

The global wheat market over the past 10-15 years has proven to be relatively static with low-level growth in consumption and little growth in the amount of trade. Along with the United States, Canada, the European Union and Argentina, Australia is one of the five major wheat exporters in the world.

Although Australia represents only 3% of global wheat production, due to relatively small domestic consumption, Australia accounts for between 15-18% of total world exports.

World wheat production and consumption

World wheat production and consumption for 2003-04 is estimated to be 549.6 million tonnes and 587.9 million tonnes respectively.

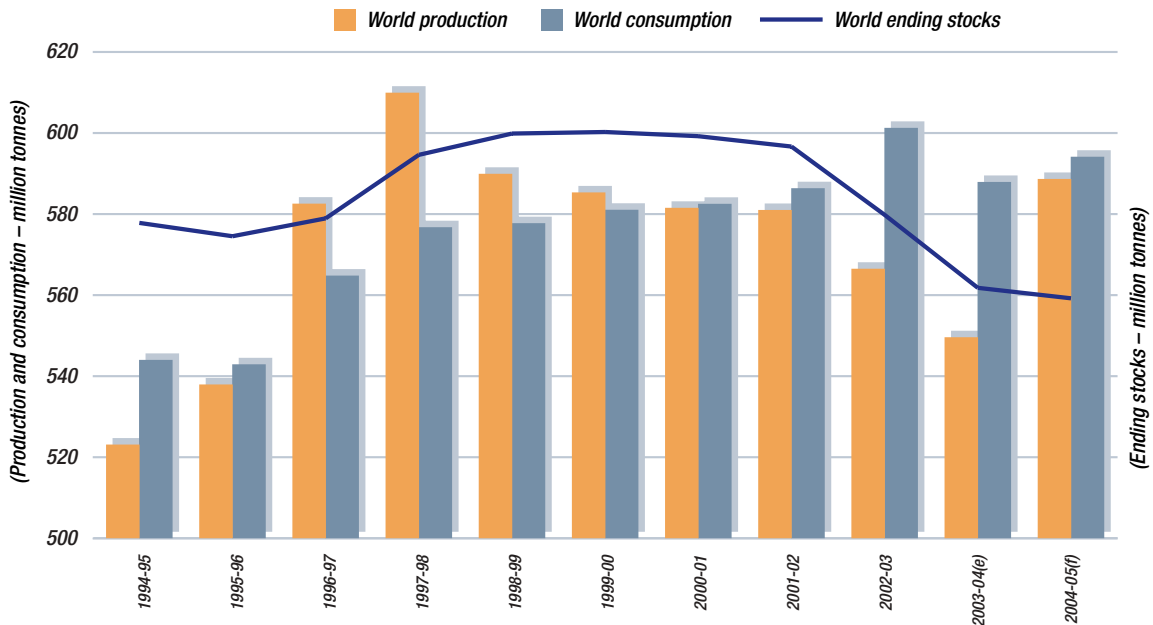
World wheat production is estimated to have fallen by around 4% in 2003-04 compared with the five year average mainly due to lower production in China, the European Union and the Ukraine.

World wheat consumption for 2003-04 is estimated to be around 10 million tonnes less than 2002-03, mainly due to European, Eastern Europe and Former Soviet Union wheat feed rationing and switching to alternative feed grains which occurred as a function of their crop devastation last year.

World ending stocks in 2003-04 have fallen for the third consecutive year, by almost 25% to 128.8 million tonnes. Global stock levels as a percentage of consumption are at comparatively low levels, representing approximately two and half months supply.

(Source: USDA WASDE, 2004)

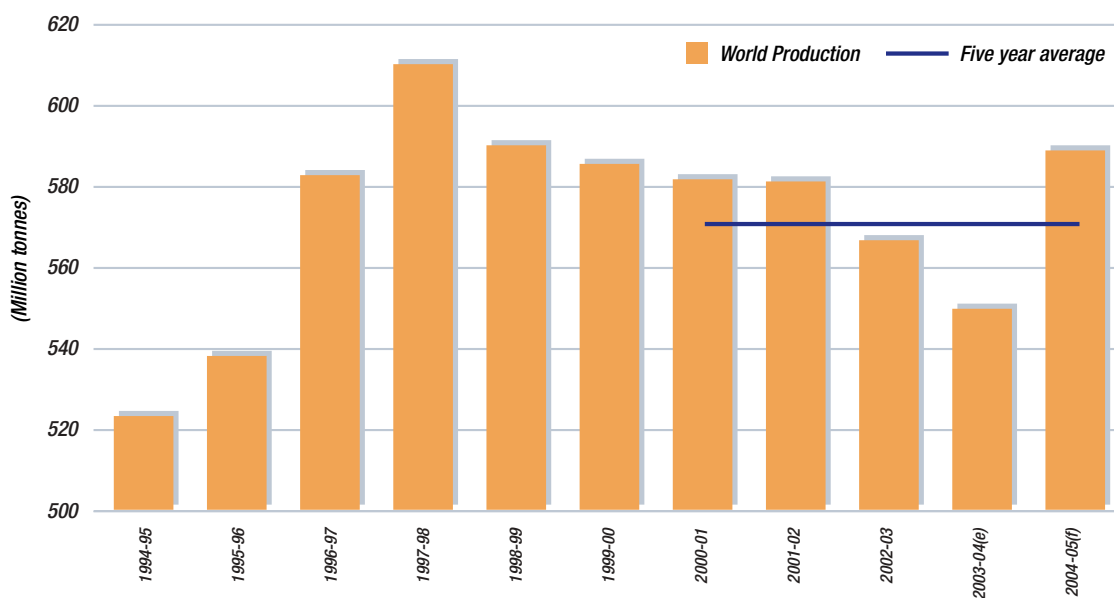
World wheat production, consumption and ending stocks from 1993-94 to 2004-05



(e) = estimate. (f) = forecast. Source: USDA, 2004.

In 2004-05, world wheat production is forecast to increase to 588.7 million tonnes, which is approximately 39.1 million tonnes higher than the previous year.

World wheat production from 1993-94 to 2004-05

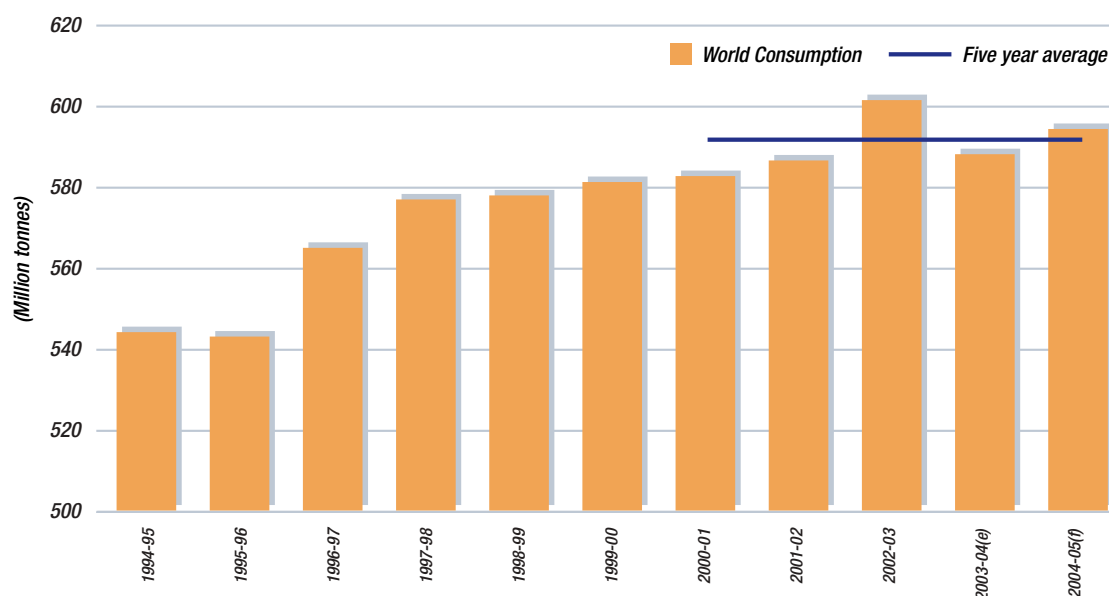


(e) = estimate. (f)= forecast. Five year average up to and including 2004-05(f). Source: USDA, 2004.

Global Wheat Trends

World wheat consumption in 2004-05 is forecast to increase to 594.2 million tonnes, which is slightly higher than the previous year.

World wheat consumption from 1993-94 to 2004-05



(e) = estimate. (f)= forecast. Five year average up to and including 2004-05(f). Source: USDA, 2004.

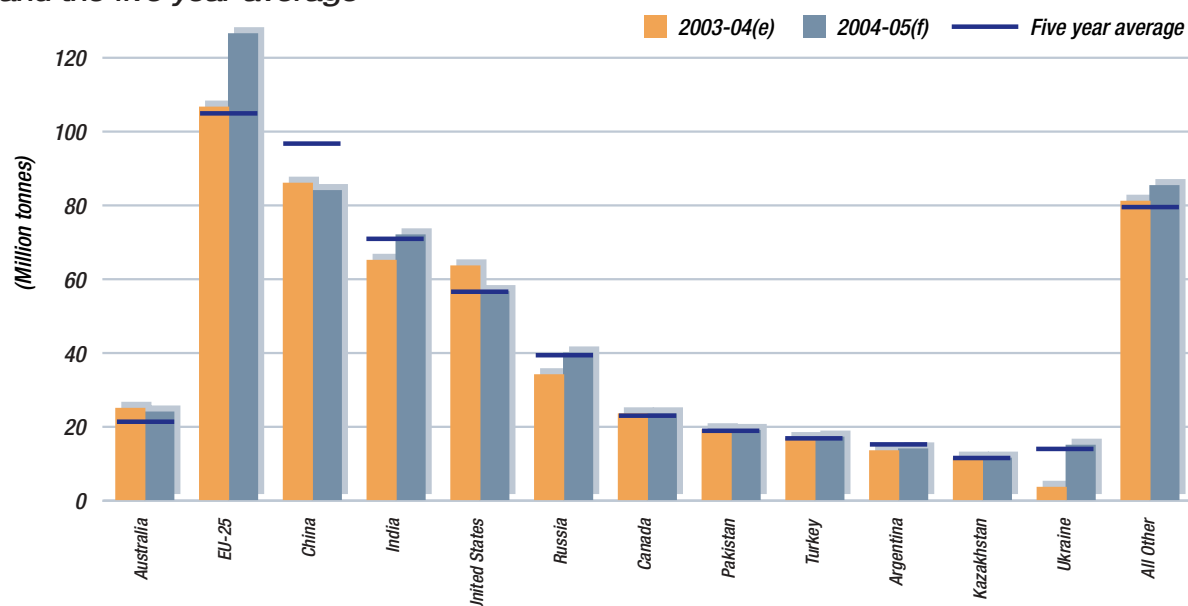
Major producers

Global wheat production levels have been growing, on average, at 0.5% per annum over the past 20 years, (1984-2003). Annual production over this 20 year period has varied between 495.0 million tonnes and 610.0 million tonnes.

The forecast five and ten year average of world wheat production to the year 2004-05 is 573.2 million tonnes and 577.2 million tonnes respectively.

Whilst Australia is only ranked as the sixth largest world producer of wheat equal with Canada, it is ranked as the second top exporting nation (based on USDA's forecast of 17.0 million tonnes for 2004-05).

Major wheat producing countries/regions during 2003-04, 2004-05 and the five year average



(e) = estimate. (f)= forecast. Five year average up to and including 2003-04(e). Source: USDA, 2004.

Major exporters

The world's five major wheat exporters account for approximately 37% on average of all wheat traded internationally over the past 20 years to 2003-04 (based on USDA's 2004 Wheat PSD forecast).

Those five exporting country/regions are:

- United States
- Australia
- Canada
- European Union ("EU-25")
- Argentina.

The major exporters' percentage of world wheat trade should remain close to 80% for 2003-04 and 2004-05, despite an expected rebound in production from non-traditional exporters such as Eastern Europe and the Former Soviet Union subject to weather.

United States wheat production for 2003-04 has been estimated by the USDA to be 63.6 million tonnes, a significant recovery from their crop of 43.7 million tonnes in 2002-03.

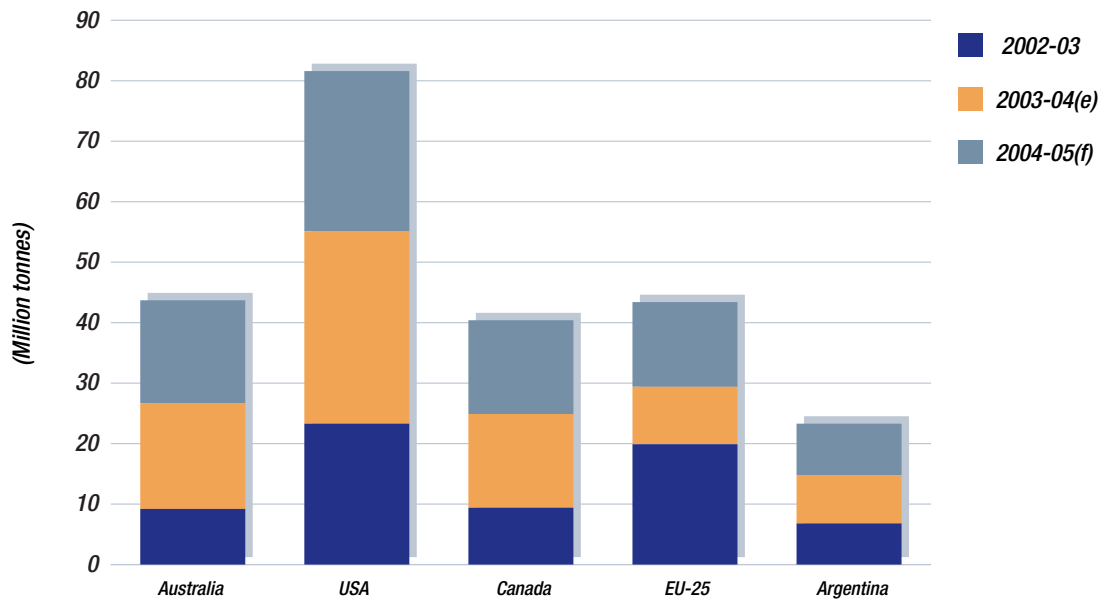
Wheat production in Canada has also rebounded with the USDA estimating a crop of 23.5 million tonnes in 2003-04, compared with 16.2 million tonnes in 2002-03.

EU-25 wheat production is estimated to decrease by around 17.9 million tonnes to 106.6 million tonnes in 2003-04 compared to its large 2002-03 crop of 124.5 million tonnes.

The above estimates include another 10 countries that joined the EU-25 (previously EU-15) in May 2004. These countries are Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. Upon entry these countries immediately adopt common customs tariffs, trade/phyto-sanitary legislation but do not receive Common Agricultural Policy for several years.

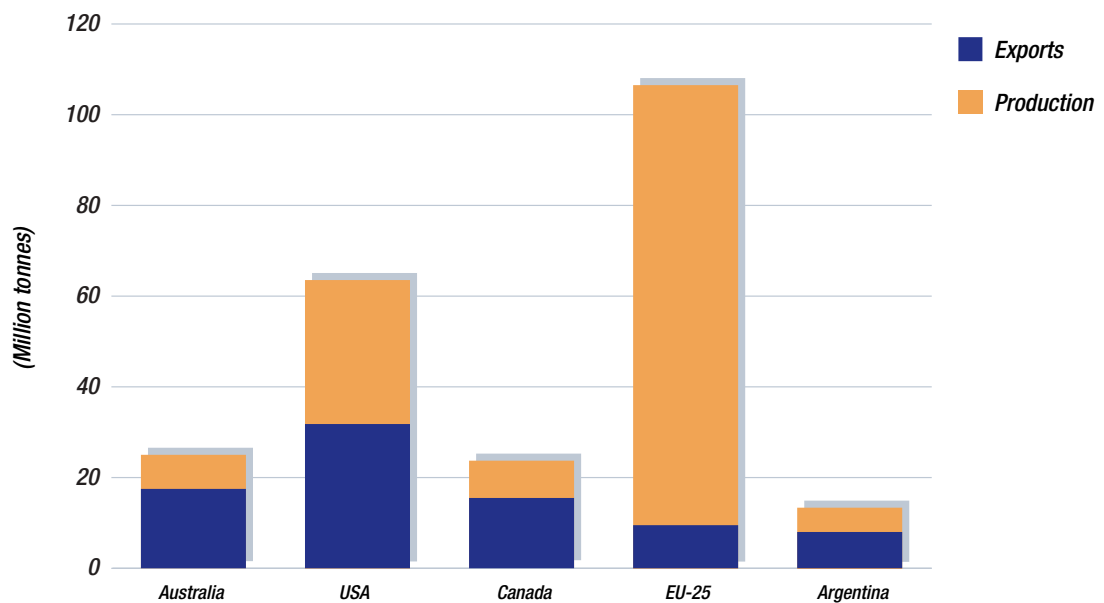
Argentina is estimated to have increased wheat production to around 13.5 million tonnes in 2003-04 compared with 12.3 million tonnes in 2002-03.

Major exporters - total exports from 2002-03 to 2004-05 (forecast)



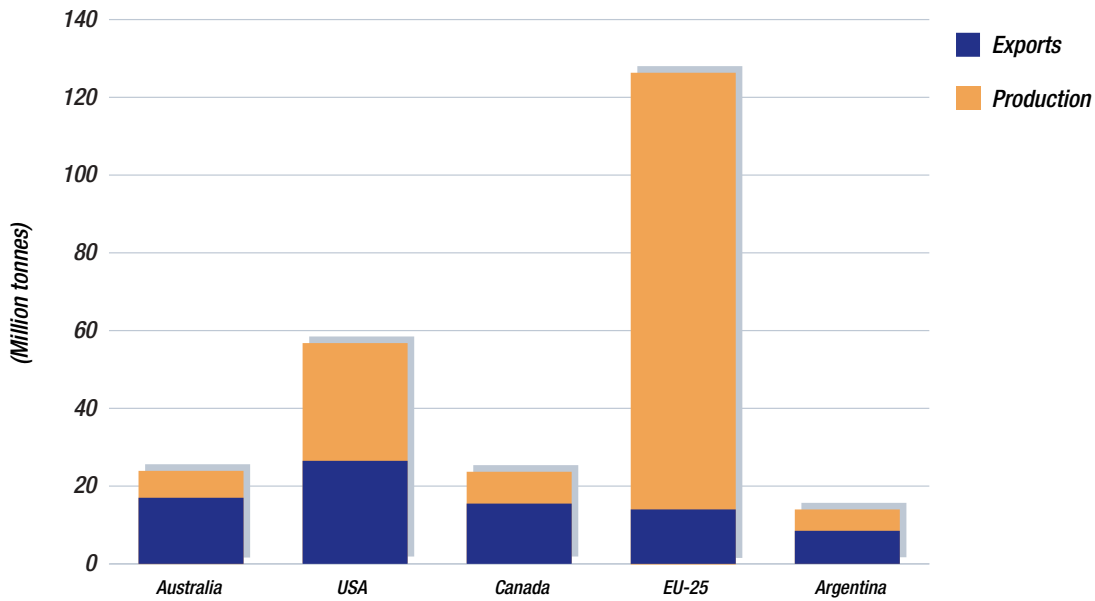
(e) = estimate. (f) = forecast. Source: USDA, 2004.

Major exporters - total production and exports during 2003-04



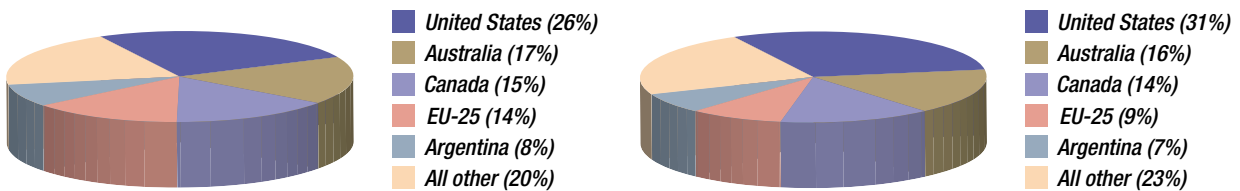
Source: USDA, 2004.

Major exporters - total production and exports during 2004-05 (forecast)



Source: USDA, 2004.

Estimated market share during 2004-05(f) Estimated market share during 2003-04(e)

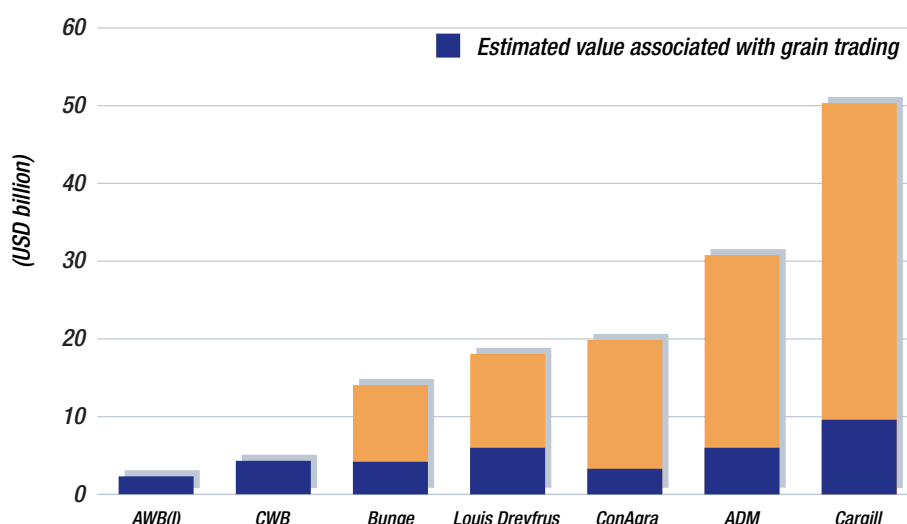


(e) = estimate. (f) = forecast. Source: USDA, 2004.

Global Wheat Trends

The international market is also characterised by oligopolistic structures. A few multinational agribusiness firms, such as Cargill and ADM, dominate agricultural production, transportation and processing around the world. According to Boston Consulting Group, Cargill, Louis Dreyfus, ADM and Bunge controlled 73% of global grain trade in 2003. As the graph depicts, the annual revenues of these multinational traders each exceeded the total value of the Australian wheat industry.

Multinational corporations - 2002-03 total revenue by company and estimated proportion related to grain trading



Source: Boston Consulting Group, 2003.

Non traditional exporters

There are a number of non traditional exporters who have increased their trade of wheat over the last few years, raising market share from 25% in 2000-01 to an estimated 39% in 2002-03 as major exporters experienced failing crops. This returned to a more normal 24% in 2003-04. Competition from the following non traditional exporters has increased markedly over the last five to 10 years and is expected to remain a factor over the longer term as consistent quality and reliability continue to improve. Those non traditional exporters include:

- Russia
- Ukraine
- Kazakhstan
- India.

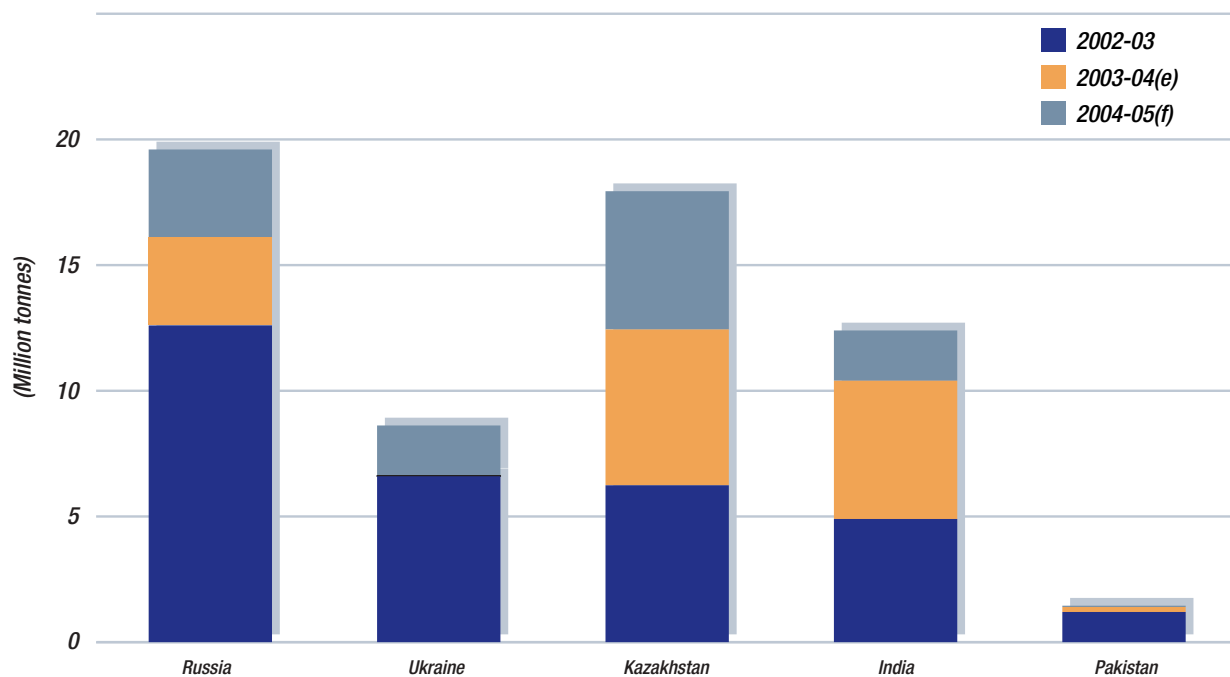
Non traditional exporters have been able to considerably increase their export program over the last two years due to good production, large carry-in stocks and increased investment in transport and infrastructure.

Although wheat production is forecast lower for some of these exporters in 2003-04, they have ample stocks and will continue to be competitive in world wheat trade.

The impact of a non traditional exporters such as Brazil experiencing a particularly large crop (5.8 million tonnes compared to a normal 4.5 million tonnes) directly impacts other major exporters in their geographic region as they compete for export markets. In 2003-04 Brazil exported 900,000 tonnes.

(Source: USDA, 2004)

Non traditional exporters - exports from 2001-02 to 2004-05



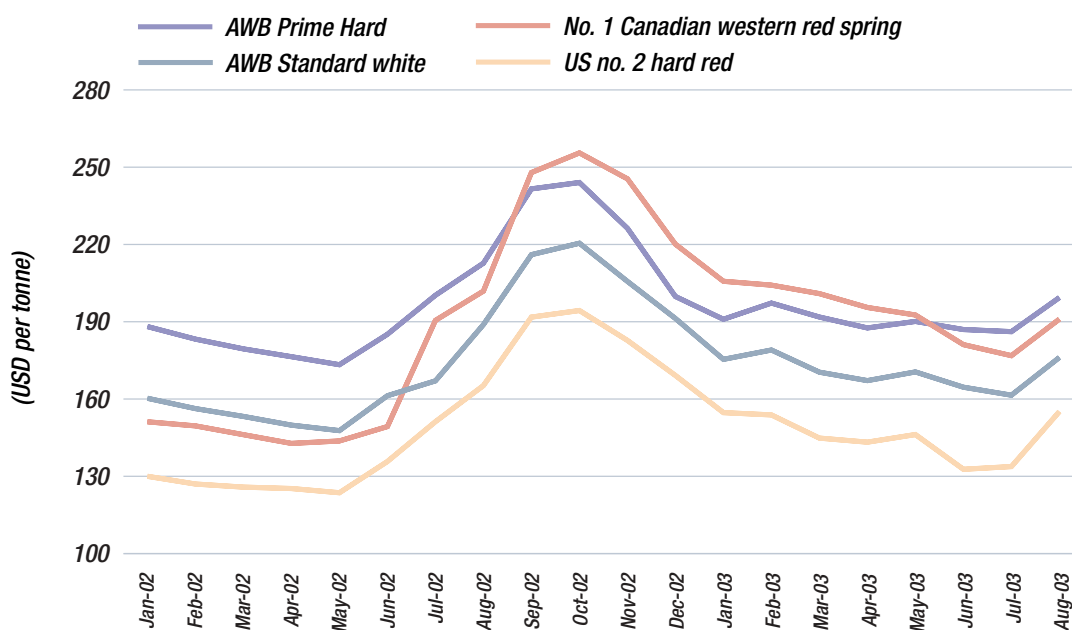
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Global Wheat Trends

Pricing trends

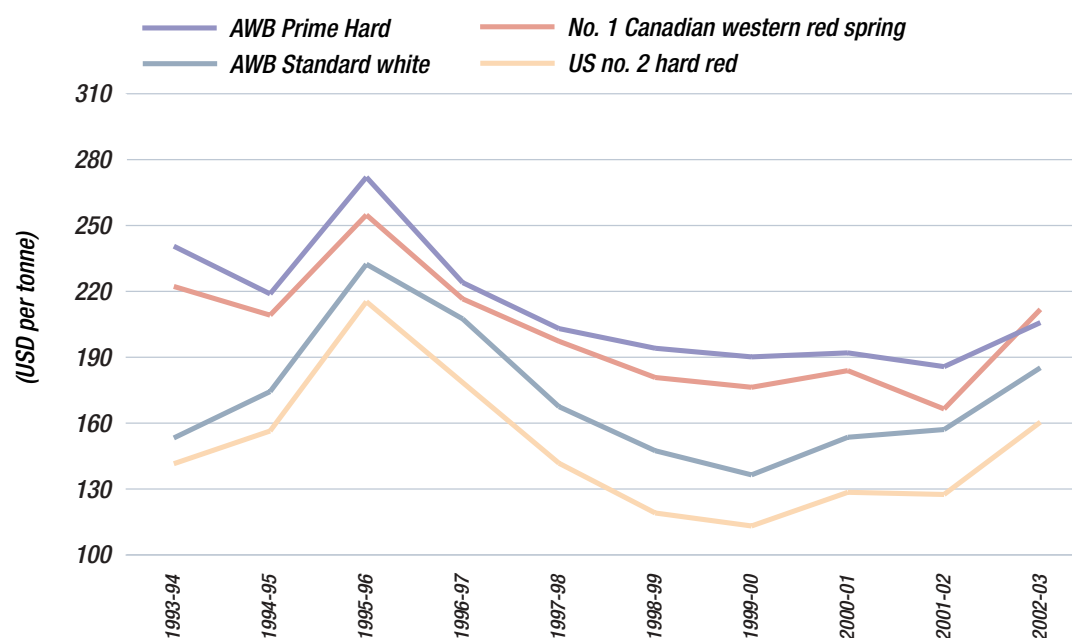
Wheat prices are influenced by a range of factors, namely, production, demand and stock levels.

Various wheat grade prices during 2002-03



Source: ABARE, 2004.

Various wheat grade prices from 1992-93 to 2002-03



Source: ABARE, 2004.

Major wheat grade competitors

AWB wheat grade	Competitor wheat grades		
	United States	Canada	Other
Prime Hard Wheat	US Dark Northern Spring Wheat US Hard Red Winter Wheat 13% Protein	Canadian Western Red Spring Wheat	
Hard Wheat	US Hard Red Winter Wheat	Canadian Western Red Spring Wheat	Kazakhstan German Wheat
Premium White Wheat	US Hard Red Winter Wheat	Canadian Prairie Spring Wheat	Argentine Wheat German Wheat Russian Wheat Ukraine Wheat
Standard White Wheat	US Soft White Wheat US Soft Red Winter Wheat	Canadian Prairie Spring Wheat	Argentine Wheat French Wheat Indian Wheat Ukrainian Wheat
Soft Wheat	US Soft White Wheat US Soft Red Winter Wheat		
Durum	US Hard Amber Durum	Canadian Western Amber Durum	Mexican Durum

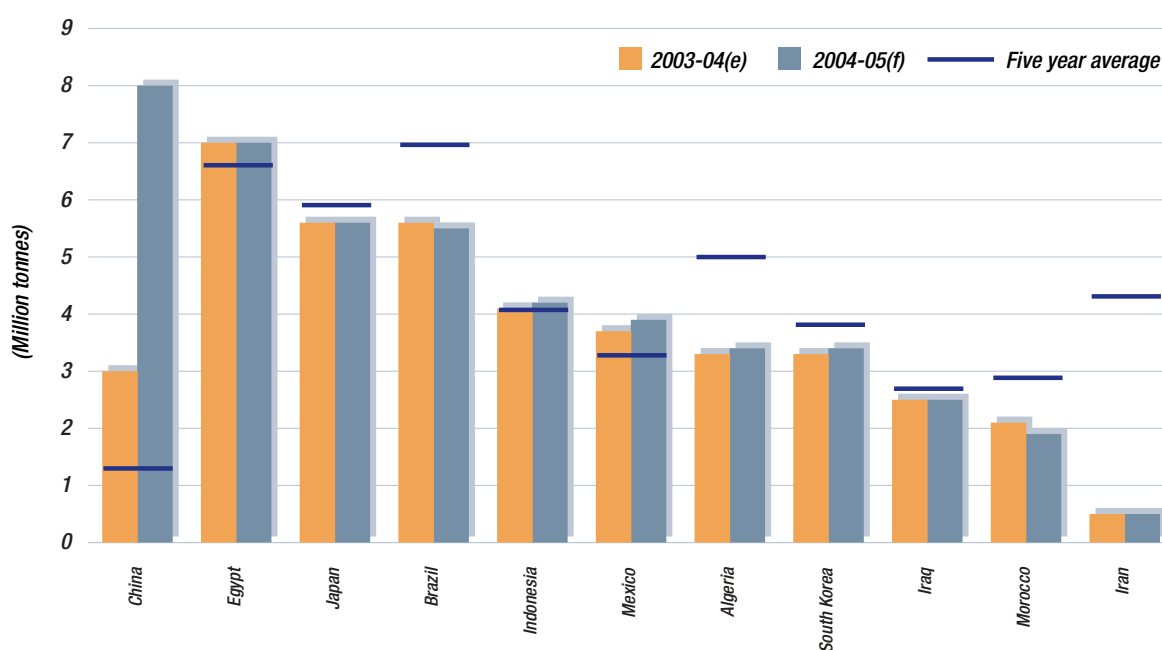
Major importers

Worldwide wheat consumption has been growing on average at a stable 1.5% per annum over the past 20 years, (1983-2003). During this time, imports have ranged from 77.2 million tonnes and 109.6. This highlights that even though world trade has stayed relatively constant over the past 20 years, major importers have expanded their production and become more self-reliant. Total wheat imports (excluding major exporters) for 2003-04 are estimated to be 91.6 million tonnes.

Major importers – total imports

The dominance of a handful of countries on the export side of the global market is in contrast to the import side. As illustrated below, a large number of countries have small import requirements, with no one country importing more than 7% of total world trade.

Total wheat imports by major importers during 2003-04, 2004-05 and the five year average.



Source: USDA, 2004.

End uses

Some examples of the end products created from a range of AWB wheat grades include:

- AWB Prime Hard. Ideal for high volume European breads, Chinese-style yellow alkaline noodles, fresh ramen noodles, dry noodles and wonton skins
- AWB Hard Wheat. Ideal for European pan and hearth breads, Middle Eastern style flat breads, Chinese style yellow alkaline noodles, dry white noodles and steamed products
- AWB Premium White. Used to produce a wide variety of breads including Middle Eastern and Indian flat, pocket and specialty breads, as well as Asian baked products and a range of noodles
- AWB Standard White. Highly versatile wheat, ideal for straight milling or blending purposes, and suited for European style loaf breads and rolls, Middle Eastern and Iranian and Indian style breads and Asian steamed products
- AWB Noodle Wheat. Depending on variety, suited for Japanese Udon style noodles, Chinese yellow alkaline noodles and ramen noodles
- AWB Soft Wheat. Ideal for making a wide range of confectionery and baked products, including sweet biscuits, cookies, pastries, cakes, steamed buns and extruded snack foods
- AWB Durum. Ideal for a wide range of wet and dry pasta products with excellent colour and shelf life. Also used to produce many types of North African and Middle Eastern products, such as cous cous, hearth breads and flat breads.

Global regulatory framework

All of the world’s five major wheat exporters and most of the key importers are members of the World Trade Organisation (“WTO”). This means both the governments and the exporting and importing parties in these countries are subject to the rules based trading system established under the various WTO Agreements.

Of specific importance to wheat trade is the Agreement on Agriculture and the Sanitary and Phyto-Sanitary (“SPS”) Agreement. The Agreement on Agriculture places limits on what actions governments can undertake to support their agricultural sectors and while the restrictions it implements are not particularly rigorous it does at least place some restrictions on government actions. Also it has been highlighted as a priority of the latest round of WTO trade negotiations

to strengthen the WTO rules associated with agriculture.

The SPS Agreement sets the framework for quarantine measures that importing countries can place on agricultural exports. It states that any quarantine restrictions that are placed on a particular product must have a basis in ‘sound science’ and that exporters can challenge any restrictive quarantine measures that they consider to be lacking a scientific basis. As the manager of a government backed export monopoly, AWB is classified as a State Trading Enterprise (“STEs”) under the WTO. However, as AWB conforms with the existing WTO rules governing the operation of STEs, and, therefore it is not subject to any specific disciplines.

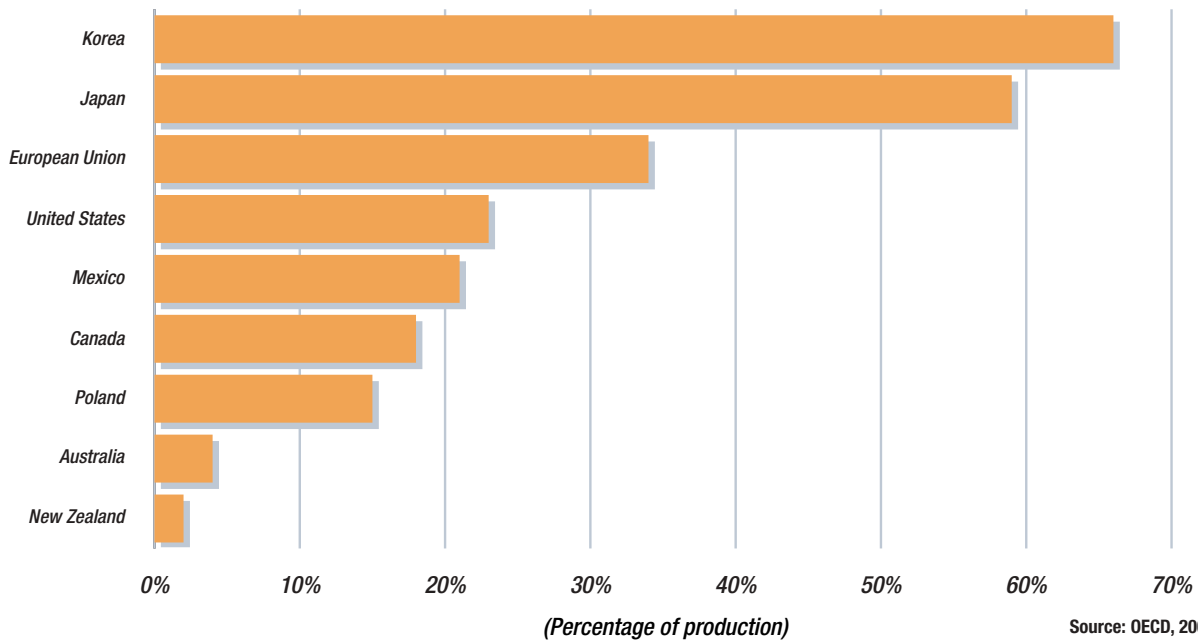
OECD Producer Support Estimates from 1988 to 1998

The following table outlines the level of Producer Support Estimates (“PSE”) for growers in major wheat exporting countries/regions.

Country	PSE per farmer	PSE per hectare
European Union	USD16,028	USD762
United States	USD20,803	USD120
OECD Average	USD11,334	USD198
Canada	USD9,341	USD51
Australia	USD2,894	USD2

The difficulties associated with selling into a complex global market are exacerbated by the fact that wheat growers in the United States and European Union receive more than 50% of their income in the form of government subsidies. At the same time, in some major import markets, such as Japan and South Korea, the levels of subsidies are even higher.

Government to producer subsidies as a percentage of value of total production 2002-03



Subsidies distort the world market. By insulating producers from market signals, they cause oversupply and depressed prices. In addition, major exporters often resort to export subsidies, government backed export credit programs, and food aid donations, to move unwanted stocks onto the global market. Those most affected by these programs are efficient, unsubsidised producers such as Australian growers.

Free Trade Agreement

Australia's Single Desk arrangements for marketing wheat have been preserved as part of the Free Trade Agreement ("FTA") negotiations with the United States.

The Australian government defended the wheat Single Desk system on the grounds that it is non trade distorting and operates commercially and transparently.

AWB supported the FTA throughout the process of negotiations because of the benefits it could potentially bring to many Australian agricultural commodities in the broader trade relationship with the United States.

Wheat supply to Iraq

AWB has shipped approximately 1.0 million tonnes of wheat to Iraq since the end of major combat operations. The shipments were contracts negotiated and honoured by the United Nation's Oil for Food Program before hostilities commenced.

The United Nations' Oil for Food Program officially concluded on 21 November 2003. The program was set up seven years ago, and has since provided a mechanism to sell more than 12 million tonnes of wheat to Iraq.

The importation of wheat into Iraq now reverts to the Coalition Provisional Authority, with technical assistance provided by the World Food Program and Iraqi Grains Board.

AWB is determined to maintain Australia's share of this market based on the quality of our wheat and the long standing relationship with Iraq. AWB also believes that the amount of wheat consumed should increase, growing the demand for wheat in general.

Summary of regulatory involvement and government support by major exporting country/region

Country	Regulatory involvement	Government support
Australia	<ul style="list-style-type: none"> Domestically, the Australian wheat industry is fully deregulated with a number of trading companies operating in the market place including multinationals such as Cargill, and ConAgra The export of wheat from Australia is regulated with AWBI's responsibility to be the sole bulk exporter of Australian wheat governed by the Commonwealth government through its regulatory agency the WEA - the Single Desk system for wheat AWBI is a wholly owned subsidiary of AWB, a grower controlled listed company Exports outside the Single Desk system are possible but these must be complementary to the Single Desk system and approved by the WEA. 	<ul style="list-style-type: none"> The government has very little financial involvement in the Australian wheat industry The Single Desk system receives no financial support or underwriting by the government and apart from welfare or emergency assistance farmers do not receive financial assistance from the government.
United States	<ul style="list-style-type: none"> The United States wheat industry is fully deregulated for both domestic and international sales and is the home of most of the world's major multinational grain trading companies, such as Cargill, ConAgra, ADM and Louis Dreyfus. 	<ul style="list-style-type: none"> By any measure United States farmers receive a very high level of government support. Under current farm policy US wheat farmers receive around 46% of their income from government payments The United States government also directly supports exports of their wheat through government sponsored export credit programs, food aid donations and market development and promotion tools The United States administration has approved increases to current farm support and subsidy levels by 70% to USD170 billion over 10 years.
Canada	<ul style="list-style-type: none"> Domestically, the Canadian Wheat Board ("CWB"), a statutory marketing authority, has sole control over the purchase of wheat and malt barley grown in the provinces of Alberta, Saskatchewan, Manitoba and a portion of British Columbia (the vast majority of Canadian wheat is grown in these areas) for domestic food use in Canada or for exports The CWB also has sole control over sales of these grains for export. 	<ul style="list-style-type: none"> Canadian farmers receive a payment upon delivery of their grain equal to about 70% of their expected final return. The Canadian government guarantees this payment The CWB is the Canadian government's chief domestic wheat policy tool. However Canadian farmers still do receive some direct government support but this is comparatively low.
European Union	<ul style="list-style-type: none"> The European grain industry is heavily regulated, both domestically and for export, with agricultural policy dictated by the Common Agricultural Policy ("CAP") under the direction of the European Commission The CAP was originally instituted in an attempt to promote food security and self sufficiency in Europe. However, given that support levels have been established, on the whole, well above world prices, the European Union has moved from being a net importer of major agricultural commodities, to a net exporter. Furthermore, in order to "move" production surplus, exports have been heavily subsidised. 	<ul style="list-style-type: none"> Farmers in the European Union receive some of the highest levels of subsidy in the world. The current members of the European Union wheat farmers receive about 58% of their income from government payments European Union farmers also receive a direct export subsidy in the form of a restitution payment for exports that fall below a certain price level The European Union operates a range of domestic supports and export subsidies in the wheat industry including: <ul style="list-style-type: none"> - Direct area supports provide payments to farmers based on historical average yields - Intervention support prices - Export subsidies or restitutions - Import duties applied on the basis of a calculated reference price and a resultant duty on high, medium and low quality wheat.
Argentina	<ul style="list-style-type: none"> Wheat production, domestically and for export, in Argentina is totally deregulated. Deregulation of the wheat industry came as part of widespread initiatives by the Argentinean government to arrest the declining economy, skyrocketing inflation and the weak peso In 1990 the government set about a widespread privatisation program, resulting in the privatisation of the national inland and terminal elevator network, privatisation of the rail network and private investment in the country's waterways and ports The government operated Argentinean Grains Board, which previously controlled the industry was eliminated in 1991 and in the same year, the government pegged the peso to the US dollar in order to control inflation The Argentine grains market is now dominated by the large multinational grain traders which have made significant investment in storage and port facilities. 	<ul style="list-style-type: none"> The Argentine government has removed all levels of support. However, agricultural exports account for around 60% of Argentina's exports earnings. As a result, the agricultural sector is heavily taxed in an effort by the government to develop other value adding industries The government also maintains a scheme where farmers can borrow from the government bank at around half the commercial interest rate, in an effort to provide some relief to farmers. However, this facility has come under pressure as a result of the current financial difficulties and there remains doubt as to whether it will be continued.