



August 23, 2002

FSU Wheat Supplies Penetrate North Africa and Middle East

Summary

Without the EU as a major market in 2002/03, the FSU is grabbing market share in North Africa and the Middle East from other more traditional exporters.

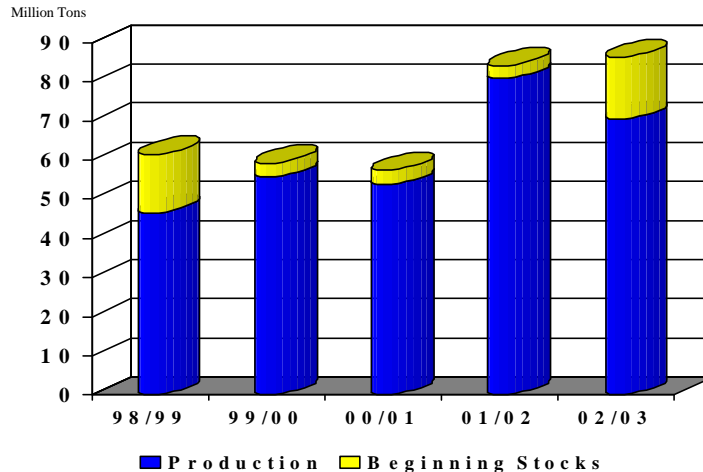
Supplies Remain Abundant and Exports Expected to Soar

While production in the FSU is forecast down 9 million tons from last year's exceptionally high level, it is still more than 20 million tons higher than the average of the 1998 through 2000 crops. This production, combined with abundant stocks, is expected to lead to overall exports of nearly 11 million tons, compared to just 4.7 million two years earlier. However, the largest customer of FSU wheat in 2001/02, the EU, will need significantly less this year as a result of a bumper crop. Although FSU exports to the EU have continued steady over the past couple of months, they are expected to slow once the EU harvest is complete and the Commission implements mechanisms to restrict imports from the Black Sea region.

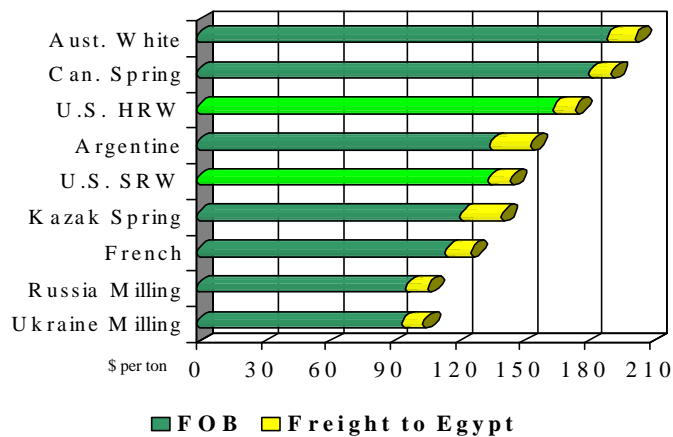
While Prices Remain Competitive

Meanwhile, production for last year's top four exporters is forecast down 16.3 million tons and total supplies (production and stocks) by more than 28 million tons from just two years ago. During the same time period, supplies from the FSU are expected to jump nearly 27 million tons. This dramatic shift in supplies is reflected in

FSU Wheat Supply
(Russia, Kazakhstan, and Ukraine)



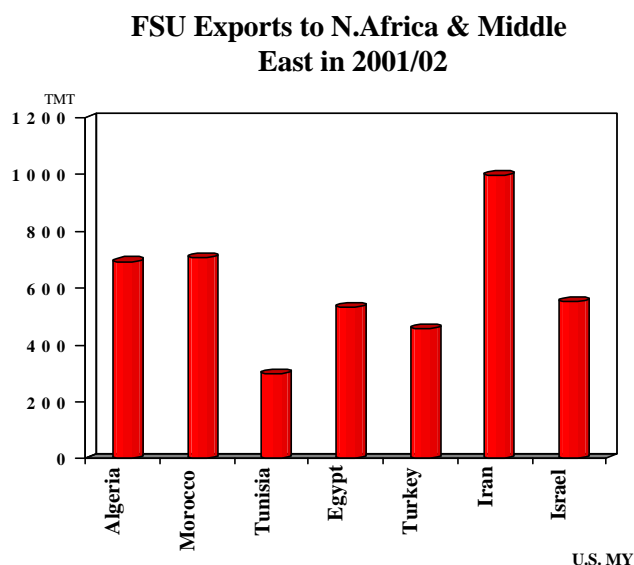
FSU Prices Undercut Traditional Suppliers to North Africa & Middle East



aggressive prices for FSU wheat in relation to prices from the major suppliers. For example, Ukrainian milling wheat is reportedly priced, on a landed basis, in North Africa at approximately \$35 per ton under SRW, and \$65 under HRW. The margins are equally dramatic for Canadian and Australian wheat. Even old crop Argentine wheat, which has been competitive in the past, is currently estimated to be more than \$50 higher than FSU wheat. However, lack of credit offered by FSU suppliers may somewhat diminish its price advantage. The EU is the one notable exception among top suppliers. French prices are competitive, given slightly higher quality, with FSU supplies as reflected by recent French sales to Egypt.

Raising Prospects for Even More Exports to N. Africa and Middle East

With its large supplies, improving infrastructure, and competitive prices, the FSU made significant inroads into North Africa and the Middle East during the 2001/02 campaign. For example, Iran increased imports from Kazakstan to more than 1 million tons because of greater export capacity at the Caspian port of Aktau, thus displacing Argentine and Australian wheat. In Egypt, where U.S. exports were down significantly, Russia and the Ukraine combined to export more than 500,000 tons. Shipments are expected to continue strong as stiff competition and a weak currency force Egyptian millers to procure the cheaper wheat for blending. A similar situation existed this past year in Algeria where nearly 700,000 tons of FSU supplies were imported by millers who found the quality satisfactory, particularly in comparison to Eastern European wheat. In total, FSU exports to these regions in 2001/02 were 4.2 million tons, 3.9 million greater than the previous year.



Impacting Major Exporters in the Long-Term

The result of these increased exports is lost market share for traditional suppliers. For example, U.S. exports to North Africa fell 2.2 million tons year-to-year while FSU exports increased 2 million tons. With production trending up, improvements in export capacity, and very competitive prices, the FSU appears on track to continue to displace traditional (less competitive) exporters in the North African and the Middle Eastern markets.

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