

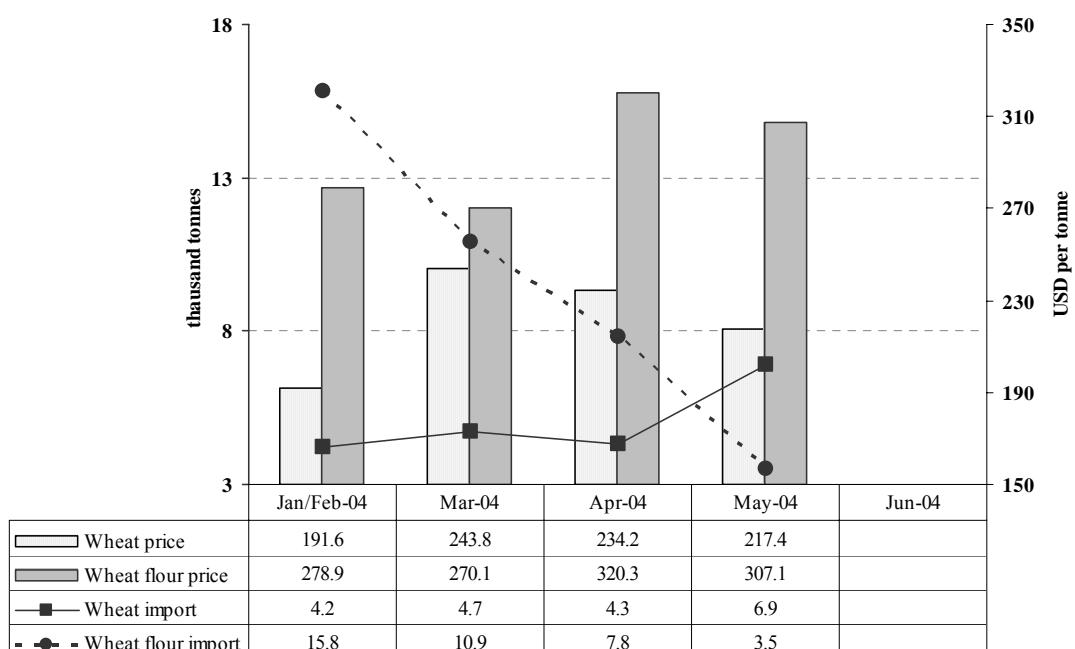
Monitoring the Wheat and Bread Market in Moldova

(First Semester of 2004)

The situation of the wheat and bread market in Moldova in the Q2 of the year 2004 was rather tense. The **wheat and flour import**, the way it was in Q1, was comparatively low. According to the data of the Department of Statistics and Sociology, in April-May, 11.3 thou. tons wheat and 11.4 thou. tons wheat flour were brought into the republic, whereas in the first 5 month of the 2004 year — 20.2 thou. tons wheat and 38.1 thou. tons wheat flour.

Graph 1.

Wheat and Wheat flour Import in January-May 2004: Volumes and Average Prices



Source: Department of Statistics and Sociology

As we can see from *Graph 1*, in May the imports' structure radically changed: the traders switched from flour, dominating in the beginning of the year (relative to April, there was 2.2 times less flour imported), to the import of wheat (1.6 times more). In conformity with the experts' opinions, towards the end of May, there were circa 50 thou. tons of flour deposited in the country.

The necessity of this flour until September (before the production of flour from the 2004 harvest) is estimated by the Ministry of Agriculture to be 62 thou. tons including the quantity necessary to supply "FranzelutaSA"—14,5 thou. tons. Besides this, even the experts encounter difficulties in envisaging the potential traders' behavior in the upcoming months. On the one hand, the tax concession for the import of wheat and flour have been delayed until September, which, theoretically, should represent a motivation for the importers, but, on the other hand, in the world and regional markets in relation with the positive forecasts for the harvest of the year 2004 there has already been observed a tendency to lower the prices on wheat, although they are still higher than they were during the same period of the previous year.

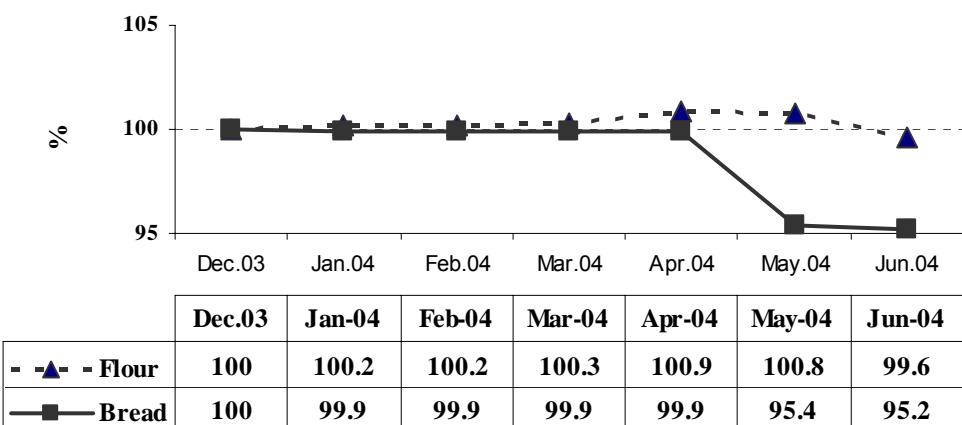
* See also: Moldovan Wheat Market Research, Chisinau, January 2004, <http://cisr-md.org>;
 Wheat Crisis Monitoring: 2004 Q1, Chisinau, April 2004; <http://cisr-md.org>

Most probably, it was this unclear situation that became the reason of an almost two-week delay of the results' announcement of the repeated tender (06.04.2004) on the purchase of wheat for the state reserve. And only after the sitting of the High Security Council (27.04.2004) where the situation on the bread market as well as the actions of the state authorities were analyzed, and where the President of the Republic V. Voronin qualified "the measures that have been taken as being not decisive and efficient enough to prevent the risk of new bread crises, and required the authorities to elaborate a plan of action, that would not allow the recurrence of the bread crisis"¹, only then the results of the tender were made public. According to the decision of the tender commission, a quantity of 12.5 thou. tons (at the initiation of the tender, the intention to buy 25 thou. tons was declared) will be purchased from the company "Moldova-DrucSA" at the price of USD 164 per ton according to the CIF rules (the delivery port—Ilicheovsk, Ukraine), the delivery deadline is also determined—30 days from the day the agreement was signed.² The wheat delivery to the destination point—the Floresti grain elevator—will require an additional sum of USD 250-275 thou.

The bread prices through the entire 2004 year remained stable despite the fact that since January the tendency of a price decrease has been observed, considering the fact that the flour prices during this entire period of time insignificantly but steadily increased. (see Graph 2)

Graph 2

The dynamics of the consumer price index in 2004 (December 2003 = 100%)



Source: Department of Statistics and Sociology

According to the Government recommendations, beginning with the 1st of May 2004, "FranzelutaSA" lowered the prices on 10 most popular types of bread by 10-25%.

Table 1

The Price Changes of the "cheap" bread produced by "FranzelutaSA" in 2003-2004

Lei

Bread Type	Old Price	17.11.2003	January-April 2004	01.05.2004
Chisinau	2.75	2.75		3.18
Snop	2.80	3.90		3.90
Pâine albă pe vatră	2.10	3.10		3.30

The new factory administration supposes that these prices will be also kept after the new harvest, and all the incomes will be directed to the development of the enterprise. The Government though supposes that the prices on the bread of "FranzelutaSA" can be reduced.

¹ Nezavisimaya Moldova, 28.04.2004

² The first tender on 18.03.2004 was declared invalid and the best proposal at that time was those of "Product-ImportSRL" to supply 25 thou tons of wheat from Canada at the price of USD 148 per ton

The most recent reduction of the bread prices by its monopoly-producer from Chisinau only complicated the situation of supplying the population with “cheap bread”. At the reunion of the Chisinau Municipal Council, the mayors of certain suburbs (Cricova, Singera, Ciorescu) declared that there are long bread lines and that there is a shortage of “cheap bread”, the main consumers of which are the retired people and the financially vulnerable families. “FranzelutaSA” though, in spite of the reduction of the share of “cheap bread” in the total production quantity, continues to accumulate losses—only in May 2004 these losses constituted Lei 1.6 mil. Still, according to the last information provided by the administration of “FranzelutaSA”, the factory finalized Q1 with a profit.

The representatives of the small business (30% of the bread market in the entire country, 10-12% in Chisinau) affirm that the State does not act in conformity with the principles of fair competition, a fact that leads to the destabilization of the bread market. According to the Association of the Bread Bakers of the Republic of Moldova, that encompasses more than 200 bakeries from all the regions of the country, the decrease of the bread prices of “FranzelutaSA” represents a populist action—an attempt to convince the population that the fight with corruption is giving true results (the unaccounted for reserves of wheat and flour?). Currently, the prices of the bread produced by private bakeries is almost one lei higher than the prices established by “FranzelutaSA”.

In some sense, last year’s situation is repeated: then, the utilization of a cheaper flour allowed maintaining the prices on the “state” bread unchanged until mid-November, which resulted in the elimination of small bakeries from the bread market.

The bread quality. In January-May 2004, as a consequence of the more frequent complaints on the quality of the bread (including the “cheap bread”) entering the trade net, the Main State Inspection for Standardization, Metrology and Consumer Rights Protection of the Department of Standardization and Metrology together with the representatives of the Department of Trade of the Chisinau City Administration organized a complex verification of the bread quality. The control of the quality of the bread was performed at the bread production level (23) as well as at the level of its commercialization (42).

Concerning the bread production, the main reason for its lower quality was determined to be the lower quality and/or the non-corresponding quality flour used. The central explanation of the producers—the crisis situation, that continued to exist on the wheat and flour market throughout the entire 2003-2004 marketing year. At the same time, according to the legislation enforced, wheat, flour, and bread are subject to the mandatory certification of conformity with the corresponding technical requirements (standards, technical regulations). The wheat imports into the country were organized only with licenses, and were controlled by state. In such a case, the following question is totally adequate: how, in such a situation, lower quality (unsatisfying quality) wheat and flour were allowed to enter the market and is it right to punish for its use only the business representatives, mainly those of the small business?

Concerning the bread commercialization, there are two main problems: the non-accordance with the required mass of the product (sometimes even 5-15%, instead of the allowed 2.5-3%) and the lack of information for the consumers. The most significant violations are directed to the small bakeries. It is even probable that one of the reasons of such a situation is the monopoly of “FranzelutaSA” on the bread market, supported by the state, the desire of the small bakers to survive in the conditions of a concurrence where the price loyalty is absent.

Harvest 2004. According to the estimate of the Ministry of Agriculture there will be harvested more than one million tons of cereals, including 700-800 thou tons of wheat and 300 thou tons of barley in 2004, of which 30 thou tons will be transferred to the state reserve. As of July 21, a quarter of the

areas planted with wheat and 40% of those with barley were gathered in; and the gathering in will be finished by the beginning of August.

There was created a system of cereals crop monitoring within the Ministry of Agriculture and Food Industry. Monitoring of the situation in all regions of Moldova is done by a specially formed mobile group. It is not clear though *what* is the subject of monitoring (trade operations on the grain market or physical volume of grain production), *how* (expenditures related to the “mobility”) and *who* (the Ministry’s stuff was halved) it will be done in reality.

Since the harvest has begun the Government increased its attention to the grain market.

20.07.2004 – President V. Voronin conducted a meeting and the main topic was providing the country with bread and cereals. The President “*emphasized the importance of elaborating an optimal mechanism of sale of wheat and other cereals on the internal and external markets*, which would allow controlling the process in question. He also mentioned that while setting minimal prices for wheat and cereals on the internal and external markets trends in international grain exchanges and on the neighboring countries’ markets have to be taken into consideration”³.

20.07.2004 – the Government decided to create an inter-departmental commission that will establish purchasing prices for the wheat meant for the state reserve.

21.07.2004 – the Government made a decision, under which licenses for grain export operations will be issued by the Customs Department only based on contracts registered at the Universal Commodity Exchange of Moldova (UCEM). The decision stipulates that the price of wheat and wheat flour will be fixed depending on result of the UCEM auctions. The question of *the purchasing price for the wheat meant for state reserve* has not been settled yet. Qualitative criteria for wheat were determined, depending on which the purchasing price for the current year will be set: gluten - 18-21%, 22-25%, 25% and above. There were also defined volumes of possible wheat export – 100-150 thou tons (according to the earlier estimates – 70 thou tons).

28.07.2004 – the National Agency for Public Procurements announced the open tenders on August 18-24 for purchase of 30 thou tons of food wheat for the needs of the National Agency of Material Reserves and Humanitarian Assistance. The tenders will be held in the regional centers, municipal Chisinau and ATO Gagauzia.

But it was mid-June when the main question – what price will producers get for their wheat – emerged. Producers think that the price grain ought to have in order to both cover production expenses (fertilizers, seed material and combustive-lubricating stuff) and provide for a minimal profit, i.e. is not less than MDL 2-2.5 per kg.⁴

But the Government still bides its time with regard to the price issue – it wants to know how much grain was gathered in and what quality it has and only after that it intends to make up its mind on the purchasing price for the state reserve. This, as well as measures that have been being undertaken by Romania and Ukraine now make both domestic grain producers and grain traders anxious. It seems that bumper crop of this year is becoming a problem: it is no less difficult to sell grain today than to cultivate and gather it.

The outer limits of the Moldovan grain market are being determined by the following factors:

- According to *the refined FAO forecast (June 2004)* world production of cereals will increase and reach almost 2 billion tons this year. This increase is mostly due to considerable growth of

³ Nezavisimaya Moldova, 21.07.2004

⁴ Независимая Молдова, 07.07.2004

wheat production, especially in Europe: 595 mil tons, which is much more than the average production over the last 5 years (+ 6.3% - as compared to the previous year). At the same time, FAO experts think that the world cereal utilization will slightly grow (+ 1.7%) and the world trading volume, as compared to the previous year, will drop (again due to the big wheat crop in Europe). The world cereal markets have already responded to the new situation: beginning with the second half of June wheat prices began decreasing, although they are still higher than they were during the corresponding period of the previous year.

- According to the International Grain Council forecast, **Ukraine** will become a net exporter of wheat in the marketing year of 2004/2005. Ukraine's Cabinet approved measures concerned with realization of secured grain purchases and grain interventions. Since 01.07.2004, the state holding «ГАК Хлеб Украины» began secured grain purchases. A decision was made to transfer 3 mil tons of wheat at the price of UKH 780 per ton (USD 147 per ton) to the state reserve⁵.
- The **Romanian** Government, in order to protect domestic producers and avoid the collapse of prices on the internal market, as well as to provide for maximal gathering in of the cultivated crop, decided to directly subsidize wheat and rye producers selling their products on the internal market at the state budget's expense. It is intended to allot ROL 875 bil (USD 26 mil) for these goals. Upon the agreement with producers (Organizatia Interprofesionala Cereale si Produse Derivate din Romania) the basic wheat price was fixed – ROL 5500 per kg (MDL 1.96 per kg) on terms of franco-deposit-customer plus VAT. Besides that, a decision was made to exclude temporarily the wheat off the Free Trade Agreement between Romania and Moldova and to introduce a 25% customs duty upon its import⁶.

The situation on the internal grain market of Moldova is being aggravated by the following facts:

- The cost price of wheat is high compared to other countries of the region. As a result, prices set by domestic producers hardly fit in the trends forming on the regional and world markets;
- Most economic operators do not dispose of personal granaries and the cost of grain storage at large grain elevators is rather high;
- Increased dampness of gathered wheat, which lowers its quality, requires extra expenditures and shortens the shelf life;
- State purchase is limited (30 thou tons, or 4.3% of eventual harvest; the purchase price has not been decided upon yet);
- The export capacities are rather insignificant: it was initially intended that the country would be able to export 70 thou tons of wheat (according to the last reports – 150 thou tons, 22.07.2004). And if internal prices for grain were lower than the international ones in the previous year, Moldovan producers will not enjoy this price advantage this year.

Actions of grain producers and traders are contradictory:

- Today's purchase price suggested by traders is MDL 1-1.1 per kg. The leadership of the National Association of Farmers taking into account the cost price of wheat of MDL 1.1-1.4 per kg considers that its basic price cannot be lower than MDL 1.8 per kg;
- Associations of agricultural producers declare from time to time their intention to stop harvesting in protest to the delayed government decision on setting the basic price for grain;

⁵ Ukrainian Grain Association, <http://www.uga-port.org.ua>

⁶ Ministry of Agriculture, Forests and Rural Development of Romania, <http://mapam.ro>

- News leaked out from potential grain exporters that grain export has been forbidden by a “verbal direction” (?) of the Government till 01.09.2004.

The common opinion of both producers and traders is that if the Government unjustifiably lingers its decision on the purchase price for wheat meant for the state reserve, the speculative situation of the bumper-crop year of 2002 might occur again, when companies-intermediaries bought the most part of grain from producers at a less than fair value and sold it afterwards at a double price, on the internal market as well. And again we will have to use the administrative measures to “debug” the situation on the wheat and bread market of the Republic of Moldova.

Annex

FAO Food Outlook

Rome, June 2004

FAO’s latest forecast of global cereal production in 2004 is 1 956 million tonnes, a substantial increase from the previous year. However, despite a modest expected rise in utilization, the new 2004/05 marketing season may lead to a fifth consecutive annual drawdown of global cereal stocks.

FAO’s first forecast of global cereal trade in 2004/05 stands at 229.7 million tonnes, 3 percent down from the previous year. The decline mostly reflects good crop prospects in traditional importing countries, as well as a strong production recovery in Europe. In the case of rice, trade is also expected to be limited by tight supplies in major exporting countries.

After rising for several months, international prices of most cereals eased back somewhat in recent weeks reflecting generally favourable prospects for the 2004 crops and, for rice, also the release of government stocks onto domestic markets in China and Thailand.

Global cassava production is forecast to expand in 2004, alongside a sharp increase in trade. A tightening of feed grain supplies in China could stimulate cassava imports to the country and could further strengthen international prices.

Table 1

Basic Facts of the World Cereal Situation

	2000/2001	2001/2002	2002/2003	2003/2004 estimate	2004/2005 forecast	Change 2004/05 over 2003/2004
World Production	(million tones)					(percentage)
Wheat	585.9	588.4	569.8	560.0	595.1	6.3
Coarse grains	876.6	918.8	883.5	931.6	951.2	2.1
Rice, milled	400.9	400.4	381.9	394.9	409.6	3.7
All cereals (incl. milled rice)	1 863.4	1 907.6	1 835.2	1 886.6	1 955.9	3.7
Developing countries	1 008.9	1 028.1	1 000.2	1 047.6	1 057.0	0.9
Developed countries	854.4	879.5	835.0	839.0	898.9	7.1
World Trade⁷						
Wheat	100.9	108.2	110.0	102.0	98.0	-4.0
Coarse grains	108.3	105.4	105.7	110.0	105.0	-4.5
Rice (milled)	24.2	28.1	28.0	25.7	26.7	4.0
All cereals	233.4	241.7	243.7	237.7	229.7	-3.4
of which: Food aid shipments ⁸	8.9	7.4	8.6	8.0		

⁷ For wheat and coarse grains, trade refers to exports based on the July/June marketing season. For rice, trade refers to exports based on the calendar year of the second year shown.

	2000/2001	2001/2002	2002/2003	2003/2004 estimate	2004/2005 forecast	Change 2004/05 over 2003/2004
World Utilization						
Wheat	589.7	599.6	603.7	598.9	609.0	1.7
Coarse grains	904.1	925.8	922.1	955.4	964.5	1.0
Rice (milled)	402.9	405.3	406.2	409.9	414.0	1.0
All cereals	1 896.7	1 930.7	1 932.0	1 964.3	1 987.5	1.2
Developing countries	1 145.6	1 163.6	1 165.9	1 197.8	1 205.0	0.6
Developed countries	751.1	767.1	766.1	766.5	782.5	2.1
World Stocks⁹	(million tonnes)					
Wheat	242.4	233.4	197.8	155.9	140.1	-10.2
Coarse grains	207.7	196.5	161.1	138.5	123.8	-10.6
Rice (milled)	148.3	140.9	116.0	103.4	98.9	-4.3
All cereals	598.5	570.8	474.9	397.8	362.7	-8.8
Developing countries	436.5	402.8	333.5	277.2	242.4	-12.6
Developed countries	162.0	168.0	141.4	120.5	120.3	-0.2
Export Prices³	(US\$/tonne)					
Rice (Thai, 100%, 2nd grade) ¹	207	177	197	201	236 ¹⁰	18.0 ¹¹
Wheat (U.S. No.2 HRW)	128	127	161	161 ¹²		
Maize (U.S. No.2 Yellow)	86	90	107	114 ¹²		
Ocean Freight Rates³						
From U.S. Gulf to Egypt	15.0	15.0	16.7	34.7 ¹³		
Low-Income Food-Deficit Countries¹⁴	(million tonnes)					
Roots & tubers production¹	449.9	445.8	447.0	448.7	448.5	0.0
Cereal production (milled rice)¹	780.0	786.9	768.9	786.7	806.7	2.5
Per caput production (kg.)¹⁵	203.2	202.1	194.8	196.4	198.7	1.2
Cereal imports²	78.3	83.8	82.5	78.5	85.7	9.1
of which: Food aid deliveries³	7.6	6.4	6.7	6.2		
Proportion of cereal import covered by food aid	(percentage)					
	9.7	7.6	8.1	7.9		

Source: FAO

Note: Totals and percentages computed from unrounded data.

⁸ July/June.

⁹ Stock data are based on an aggregate of individual country carryovers at the end of national crop years and, therefore, do not represent world stock levels at any point in time.

¹⁰ Average of quotations for January-May 2004.

¹¹ Change from the corresponding period of the previous year, for which figures are not shown.

¹² Average of quotations for July 2003-May 2004.

¹³ Average of quotations for July 2003-April 2004.

¹⁴ Food deficit countries with per caput income below the level used by the World Bank to determine eligibility for IDA assistance (i.e. US\$1 435 in 2001).

¹⁵ Including milled rice.

Wheat production

Table 2

	2003 estimate	2004 forecast	2004 cf 2003
	million tonnes	%	
AsiaA	245.1	249.1	1.6
CIS in Asia	23.4	23.5	0.0
Africa	21.6	21.5	-0.1
North Africa	17.0	16.9	-0.6
Sub-Saharan Africa	4.5	4.5	2.1
Central America	2.9	2.5	-15.7
South America	23.5	23.7	0.8
North America	87.1	80.3	-7.9
Europe	154.4	195.7	26.8
EU-25	107.4	123.7	15.1
CIS in Europe	39.1	59.4	51.9
Oceania	25.3	22.3	-12.1
World	560.0	595.1	6.3
Developing countries	267.2	270.1	1.1
Developed countries	292.8	325.0	11.0

Source: FAO.

Note: Totals computed from unrounded data.

FAO's forecast for world wheat production in 2004 remains virtually unchanged since the April report at 595 million tonnes, which would be 35 million tonnes more than in 2003. A sharp recovery in output in Europe, and a small increase in Asia, would more than offset the reduced crops expected in North America and in Oceania.

In Far East Asia, harvesting of the 2004 winter wheat crop is underway and planting of the spring crop is completed. The aggregate 2004 wheat output in China is forecast at some 85 million tonnes, 1 percent down from last year due to a reduction in the winter wheat area. In India, recent unseasonably high temperatures and scarce precipitation during the maturation stage have deteriorated the outlook for this year's wheat crop but after larger plantings, production should nevertheless still be well above last year's poor level and above average. Larger crops are also expected in Pakistan and the Islamic Republic of Iran reflecting good rainfall during the growing season.

In the Asian CIS subregion, the winter wheat area is estimated to be similar to last year's and conditions so far suggest similar yields could be achieved, leading to a crop of about 23.5 million tonnes. Kazakhstan normally produces about 80 percent of the subregion's total crop.

In the Near East, the 2004 wheat harvest is underway. Erratic spring precipitation and above-average temperatures may somewhat compromise the harvest in Afghanistan after a record crop in 2003. In Turkey and Syria, average to above-average crops are expected following adequate precipitation. In Jordan, however, dry weather has seriously affected crops.

In northern Africa, prospects for the winter wheat crop to be harvested from May/June remain satisfactory, reflecting generally favourable weather conditions and adequate availability of inputs. However, the threat of desert locust remains extremely serious in Algeria and Morocco in spite of intensive control operations. In Egypt, where the wheat crop is mainly irrigated, the 2004 output is expected to increase further from last year's already above-average crop.

In eastern Africa, harvesting of the 2004 wheat crop is just completed in Sudan. Output is forecast at about 400 000 tonnes, some 20 percent above the previous year's level. In Kenya, the crop has been planted and despite good rains early in the season, precipitation since then has been erratic and the outlook is uncertain. In Ethiopia, precipitation has also been erratic for land preparation in recent weeks, casting uncertainty over the outcome of the June wheat planting campaign.

In southern Africa, planting is underway in South Africa, by far the subregion's largest producer. Planting intentions indicate an 18 percent increase to an about average area, from the drought-

reduced level of 2003. If weather conditions are normal for the rest of the season, an average crop could be obtained. In Zimbabwe, wheat output is anticipated to remain depressed. FAO's latest forecasts put the aggregate 2004 wheat production for the subregion at about 2.4 million tonnes.

In Central America and the Caribbean, harvesting of 2004 irrigated winter wheat crop in Mexico is underway. Output is forecast to be well down on last year and below average mainly because of reduced plantings in the north-west of the country due to inadequate water supplies at sowing.

In South America, planting of the 2004 wheat crop in Argentina, Chile, Paraguay and Uruguay is about to start, while in Brazil it is already well advanced. Planting intentions at subregional level indicate an increase of about 3 percent in area compared to previous year.

In North America, wheat production in the United States is set to fall sharply after a significant decline in winter plantings and the prospect of a reduced spring wheat area. In addition, weather conditions have been generally less favourable during the current season, especially in southern producing regions where dryness has prevailed. In Canada, as of mid-May, seeding of the wheat crop was progressing slightly ahead of normal. Despite a possible area reduction because of a shift of land to non-cereals, output of wheat is forecast to increase slightly because of high expected yields, especially for durum.

In Europe, prospects for the 2004 wheat crops remain generally favourable across the region. Output in the EU-25 is forecast to increase substantially from last year, with significant gains seen in both the EU-15 countries and in the 10 new member countries in central Europe. Planted areas have increased and better yields are expected reflecting generally adequate moisture availability so far. The planted area has increased to well above the average of the past five years and weather conditions have been better than last year's and generally favourable so far, among both western European and central European countries. Larger crops are also forecast in the Balkan countries, for the same reasons.

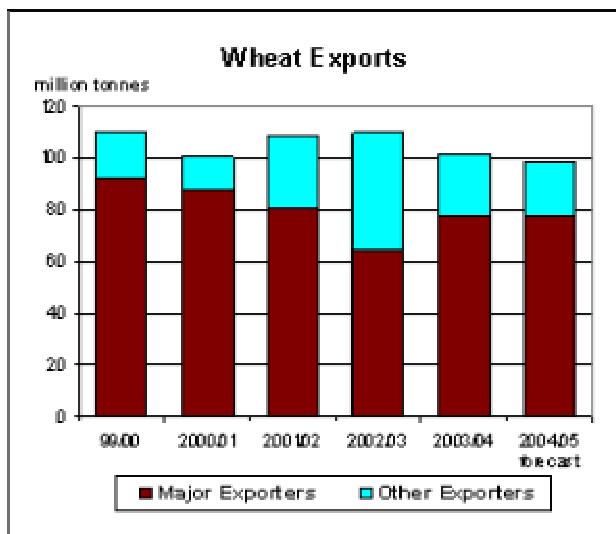
In the European CIS subregion, frost in late April killed almost 2 million hectares of winter wheat, mainly in the Ukraine and the Russian Federation. However, as of mid-May, the spring wheat planting had been almost completed under favourable conditions, and the aggregate area planted with wheat (winter and spring) is now estimated to be nearly 5 million hectares up on last year. Assuming normal weather for the remainder of the season, wheat production in the subregion is thus expected to increase significantly from last year's very poor harvest. However, it will likely remain below the bumper levels of the previous two years.

In Australia, after a satisfactory start to the winter crop planting season, a return to drier conditions in late April and early May, especially in the eastern regions, dampened hopes of a bumper output this year. Farmers in southeastern Australia are delaying planting, hoping that more rain will arrive before the end of June. Latest indications point to a wheat output of about 22 million tonnes.

FAO expects a sharp decline in world wheat trade in 2004/05 FAO's first forecast for world trade in wheat^{1/} in 2004/05 (July/June) stands at 98 million tonnes, down considerably from 2003/04. The bulk of the expected decline is due to much smaller import requirements in Europe, given the anticipated strong recovery in the region's production. However, a change in the basis for calculating world trade caused by the enlargement of the EU from 15 to 25 Member States also contributes in part to the smaller world trade figure in the new marketing season.

For the developed countries as a whole, wheat imports are forecast at only 19 million tonnes in 2004/05, down 10 million tonnes, or 35 percent, from 2003/04. By contrast, total wheat imports by the developing countries are currently put at around 79 million tonnes, up 7 million tonnes, or 10 percent, from 2003/04. The largest increase is expected in China (Mainland), where another decline in wheat production is expected to lead to a notable increase in imports, from 2.8 million tonnes in 2003/04 to 7 million tonnes in 2004/05. Increased wheat imports are also anticipated in Mexico following a decline in its production this year. Wheat imports by most countries in North Africa are also anticipated to rise in 2004/05, but would still remain mostly below average in view of good crop prospects. Based on continued strong domestic demand, Egypt recently entered into an

agreement with Australia for long-term purchases of Australian wheat. However, another record crop in the Islamic Republic of Iran is forecast to cut imports by this traditional large wheat importer to only 200 000 tonnes. This will be below the 2003/04 reduced level, and the lowest level since the mid 1970's.



In spite of the forecast contraction in world trade in 2004/05, wheat shipments from most major exporters are forecast to increase in 2004/05. The biggest rise is expected in the EU, following the anticipated strong recovery in production across nearly all countries, including its new Member States. Higher exports are also anticipated by Argentina and Australia, both of which are expected to have relatively large carryover stocks already at the start of the new season. By contrast, exports from the United States are forecast to fall sharply, mainly in response to lower production and reduced supplies. Among other exporters, good crop prospects are likely to boost exports from the CIS countries, especially from Ukraine, which is forecast to return to the export market. By contrast, exports from India are likely to decline sharply now that its large stocks are reduced. China is also likely to cut its exports this season given its tight domestic market. Wheat exports from the Syrian Arab Republic and Turkey are anticipated to decline as a result of smaller carryovers in both countries.

Wheat Utilization to rebound in 2004/05 World wheat utilization in 2004/05 is set to reach 609 million tonnes, up 1.7 percent from 2003/04 but still slightly below the 10-year trend. A rise in feed use is expected to account for most of the forecast increase. The anticipated production recovery in Europe and prospects for larger feed wheat supplies in international markets are likely to push feed wheat prices below those of maize and encourage higher wheat utilization for feed in several markets. In the United States, a tight maize situation, despite a larger crop expected this year, is seen to boost feed wheat use for the second consecutive season. World wheat use for human consumption is forecast to increase slightly, to 431 million tonnes. At this level, the global per caput food consumption of wheat would be slightly down from 2003/04. The decrease is mostly driven by changing consumption patterns in China, where wheat food consumption, on per caput terms, has been on a declining trend in recent years.

Wheat stocks to decline again in 2005 Global wheat stocks for crop years ending in 2005 are forecast at 140 million tonnes, down 10 percent from their revised opening levels. FAO has made further revisions to its historical estimates for stocks in China and following those revisions, the forecast for world wheat stocks ending in 2004 has been raised.

By the closing of seasons in 2005, total wheat stocks in major exporting countries are forecast to reach 41 million tonnes, up only 1.5 million tonnes from their reduced opening levels. The ratio of major exporters' wheat carryover stocks to their total disappearance (the sum of their domestic consumption and exports) is likely to approach 17 percent, indicating a slight decline from 2003/04.

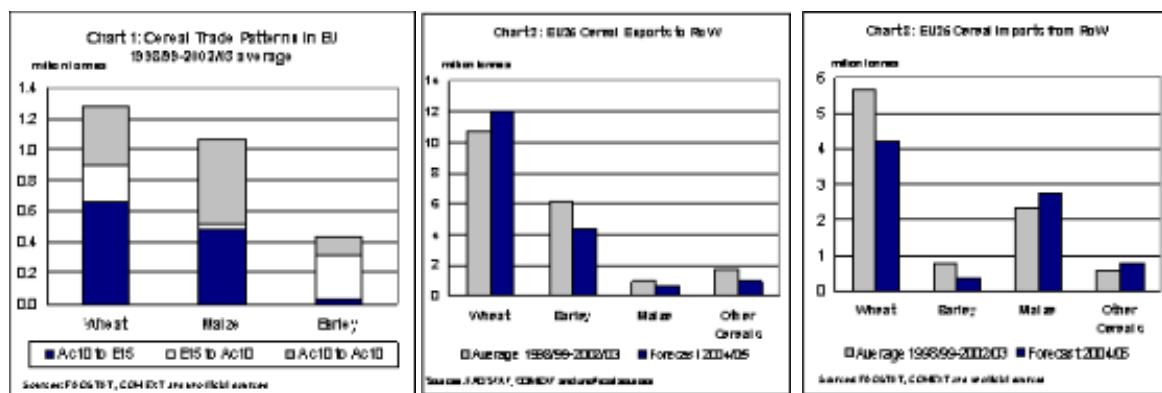
Wheat inventories are anticipated to increase in the CIS because of an expected rebound in production. However, in China, where wheat production is forecast to decline again in 2004, stocks are likely to be cut for the fifth consecutive season, falling to 39 million tonnes, down 15 million tonnes from their reduced opening levels. In India, where production is forecast to increase, total wheat inventories are likely to stabilize at around 15 million tonnes.

Wheat Prices are under pressure and could decline further The decline in wheat production in 2003 and a sharp reduction in world wheat stocks provided support to wheat prices during most of the 2003/04 marketing season. However, in recent weeks, good crop prospects and the slow pace of exports started to put downward pressure on prices. Despite occasional price swings, mostly in response to weather news and rumoured purchases by China, the US wheat No. 2 (HRW, fob) averaged US\$167 per tonne in May, down US\$4 since March but still US\$20 per tonne, or 14 percent, above the corresponding period last year.

Generally favourable weather conditions and expectations of a strong rebound in world wheat production in 2004 kept wheat futures under pressure. A sharp drop in the US maize and soybean futures in recent weeks also influenced the wheat futures markets. By late May, the September wheat futures contracts at the Chicago Board of Trade (CBOT) were quoted at US\$141 per tonne, almost US\$10 per tonne lower than in April. As harvests get underway soon in most wheat producing countries in the northern hemisphere, seasonal factors are also expected to put further downward pressure on prices. Early indications point to weaker wheat prices in 2004/05 in view of improved supply situation and weaker import demand.

The EU enlargement and FAO cereal trade estimates On 1 May 2004, ten countries joined the European Union (EU): Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Poland, Malta, Slovakia, and Slovenia. It is customary to treat the EU as one entity for trade accounting purposes (i.e. exclude trade flows among its individual Members). Starting in 2004/05 marketing season, therefore, the cereal trade forecasts reported in Food Outlook exclude intra-trade among the EU-25 Member States. For this reason, trade data for the EU (also Europe, the developed country group and the world trade aggregates) may not be fully comparable with those in 2003/04 (and before), when only intra-trade among the 15 Member States was excluded.

From a statistical point of view, the EU enlargement results in a smaller EU trade with the Rest of the World (RoW). This is because the ten accession countries (AC-10) are now part of the new EU and not of the RoW. The same effect can be observed at global/regional levels. For example, world trade in wheat in 2004/05 is forecast at 98 million tonnes, but if we were to include the EU-15 instead of the EU-25 grouping, global trade would appear bigger, at around 99 million tonnes. The difference being the trade among the ten new members plus each of these countries' respective trade with the EU-15 as a single entity.



Wheat, barley, maize and small amounts of rye and oats are the main cereals traded between the EU-15 and the new members. Of these, Hungary, Poland, and the Czech Republic are the leading producers and exporters of wheat, maize and barley. In recent years, the volume of wheat that AC-10 exchanged with each other and the volume they traded with the EU-15 averaged around 1.3

million tonnes annually. In the case of maize and barley it was of the order of 1 million tonnes and 400 000 tonnes, respectively (Chart 1). In aggregate, annual cereal exports from EU-15 to AC-10 approached 500 000 tonnes (mostly wheat and barley). Conversely, annual cereal exports from the new members to EU-15 averaged around 1 million tonnes.

In order to facilitate comparison of EU-25 cereal trade forecasts for 2004/05 with previous years, some rough estimates of exports from EU-25 to RoW and imports into EU-25 from RoW are provided. As shown in Chart 2, wheat exports from EU-25 in 2004/05 are forecast to rise above the 5-year average but exports of barley to outside EU-25 are expected to decline sharply while for the other cereals they are slightly down. Regarding EU-25 imports from RoW, current indications point to a significant decline in wheat imports in 2004/05, as shown in Chart 3. The main reason being a sharp recovery in wheat production in the EU after last year's poor harvests. For other cereals, import variations are likely to be small, with imports of barley falling but maize imports increasing.

July 28, 2004