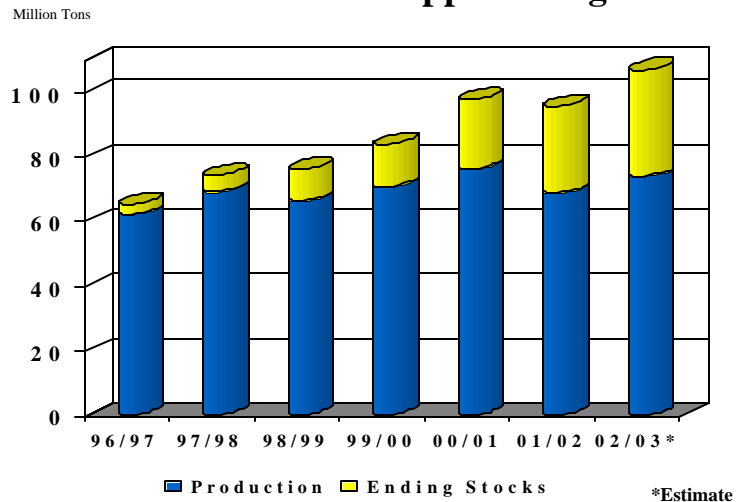
Summary

Though not regarded as a major U.S. competitor, India's subsidized wheat exports are directly competing with U.S. wheat in many Southeast Asian and Middle Eastern markets while the Government of India plans to triple exports next year.

Government Policies Spur Exports

High procurement prices paid to farmers have encouraged planting of wheat and contributed to rising production, which has jumped 37 percent between 1990 and 2000. The result has been bulging stocks estimated in April at 27 million tons compared to just over 3 million tons four years ago. The excess stocks have led the government to subsidize exports. Currently the government sells wheat to exporters for less than the procurement price and covers transport, storage, and other handling costs.

Indian Wheat Supplies Surge



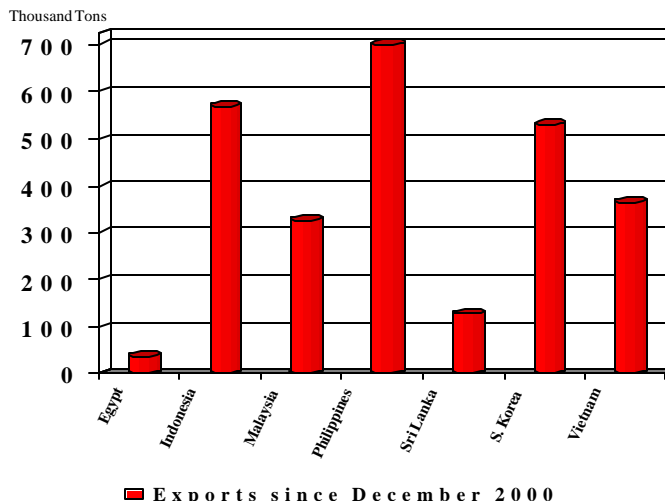
Impacting U.S. Sales in Southeast Asia

Several markets in Southeast Asia have been flooded with cheap Indian wheat thereby displacing U.S. sales. In Bangladesh, Indian wheat has been imported at significant discounts to that of competing suppliers and has captured about 40% of the market while U.S. exports are only half that of the previous year. In the Philippines, Indian wheat has directly reduced SRW sales as well as negatively impacted sales of Soft White from the Pacific Northwest. In South Korea, Indian wheat is competing with U.S. corn for use in feed rations. Meanwhile, Indonesia, Sri Lanka, and Malaysia have already imported a combined 680,000 tons of Indian wheat from July to May. Importers in these countries report that the wheat is generally being used in the production of flour rather than feed, despite its low quality compared to U.S. and other origin wheat. In Indonesia it has also been rumored that very low-priced Indian flour is being imported, thereby depressing domestic flour prices and forcing mills to purchase cheap Indian wheat to produce low-priced flour. Finally, though not a major destination for U.S. wheat, Vietnam has become a large market for Indian wheat, importing over 300,000 tons this year. This suggests that Indian wheat will likely be the main beneficiary of this rapidly expanding market.

and Intensifying Competition in the Middle East

The practice of millers blending high quality wheat with low quality Indian wheat is becoming prevalent in the Middle East, where it is reported that a sufficient quality flour is produced at lower costs. Sourcing cheap wheat is particularly important to Middle Eastern importers given the weakness of their currencies. As a result, Indian exports to UAE, Egypt, and some smaller importing countries have provided additional competition to U.S. exports.

Indian Exports to U.S. Markets



With the Goal of Dramatically Raising Exports

The government of India recently announced a 2002/03 export target of 10 million tons. This year’s target was stated as 5 million tons but it now appears only around 3 million will actually be exported. Abundant global supplies of feed quality wheat, constraints at shipping ports, and concerns regarding quality all contributed to lower-than-targeted exports. Therefore, it is apparent that the government tends to be a bit optimistic and it is highly unlikely that the 10 million ton target will be met. Nevertheless, several factors point to increased Indian exports this year including very large subsidies, continued strong demand from customers of Indian wheat, exporters purchasing directly from the market rather than the food agency, and a much better quality Indian crop. Quality will be particularly important as it is viewed by many millers around the world as the leading concern with Indian wheat. Currently Indian government officials as well as traders report that the protein level of this year’s crop is much better than previous years. This, combined with recently installed cleaners at Indian ports, should allow more quality conscious buyers to purchase the wheat as evidenced by a recent Malaysian purchase of 100,000 tons and an agreement with Sri Lanka for the purchase of 300,000 tons over a period of 12 months. Though export levels will largely depend on the government’s subsidy policy, the above factors, when combined, point to an increase in Indian exports from 3 million tons this year to a forecast 4 million tons next year, further limiting export opportunities for U.S. wheat.

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