



International Trade Report

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Shrinking Middle East Wheat Imports have Global Implications

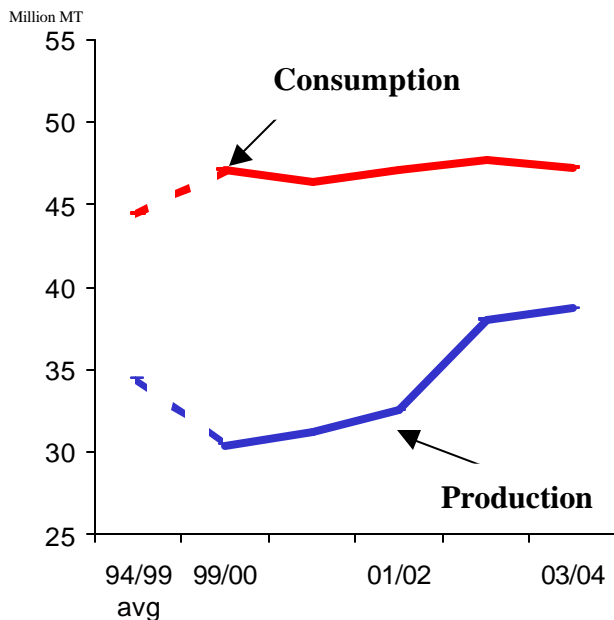
Summary

Reduced wheat import demand in key Middle Eastern countries will force Australia and Argentina to find new markets, which creates greater competition for the United States in other regions.

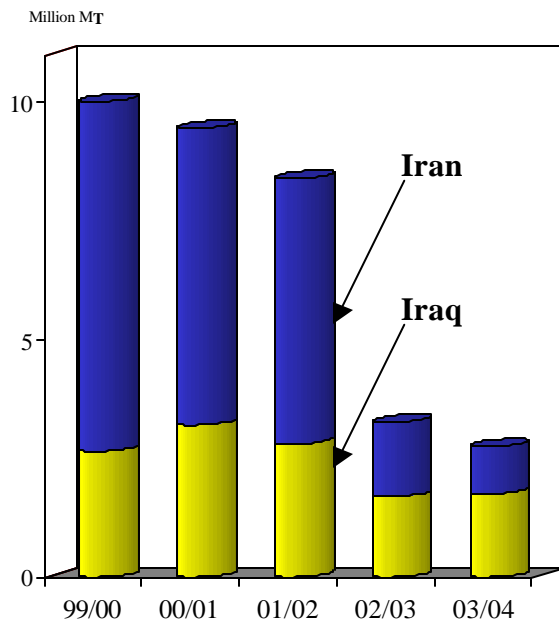
As Middle East wheat import markets contract...

Over the last 5 years Middle Eastern* wheat imports have been cut nearly in half, to less than 10 million tons, as production has not only recovered from a series of drought-impacted crops but has also expanded. Meanwhile, regional consumption has remained stagnant. The shift towards less dependence on foreign wheat has been most pronounced in the region's largest markets, Iran and Iraq. Iranian imports have dropped as government support, increased area and better yields have improved production. This year's imports are estimated to be only 1 million tons - the smallest in 28 years and just a fifth of total imports two years ago. After harvesting its largest crop on record, Iraq will also need less imported wheat with volumes expected to be just half recent levels.

Middle East gap narrows



Imports fall in largest markets

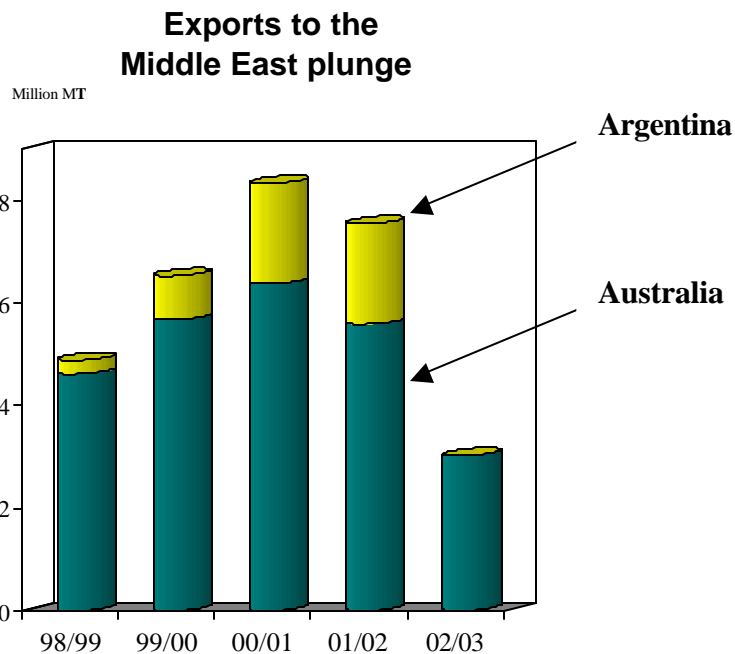


Other Middle Eastern markets, in addition to requiring fewer imports, have even turned into wheat exporters. Syria, with large harvests the last few years, has become a regional supplier and is expected to export a record 1.2 million tons of soft wheat and durum. Interestingly, Iraq has even exported wheat, with 100,000 tons of durum from the north reportedly sold to Italy. Gulf states such as the United Arab Emirates have also become important flour suppliers in a shrinking world market.

Australian and Argentine exports must shift elsewhere...

The contraction of key Middle East import markets has repercussions elsewhere in the world, most profoundly in Australia, which has been this region’s primary wheat supplier. As recently as 2001/2002, the Middle East accounted for nearly 40 percent of all Australian wheat exports. During the last few years, however, this share has diminished considerably due to lower import needs, but also to greater competition from India, primarily into Gulf markets. These factors, combined with a short crop, slashed Australian exports to the Middle East from 5.9 million tons in 2001/2002 to just 3.0 million last year. Although exports may recover somewhat due to a large crop this year, it still remains that Iran and Iraq - Australia’s two largest wheat markets from 2000-2002 - will need much less foreign wheat. Additionally, Australia could face more competition from Kazakhstan in Iran and eventually from the United States in Iraq.

Argentine exports are also affected by reduced Middle East import demand. From 2000-2002, Iran and Iraq accounted for a third of all of Argentina’s wheat exports not sold to Brazil. Last year, however, with a short crop Argentine exports to the region were non-existent.



Creating stronger competition for the United States

U.S. wheat sales to the region have also been eroding (last year a 27-year low). However, the contraction of key Middle Eastern markets could have even more profound ramifications for the United States outside the region, as Australia and Argentina must look to new areas to market their crops. In the case of Australia, which has near-record production this year, it will likely mean even more severe competition in Asia, where U.S. market share has already been declining. For Argentina, the effect of the loss of these markets will not be as pronounced this year due to another short crop. However, when production does return to more normal levels, it could result in greater competition for the United States in North Africa and Latin America.

**Middle East includes the following countries: Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, Turkey, United Arab Emirates, Yemen*

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