International Trade Report

November 14, 2002

Australia Forced To Cut Wheat Exports to Traditional Buyers

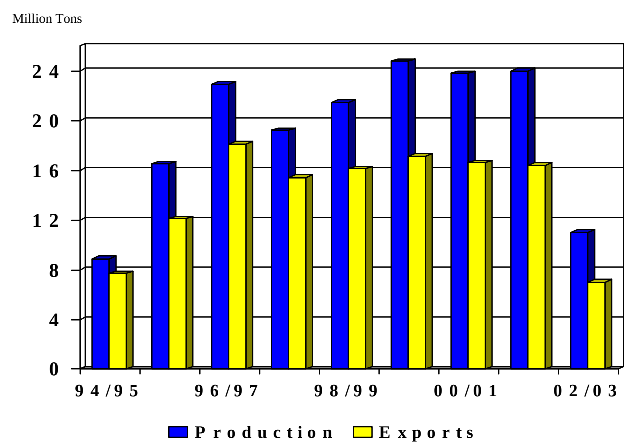
Summary

Very tight wheat supplies will force Australia to reallocate or cut shipments to several of its traditional customers. Historical data suggests that the Middle East and North Africa are likely to receive less Australian wheat with competing exporters benefiting from less competition.

Australian Supplies and Exports Fall

Australian wheat production is forecast at just 11 million tons because of severe drought. The drought has also meant less production of feed grains and poor pasture conditions, resulting in greater anticipated use of wheat in feed rations. The combination of lower production and higher domestic demand results in an export forecast of only 7 million tons, less than half of last year's level and the lowest in 24 years. Not since the drought-decimated crop of 1994/95 has production been forecast this low. Consequently, the Australian Wheat Board (AWB) will be forced to ration supplies by shorting many of its traditional buyers.

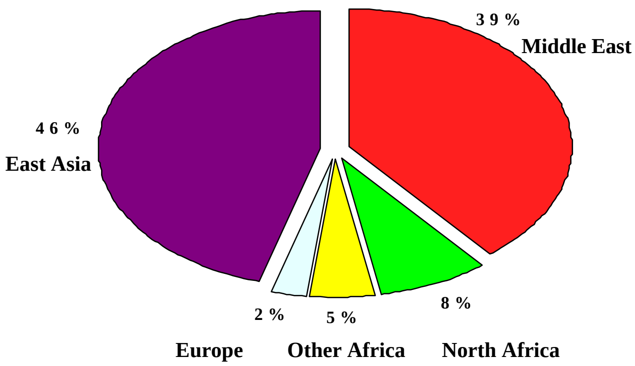
Australian Production and Exports



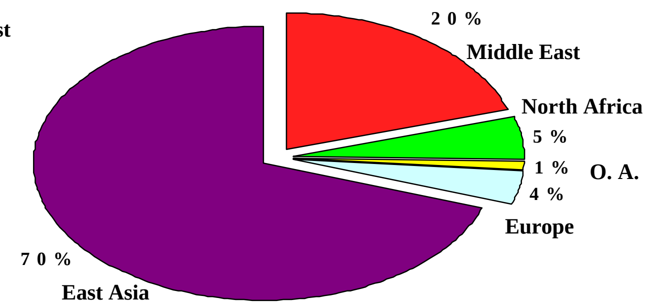
With Middle East and N. Africa Likely to Import Less

Over the past three years, Australia's exports have been focused in Asia and the Middle East with the combination comprising 85 percent of total shipments. Top Asian markets have been Indonesia, Japan, and South Korea while Iran and Iraq account for most of Middle Eastern imports. Looking back to 1994/95, when exports totaled just 7.8 million tons, gives an indication of some of the markets that the Board may select for less aggressive sales this year. In that year, exports to the Middle East were dramatically cut while exports to East Asia were down only slightly in volume and comprised 70 percent of total sales. Iran, Iraq, and Yemen all imported significantly less wheat. Early data for the current marketing year suggests that this may be the case once again. For July through September, exports to East Asia were actually greater than during the same period last year, while those to the Middle East were down 30 percent. For the AWB, exporting less to Iran and Iraq may not be a problem as Iraq earlier held up shipments for "quality" reasons and Iran is expected to need only half of the wheat it imported last year.

Australian Export Destinations 1999/00–2001/02 Average



Australian Export Destinations 1994/95



Allowing Export Competitors to Fill the Void

Kazakstan, Russia, Ukraine, India, and EU have ample supplies to fill the void left by Australia. These five exporters combined are forecast to export 11 million tons more than last year, which will more than compensate for the 8.5 million tons fall in Australian shipments, in addition to diminished exports from Canada and Argentina. FSU supplies will likely partially substitute for those of Australia in North Africa and the Middle East. In Iran, Kazakh spring wheat is likely to be extremely competitive and gain further market share. Kazakh exports to Iran soared last year to over 1 million tons compared to just 50,000 tons the previous year. Likewise, Ukrainian wheat is expected to compete with much more expensive Australian supplies in Egypt and Morocco where millers seeking to cut costs are blending low-cost wheat with supplies from the United States and France.

Despite a strong Australian sales pace to East Asia early in the year, the actual quantity, not share, of exports is expected to drop marginally with traditional and non-traditional exporters picking up the slack. For example, France is aggressively looking for non-traditional markets and has reportedly already found success in Indonesia, and Sri Lanka. India is also pushing supplies into Southeast Asia with strong sales seen in the Philippines and Poland has entered the region with sales to Malaysia. In addition, U.S. wheat export sales to the region are up over last year, as of November 7, with more sold to Thailand, South Korea, and the Philippines. Less Australian competition has also contributed to greater U.S. sales to Japan thus allowing total U.S. sales to surpass last year's pace despite a much smaller U.S crop and high domestic prices.

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