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Report Highlights:

Brazil's wheat production fell to 2.9 million tons in 2002 due to a prolonged drought, frosts in late August/early September, and heavy rains during harvest in Rio Grande do Sul. Post is forecasting a 12-percent increase in wheat area and a 30-percent increase in production to 3.8 million tons for 2003. Post estimates 2002/03 corn production at 39 million tons and is forecasting a 5-percent increase in area and production for 2003/04 to 13 million hectares and 41 million tons, respectively. Post is forecasting 2002/03 rice production at 10.7 million tons, rough basis, and forecasts a 3-percent increase in area and production in 2003/04, due to strong prices.

Includes PSD changes: Yes
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Executive Summary

Wheat:

Brazil's hopes for a 4+ million ton wheat harvest in 2002 were frustrated by a prolonged drought, frosts in late August/early September, and heavy rains during harvest in Rio Grande do Sul (RS). Brazil's wheat production fell to 2.9 million tons in 2002. Despite the losses, 2003 wheat acreage is expected to increase due to strong internal and world prices and the government minimum support program. Post is forecasting a 12-percent increase in the area planted to wheat, and a 30-percent rise in production to 3.8 million tons for 2003, assuming favorable weather conditions.

In CY 2002, Brazil imported 6.57 million tons of wheat worth US\$878 million. US wheat exports jumped to nearly 675,000 tons in CY2002, worth \$96 million, ranking as the top US agricultural export to Brazil. The 2003 wheat imports should fall slightly to 6.5 million tons, due to an expected stronger domestic crop, high international prices, difficulties importing from Argentina, an unstable currency relative to the US dollar, and weak economic growth dampening demand for wheat products. Due to expectations of a smaller Argentine crop, the United States is forecast to export 500,000 tons to Brazil in 2003.

Corn:

Corn area and production are forecast to increase 2 and 4 percent, respectively, in 2002/03 due to strong safrinha prospects. Post is forecasting 2002/03 corn production at 39 million tons. Post is forecasting a 5-percent increase in corn area and production in 2003/04 to 13 million hectares and 41 million tons, respectively. Corn prices are expected to be strong throughout the year, thereby stimulating corn production.

Brazilian corn exports for 2002/03 and 2003/04 are forecast at 2.7 million tons and 3 million tons, respectively, while imports are forecast at 250,000 tons.

Rice:

Post is forecasting 2002/03 production at 10.662 million tons, rough basis, and forecasts a 3-percent increase in area and production in 2003/04. Strong rice prices are likely to spur increased rice production.

According to the Brazilian Secretariat of Foreign Trade, Secex, Brazilian rice imports reached 641,677 tons in CY 2002. US customs data indicates 56,703 tons of US rice exports to Brazil in 2002, worth \$6.58 million dollars, comprised almost entirely of paddy rice. US rice sales continued through early 2003, and are likely to resume later in the year. US exports are unlikely from March through June due to the Brazilian harvest, however, tight Mercosul supplies indicate a strong possibility for US rice sales in the second half of 2003. Post is forecasting 250,000 tons of US exports to Brazil in 2003/04, representing one-quarter of Brazil's total expected imports. Exports are at 50,000 tons in 2002/03 and 2003/04, destined primarily to Venezuela from rice growing regions in the northern state of Roraima.

Brazilian Economic Overview

In the past decade, Brazil has undertaken a number of economic reforms that dramatically reduced inflation and opened the economy to private sector investment. In 1994, Brazil initiated an economic stabilization program known as the Real Plan, which was highly successful in reducing longstanding inflation. The plan also inaugurated one of the world's largest privatization programs. However, when growth slowed, the economy's dependence on external financing and the government failure to control its finances, left the economy vulnerable to external shocks. In 1999, the government was forced to float and devalue the real. Since 1999 the government has been dedicated to fiscal discipline, highlighted by the passage in May 2000 of the Fiscal Discipline Law, which sets strict limits on government spending at the federal and sub-federal level. The government also initiated an inflation-targeting program as the basis of monetary policy, wherein the government sets a target and the Central Bank strives to keep inflation within a band around the target. The new government that took office in January 2003 has stated that it will maintain fiscal discipline, inflation targeting, and a floating exchange rate.

The year 2002 was a difficult for the economy, as investor confidence fell because of uncertainty surrounding the 2002 elections, volatile international financial markets, and the weak global economy. This was on top of the economic turbulence experienced in 2001, when the Brazilian economy was buffeted by a domestic energy shortage, an economic crisis in Argentina, and the after effects of the September 11 terrorist attack. The exchange rate depreciated 52% in 2002, on top of a 19% decline in 2001. Inflation crept up to 12.5% in 2002, forcing the Central Bank to raise interest rates. Growth was modest, 1.5% in 2001 and perhaps a bit higher in 2002. With the depreciation, high interest rates and slow growth, the government's debt burden increased. With the weaker exchange rate, Brazil turned a trade deficit in 2000 to a small trade surplus in 2001 and \$13 billion surplus in 2002. The surplus ameliorated the balance of payments pressure Brazil experienced because of a fall in international lending and slowdown in foreign direct investment, but the Central Bank had to draw on its international reserves in 2001 and 2002 to cover the financing gap. Brazil signed a \$30 billion IMF program in August 2002.

Despite of these pressures, the economy avoided a serious crisis, in part because of the reforms adopted in the 1990s. The new government has affirmed that it intends to pursue stable economic policies and implement structural reforms. If the government is able to do so, the pressure on government finances, balance of payments, exchange rate and inflation should decline, and the economy would be in a position to grow more rapidly. Economic growth is forecast at 2 percent in 2003, with inflation of 12 percent.

Wheat

Wheat PS&D

PSD Table						
Country	Brazil					
Commodity	Wheat					
				(1000 HA)(1000 MT)		
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		08/2001		08/2002		08/2003
Area Harvested	1725	1710	2043	2052	0	2300
Beginning Stocks	650	130	900	424	900	188
Production	3250	3194	2935	2914	0	3800
TOTAL Mkt. Yr. Imports	6781	7200	7200	6950	0	6500
Jul-Jun Imports	7111	7200	6700	6600	0	6600
Jul-Jun Import U.S.	199	110	0	500	0	500
TOTAL SUPPLY	10681	10524	11035	10288	900	10488
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Jul-Jun Exports	0	0	0	0	0	0
Feed Dom. Consumption	400	200	350	400	0	200
TOTAL Dom. Consumption	9781	10100	10135	10100	0	10200
Ending Stocks	900	424	900	188	0	288
TOTAL DISTRIBUTION	10681	10524	11035	10288	0	10488

Production

Nearly all of the wheat in Brazil is grown in the three southern-most states, with Parana as the largest producer. Wheat is a winter crop, and competes with the second crop corn. The main planting season is roughly April in Parana through June in Rio Grande do Sul, and harvest runs from September through November. The local marketing year is August through July.

Brazil's hopes for a 4+ million ton wheat harvest in 2002 were dampened by a prolonged drought, frosts in late August/early September, and heavy rains during harvest in Rio Grande do Sul (RS). Parana, the largest wheat producer, suffered losses of 38 percent from the combined effects of the frosts and drought while RS quality suffered considerably from the heavy rains during harvest. Brazil's wheat production fell to 2.9 million tons in 2002 due to the weather difficulties.

Despite the losses, 2003 wheat acreage is expected to increase due to strong internal and world prices and the government minimum support program. Post is forecasting a 12-percent increase in the area planted to wheat, and a 30-percent rise in production for 2003, assuming no considerable weather losses. Despite stronger

domestic wheat production, Brazil will remain dependent on imports. Domestic production satisfied 29 percent of wheat consumption in 2002, and is forecast to account for 37 percent in 2003/04, given favorable weather.

Wheat consumption is forecast to remain stable in 2002, and increase one percent in 2003. Brazilian wheat consumption has been rising steadily for 40 years, and the upward trend is expected to continue. As the economy strengthens and incomes rise, Brazilian consumers are shifting from rice and other starches to wheat-based products. Recent slow economic growth and high prices for wheat-based products has slowed the increase in wheat consumption, but the upward trend is expected to continue in the long-run.

In 2002, the Brazilian Ministry of Agriculture, Livestock, and Food Supply (MAPA) introduced a program to expand domestic wheat production. The program aims to reduce imports from 75 percent to 50 percent of domestic consumption by 2004, thereby saving the nation an estimated \$350 million annually. The goal is to produce 6.7 million tons of wheat by 2005, which would represent a more than doubling of the 2002 harvest.

In an effort to encourage wheat production, the Brazilian government further raised the minimum price for wheat and maintained higher and differentiated prices for non-traditional growing regions. This year's minimum price for wheat in the three southern states of Rio Grande do Sul, Santa Catarina, and Parana was raised from R\$285/ton to R\$400/ton (roughly US\$117/ton) while Mato Grosso do Sul, Mato Grosso, Goias, Sao Paulo, Minas Gerais, Bahia and the Distrito Federal enjoy a higher minimum price of R\$450/ton (roughly US\$132), up from R\$300 last year. The minimum price for wheat was R\$225/ton for all regions in 2001. Despite the significant increases in the minimum prices, the dollar-based value has remained fairly stable, as the Brazilian Real has been weakening against the US dollar. The increase in this year's minimum price reflects the higher costs of production due to increased input costs. Due to high domestic and international wheat prices, the Brazilian government did not have to buy Brazilian wheat last year and are not expected to this year in order to guarantee the minimum price last year. Many analysts do not feel that the increase in the minimum price is sufficient to encourage production, as the international parity for wheat is roughly R\$600/ton. In order to further stimulate wheat production, the Brazilian government increased the amount of subsidized credit available to Brazilian wheat producers by 18.5% to R\$450 million (US\$132 million) in 2003.

While the South still accounts for 92 percent of the nation's harvest, wheat production is making important advances in the center-west. Government and private researchers are developing appropriate wheat varieties for the savannah (cerrado). The center-west has substantial area with elevation above 500 meters, where cold night time temperatures and low humidity favor wheat production. The center-west has 2 million hectares of available land which could be planted in wheat, although actual acreage will depend on minimum prices, other government support programs, seed availability, and the relative prices of imports. Wheat area in the state of Mato Grosso do Sul (MS) jumped from 60,000 hectares in 2001 to 92,000 hectares in 2002 due to the higher minimum wheat price. Area planted in MS is expected to increase to 103,500 hectares in 2003, however, this acreage remains well below the 430,000 hectares planted in 1987 when government support for Brazilian wheat production was considerably higher.

Various non-traditional wheat growing regions are experimenting with new wheat varieties. For example, the area of Chapada Diamantina in the northeastern state of Bahia planted its first experimental irrigated wheat plots in 2002. The region enjoys an altitude above 900 meters, thereby providing a favorable climate for wheat production. Furthermore, the region is already strong in horticultural products, and wheat offers an excellent option for healthy crop rotation. The residues from the strong fertilizer use for the horticultural products reduces the amount needed for wheat, thereby reducing production costs. The experimental plots averaged

yields of 5,000 kg/hectare with excellent quality. The region hopes to plant 5,000 hectares to wheat as part of the rotation with the horticultural products, however the project is still in the early stages of development. The production may reduce Bahia's dependence on imports, but is unlikely to make a significant impact on Brazil's wheat production. Furthermore, no region of wheat production in Brazil is able to successfully compete with Argentina or the United States, which enjoy considerably lower production costs, higher yields, and more favorable climates.

Although an Embrapa study indicates that Brazil has the potential to plant 5.2 million hectares of wheat, producing 12.9 million tons, such an increase would be difficult to achieve. FUNDACEP (a private research institute in Rio Grande do Sul) asserts that a number of factors limit wheat production in Rio Grande do Sul (RS), the nation's second largest wheat producing state. Area planted to wheat in RS has declined due to prices below the cost of production, insufficient credit, frustrations with poor harvests due to poor weather, increasing input costs, and inability to compete with imports. The cost of wheat production in RS is double that in Argentina and the United States, and has been rising. Wheat production in RS requires extensive fertilizer use, and commodity prices have not kept up with increasing input costs. Furthermore, Brazil does not enjoy a favorable climate for wheat production, and crops are often affected by droughts, floods, and frosts. Given Brazil's climate, production is limited to the southernmost states. In order to increase Brazilian wheat production, area to other crops would have to be reduced, or the healthy rotation of crops would have to be abandoned.

Trade

In CY 2002, Brazil imported 6.57 million tons of wheat worth US\$878 million. Despite a short-term ban on US wheat exports to Brazil in late October/early November, US wheat exports jumped to nearly 675,000 tons in CY2002 worth \$96 million, ranking as the top US agricultural export to Brazil. US success in the Brazilian wheat market in 2002 was largely due to the economic problems in Argentina. Brazil had difficulties sourcing from Argentina, as many chose to sit on the grain as a form of currency reserves due to their lack of trust in national banks. Argentina and its rising wheat prices, grain export taxes, economic uncertainty caused, and reluctance to sell caused great concern for Brazilian wheat millers.

Brazilian millers requested a temporary lifting of the Common Export Tariff (TEC) in order to facilitate imports from alternative suppliers and prevent a supply shortage. The request was denied, largely due to political concerns that it would exacerbate the crisis in Argentina. However, the Ministry of Agriculture relaxed phytosanitary requirements and permitted wheat imports from non-traditional suppliers, such as the former Soviet Union and Europe. Given the difficulty in sourcing Argentine wheat, Brazilian importers turned to alternative suppliers.

Brazil signed protocols with Russia and Ukraine for imports of wheat of 1 million tons and 500,000 tons from the countries, respectively, in exchange for Brazilian meat exports. However, these agreements are non-binding and numerous factors reduce their relevance. Wheat imports would only occur when the price is advantageous and phytosanitary requirements are met. Given the privatization of the meat and wheat sectors, the Brazilian government or wheat importers would have to buy meat from the private sector in order to trade. Such action is unlikely. While Brazil is likely to import wheat from Russia and Ukraine, the sales are independent from the protocols, which are viewed more as a gesture of good will, and not as trade agreements.

Brazilian flour millers are concerned with increasing imports of Argentine flour resulting from the devaluation of the Argentine peso. Argentine flour has become more competitive and the devaluation allows mills to give discounts in dollars. Argentine mills have incentives to export as their costs are in pesos and exports are dollar-based. Furthermore, dampened demand in Argentina due to the economic difficulties is also likely encourage greater exports. Brazilian millers are very concerned with efforts by Argentina to avoid the 20 percent grain export tax by exporting "premix" to Brazil. "Premix" is a mixture prepared for bread making, and faces an export tax of 5 percent. However, Argentina is simply exporting flour with added salt under the name "premix" to avoid the higher taxation.

Brazil relies on imports for the majority of its consumption, with Argentina as its primary supplier. Argentina enjoys many advantages in the Brazilian market, such as proximity, lower transportation costs, shorter delivery times, and protection from the 10 percent MERCOSUL duty and 25 percent merchant marine tax. Despite Argentina's advantages, there are significant opportunities for U.S. wheat, particularly from May through September preceding the Brazilian harvest. The Northeast offers the greatest opportunities for US wheat, as the region is exempt from the merchant marine tax and the US enjoys freight advantages and proximity. In 2001, Argentina accounted for 95 percent of wheat imports in Northeast Brazil. In 2002, this percentage fell to 65 percent, with the United States and Ukraine accounting for the majority of the remaining 35 percent of imports. The trend of sourcing less from Argentina is likely to continue in 2003, as Argentina is expecting a smaller crop and they continue to sit on the grain rather than have money in the bank.

On March 15, 2001, the Brazilian Ministry of Agriculture lifted long-standing restrictions on imports of Hard Red Winter, Hard Red Spring, and Soft Red Winter wheat. For the time being, the import ban remains on shipments of U.S. durum and all wheat out of the west coast because of phytosanitary concerns. USDA continues to work with the Brazilian government to resolve remaining the import restrictions.

The 2003 wheat import forecast is forecast to fall slightly to 6.5 million tons, due to an expected stronger domestic crop, high international prices, difficulties importing from Argentina, an unstable currency relative to the US dollar, and weak economic growth dampening demand for wheat products. During the past 2 years, millers purchased hand-to-mouth, due to high wheat prices, the weakening of the Brazilian Real relative to the U.S. dollar, and slower economic growth. Importers were reluctant to take longer-term positions, and closely monitored the exchange rate, economic problems domestically and in Argentina, and the Brazilian and Argentine wheat crop progress. The cost of imports increased as the Real weakened, while economic difficulties depressed wheat consumption. Due to expectations of a smaller Argentine crop, the United States is forecast to export 500,000 tons to Brazil in 2003 in order to meet Brazilian demand.

On December 19, 2002, the Brazilian Chamber of Foreign Trade (Camex) reduced the wheat import tariff from non-Mercosul nations from 11.5 percent to 10 percent, as of January 1, 2003.

The Milling Sector

As a result of agricultural liberalization, the Brazilian milling sector has been undergoing increasing concentration, as has much of the agricultural sector. The largest milling companies continue to expand, while small mills are increasingly unable to survive. The number of operating wheat mills in Brazil has fallen from 489 in 1967 to only 200 today. Top milling companies in Brazil include Moinho Pacifico, Bunge Alimentos (Santista Alimentos), J. Macedo, Predileto (Moinho Cruzeiro do Sul), and Anaconda. National milling capacity

is estimated at 15.37 million tons per year, indicating idle capacity of 40 percent. Milling capacity is primarily located in the south and in Sao Paulo. The northeastern state of Ceara has emerged as the 2nd largest wheat importer due to its concentration of four large mills which purchase roughly 750,000 tons per year.

Brazilian Milling Capacity by Region

Region	Annual Milling Capacity (1000 tons)	Percentage of Total Brazilian Milling Capacity
Southeast	6,562	43
South	4,881	32
Northeast	2,757	18
Center-West	797	5
North	375	2
Total Brazil	15,372	100

Source: Sindustrigo 2000 Survey

Moinho Pacifico, the largest mill in Latin America with a capacity of 900,000 tons per year, plans to expand in 2003 to a capacity of 1.12 million tons per year. The R\$50 million investment in Santos, Brazil will include the construction of 2 new silos, thereby increasing storage capacity to 115,000 tons. The company aims to increase its market share in Sao Paulo from 27 percent to 40 percent by 2004. Meanwhile, Fortaleza-based M. Dias Branco is expanding its presence in the Northeast. The company is investing R\$500 million in Aratu, Bahia in the construction of a wheat mill, cookie/cracker and pasta factory, and port facilities. M. Dias Branco currently has a 30 percent market share of cookies, crackers, and pasta in the Brazilian North and Northeast regions. The new facilities will generate 1,000 new jobs, with a milling capacity of 1,800 tons per day once it is inaugurated in December 2003. M. Dias Branco produces vitamin-fortified flour, and is working closely with the Bahian government to increase the nutritional value of bread under the program "Programa Mais Pao."

A proposed law requiring the inclusion of manioc powder in wheat flour stirred considerable debate in the Brazilian wheat sector. Wheat millers are opposed to the idea, because the blend lowers the quality of the flour and reduces its nutritional value. Furthermore, wheat millers argue that the move would not necessarily reduce the cost of flour, as millers would be forced to import manioc in times of domestic shortage. Those in favor of the proposal assert that the manioc powder improves baking quality and shelf life of bread, while opponents argue that if this was true, there would not need to be a law mandating its inclusion. Current indications suggest that this proposed law is unlikely to gain enough support to pass.

Brazilian wheat consumption (52 kilos per capita) remains considerably below world levels (82 kilos per capita), and has declined recently due to rising prices for wheat-based products.

The Brazilian wheat industry has stated its support for the new administration's "Zero Hunger" Program, which aims to eliminate hunger and malnutrition in Brazil. The industry hopes that the program will stimulate domestic wheat consumption.

Corn

Corn PS&D

PSD Table						
Country	Brazil					
Commodity	Corn					
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		03/2002		03/2003		03/2004
Area Harvested	11827	11827	11800	12350	0	13000
Beginning Stocks	1648	3218	1074	436	774	386
Production	35501	35268	37000	39000	0	41000
TOTAL Mkt. Yr. Imports	425	450	400	250	0	250
Oct-Sep Imports	297	297	400	250	0	250
Oct-Sep Import U.S.	32	32	0	0	0	0
TOTAL SUPPLY	37574	38936	38474	39686	774	41636
TOTAL Mkt. Yr. Exports	2000	2500	2000	2700	0	3000
Oct-Sep Exports	3857	3500	2300	2800	0	3000
Feed Dom. Consumption	30500	33000	31700	34000	0	35000
TOTAL Dom. Consumption	34500	36000	35700	36600	0	37200
Ending Stocks	1074	436	774	386	0	1436
TOTAL DISTRIBUTION	37574	38936	38474	39686	0	41636

Production

Corn is produced in nearly every state in Brazil. However, 85 to 90 percent of total production is concentrated in the Center-South region, with Parana as the largest producer. There are two corn crops in Brazil. The main crop is planted in September through November. The second crop, or "safrinha"(little crop), is planted in the South from late January through March, and competes for area with other winter crops such as wheat. The corn crop in the North and Northeast regions begins in February, but is statistically considered part of the first crop. The local marketing year in Brazil runs from March to February.

High corn prices and government incentives for corn production were insufficient to halt the drop in corn acreage for the Brazilian 2002/03 summer crop corn. Summer corn acreage fell considerably as many producers shifted to soybean production. The weakening of the Brazilian currency relative to the dollar amplified the difference between soybean and corn prices, as soybeans are an export crop and corn is produced for domestic consumption and has low liquidity. Furthermore, the new US Farm Bill is spurring greater Brazilian soybean production as US soybean production is expected to drop relative to corn.

Weather difficulties at planting further boosted soybean production over corn. A drought in the Southeast and Center-West delayed corn planting, and caused some producers to shift to soybeans, as they can be planted later. Many of the producers opting for soybeans in the summer crop intend to plant corn for the safrinha. However, the delay in soybean planting, particularly for quicker-to-maturity varieties, may reduce the acreage for safrinha corn or result in delayed planting. Late planting for safrinha corn exposes the crop to greater weather risks, such as drought during planting, frosts during maturation, and heavy rains during harvest.

Brazil's increasing dependence on the corn safrinha concerns the sector, as the winter crop frequently suffers considerable weather damage, such as drought during planting, frosts during maturation, and heavy rains at harvest time. Furthermore, the pork and poultry sectors depend on domestic corn production and their export operations are vulnerable during corn shortages. The export sector is reluctant to use imported corn, because they promote "GMO-free" product in the European market.

Due to Brazil's emergence as a corn exporter and the domestic pork and poultry sector's dependence on the domestic corn crop, corn pricing is undergoing changes. Regardless of domestic shortages, Brazil is likely to export corn if prices are favorable. As corn producers now have an export alternative, pork and poultry producers have begun entering into pre-crop purchasing contracts at prices near export parity to guarantee supply. Despite the changes in the corn market, liquidity still remains low compared to soy. The majority of soybean production is exported, and the soy sector enjoys credit, financing, and input support from the private sector. Corn, on the other hand, depends on government mechanisms for support which are limited and less reliable.

Brazil is currently confronting tight grains supplies, and stocks are at the lowest level in 20 years. At the end of 2002, government stocks, comprised primarily of corn and rice, were estimated at 550,000 tons. During the beginning of the 2001/02 summer crop season, government corn stocks exceeded 1.5 million tons and rice stocks reached 1.3 million tons. The government expects almost no ending stocks of corn and rice stocks of only 300,000 tons by the 2003/04 season.

Concerned with the tight corn supplies, the Minister of Agriculture announced measures to encourage and increase the corn winter crop, or "safrinha." He requested subsidized credit for planting, storage, and options contracts in order to increase the liquidity of corn production. The winter crop is expected to be significantly higher than last year, however, in the south it will compete against wheat for area and winter crops are often damaged by adverse weather.

The cost of corn seed is expected to increase 30 percent to 50 percent for the 2003/04 crop, due to the increase in corn prices and increased production costs. In some production regions, corn prices doubled in the last year, while production costs jumped 45 percent to 85 percent. Seed prices are based about 50 to 60 percent on the production cost, which is likewise affected by the commodity price. The rest of the cost of the hybrid seed reflects the costs of energy, transportation, depreciation, and the cost of labor, all of which also increased during the past year. The industry does not feel that higher seed prices will discourage corn production, as seed is a fairly small component in total corn production costs. According to Ocepar, the Organization of Cooperatives in Parana, seeds comprise only 7.5 percent of total production costs. Furthermore, high corn prices should encourage corn production despite higher input costs.

Corn area and production are forecast to increase 2 and 4 percent, respectively, in 2002/03. Corn will continue to compete against soybeans and cotton for area during the summer crop, and against wheat in the winter crop.

The 2002/03 Brazilian corn crop is increasingly dependent on the high risk winter safrinha crop. Acreage is expected to expand more than 11 percent for this year's safrinha. Productivity remains the question. Last year's safrinha suffered serious drought losses in Parana. The safrinha frequently suffers from drought, frosts, or heavy rains, thereby complicating forecasting production totals. Many Brazilian forecasts assume ideal weather conditions, thereby often seriously over-estimating the crop. Post assumes more conservative estimates, recognizing that at least some of the production areas are likely to encounter less favorable weather. This approach more closely follows trends based on past performance.

Despite the drop in area for the 2002/03 summer corn crop, most regions are expecting yield increases and significantly high safrinha area, thereby enabling higher area and production than last year. Favorable climate after planting boosted yields, as well as greater technological and input investments. Post is forecasting 2002/03 corn production at 39 million tons. While this forecast is below government estimates of 41.5 million tons (IBGE) and 40.8 million tons (CONAB), it still assumes no widespread weather damage in the safrinha.

Post is forecasting a 5-percent increase in corn area and production in 2003/04 to 13 million hectares and 41 million tons, respectively. Corn prices are expected to be strong throughout the year, thereby stimulating corn production. In the southern state of Rio Grande do Sul, corn may take over some soybean area as producers are reluctant to plant conventional soybeans instead of biotech varieties. The current administration is cracking down on illegally planted soybean production with threats of fines, destruction of the crop, and jail time. These threats are likely to sway some southern producers away from soybean production next year, mostly benefitting corn.

Corn consumption is forecast to increase to 1.6 percent in 2002 and 2003 in order to supply the growing domestic pork and poultry sectors.

Trade

In late November 2002, Camex included corn on Brazil's List of Exceptions and reduced the import tariff from non-Mercosul nations from 9.5 percent to 2 percent for 600,000 tons of corn until February 28, 2003. Camex took this action in attempt to alleviate the short corn supply situation and reduce inflationary risk. Following the tariff reduction, corn prices declined slightly after 20 months of high prices. However, limited availability of non-biotech corn from traditional suppliers and high Chinese corn prices reduced the effectiveness of the tariff reduction. Brazilian delegations from the government and private sectors are visiting Argentina to examine conditions for segregation of non-biotech corn. The Brazilian government wants a guarantee that Argentina can guarantee segregation in order to supply Brazil's Northeast with non-biotech corn. Imports of Argentine biotech corn have been highly controversial, and liberation only occurred after court rulings. However, the new Administration is likely to be less lenient on biotech imports, and is resisting imports of biotech product.

The Brazilian government has rejected industry requests to halt corn exports. Despite domestic corn shortages and difficulties importing grain, the government will not interfere with exports. Some argue that the Brazilian corn exports have caused a 100-percent increase in corn prices, and caused a grave corn shortage in northeastern Brazil. Meanwhile, imports have been complicated due to lack of non-biotech corn from exporters and intense judicial battles to liberate such corn for animal feed.

According to Secex data, Brazilian corn exports in 2002 (Feb02/Jan03) reached 2.5 million tons. Although this is considerably lower than the 2001 exports of 5.91 million tons, the amount is impressive considering the tight

domestic supply. Corn exports are expected to continue in 2003 despite the short domestic corn supplies. In April and May 2003 alone, there are commitments for 600,000 tons of exports. Brazil's corn exports continue to be stimulated by a weakening currency relative to the U.S. dollar and its non-biotech corn status. Brazilian corn exports for 2003/04 are forecast at 3 million tons, while imports are forecast at 250,000 tons.

Rice

Rice PS&D

PSD Table						
Country	Brazil					
Commodity	Rice, Milled (1000 HA)(1000 MT)					
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		04/2002		04/2003		04/2004
Area Harvested	3167	3220	3150	3200	0	3300
Beginning Stocks	1171	1110	833	886	583	730
Milled Production	7137	7250	7150	7250	0	7476
Rough Production	10496	10662	10515	10662	0	10994
MILLING RATE (.9999)	6800	6800	6800	6800	0	6800
TOTAL Imports	625	618	725	600	0	1000
Jan-Dec Imports	548	618	800	642	0	1000
Jan-Dec Import U.S.	0	0	0	57	0	250
TOTAL SUPPLY	8933	8978	8708	8736	583	9206
TOTAL Exports	25	136	25	50	0	50
Jan-Dec Exports	27	136	25	50	0	50
TOTAL Dom. Consumption	8075	7956	8100	7956	0	7990
Ending Stocks	833	886	583	730	0	1166
TOTAL DISTRIBUTION	8933	8978	8708	8736	0	9206

Production

Rice is grown in every state in Brazil, although the southern state of Rio Grande do Sul (RS) accounts for nearly half of the nation's total production. Long grain rice predominates and is produced under irrigation and dryland conditions. Roughly half of the rice production is irrigated, almost all of which is produced in RS. The south continues to shift from dryland production to more production under irrigation, and dryland rice production is increasing in the Center-West due to the opening of new lands. There has been an increase in new areas being opened up for soybean production, and rice is generally planted for two years before conversion to soybeans. Furthermore, low production costs and new higher yielding dryland varieties with very good quality characteristics and yields are promoting expansion in the Center-West. Planting runs from September through

November and harvest runs from the following February through April. The local marketing year runs from March to the following February.

Government and private forecasts for 2002/03 rice production are divergent and contradictory, with production forecasts ranging from 10 to 11.1 million tons. CONAB, the Brazilian National Supply Company, has the most optimistic forecast, with a 1.1 reduction in area and a 4.3 percent increase in production. IBGE, the Brazilian Institute for Geography and Statistics, estimates a 2-percent reduction in acreage with a 0.6-percent increase in production. Although private and government estimates agree on a reduction in area, there is no consensus on yields. Given unfavorable weather during planting and the difficulties of securing high quality seeds in the center-west, many private estimates suggest a reduction in yields this year. However, even the most optimistic forecasts indicate a tight market this year, with sustained high prices and considerable imports. CONAB estimates 700,000 tons of imports while the less optimistic forecasts point to nearly 1.5 million tons of rice imports. The need for non-Mercosul imports will increase with any reduction in Brazilian production. Although rice prices are falling slightly during harvest, they are expected to remain strong throughout the year. Rice prices will be supported by the short domestic and Mercosul supply, necessity for imports, an unstable exchange rate, rapidly declining government stocks, and possible increased consumption through the Zero Hunger Program.

Post is forecasting 2002/03 production at 10.662 million tons, rough basis, and forecasts a 3-percent increase in area and production in 2003/04. Strong rice prices are likely to spur increased rice production. In the southern state of Rio Grande do Sul, rice may take over some soybean area as producers are reluctant to plant conventional soybeans instead of biotech varieties. The current administration is cracking down on illegally planted soybean production with threats of fines, destruction of the crop, and jail time. These threats are likely to sway some southern producers away from soybean production next year, mostly benefitting corn, although some shift to rice is expected.

Brazil is currently confronting tight grain supplies, and stocks are at the lowest level in 20 years. At the end of 2002, government stocks, comprised primarily of corn and rice, were estimated at 550,000 tons. During the beginning of the 2001/02 summer crop season, government corn stocks exceeded 1.5 million tons and rice stocks reached 1.3 million tons. The government expects almost no ending stocks of corn and rice stocks of only 300,000 tons. By early next year, Mercosul rice stocks are expected to fall to only 32 days of consumption, including Brazil's expected imports for non-Mercosul countries.

Brazilian rice producers are well organized and have strong political influence. The industry is requesting a variety of support tools (such as those listed in the policy and domestic support section), claiming that success of commercialization of this year's crop depends on government support due to the considerably higher cost of production. Despite the expected rice shortage, Brazilian rice growers have been lobbying for an increase in the Common Export tariff (TEC) to 35 percent for paddy rice imports. Their greatest concern is that imports depress local prices, and they have protested that Brazil should not import rice from countries who subsidize production. The Minister of Agriculture recently announced R\$200 million (US\$58.8 million) in funds to support rice producers through EGF and CPR (see Policy section), representing a 100 percent increase in funds from last year. However, rice producers were not satisfied with the measures, and demanded an increase in the TEC to 35 percent. Considering the inflationary impact of such a measure, the government is unlikely to acquiesce. Meanwhile, the producers and the industry are in a battle over prices. Since February, Brazilian rice producers have pledged not to sell their product below R\$25 per sack (50 kilos), as they assert that their costs of production are R\$24.18 per sack. However, the industry is aiming for prices equal with import parity of R\$22

per sack.

EMBRAPA, the national agricultural research institute, recently announced the release of a new non-irrigated upland rice variety BRS Talento, which is higher yielding, quicker to maturity, offers better bedding resistance, and responds more positively to urea than existing varieties. The variety was brought from Colombia and adapted for Brazilian upland conditions. Test plots averaged yields of 5,400 kg/hectare, and enjoyed lower production costs than the existing varieties. Seeds for commercial use will be available after this year's harvest. The state research station in Rio Grande do Sul is developing new rice varieties for the southern irrigated production. One variety still in experimental stages aims to increase yield from 7,500 kgs/ha to 13,000 kgs/ha.

Trade

According to the Brazilian Secretariat of Foreign Trade, Secex, Brazilian rice imports reached 641,677 tons in CY 2002. US customs data indicates 56,703 tons of US rice exports to Brazil in 2002, worth \$6.58 million dollars, comprised almost entirely of paddy rice. US rice sales continued through early 2003, and are likely to resume later in the year. US exports are unlikely from March through June due to the Brazilian harvest, however, tight Mercosul supplies indicate a strong possibility for US rice sales in the second half of 2003. Uruguay and Argentina will not be able to meet Brazilian demand, and Brazil may need to source up to 500,000 tons of non-Mercosul rice, on paddy basis. The United States is likely to be the primary supplier for non-Mercosul product, and importers will prefer paddy rice to supply Brazilian mills. Post is forecasting 250,000 tons of US exports to Brazil in 2003/04, representing one-quarter of Brazil's total expected imports. Exports are at 50,000 tons in 2002/03 and 2003/04, mostly to Venezuela from rice growing regions in the northern state of Roraima.

On December 19, 2002, the Brazilian Chamber of Foreign Trade (Camex) reduced the rice import tariffs from non-Mercosul nations as of January 1, 2003. The paddy rice tariff was reduced from 14 percent to 11.5 percent, and the milled rice tariff was lowered from 18 percent to 13.5 percent. Camex also removed rice from the Brazil's Mercosul List of Exceptions. Each Mercosul member is allowed to create a list of 100 products on which they can raise and lower the import tariffs. Camex took this action on order to fight inflation due to the rice shortage in Brazil and the inability of Mercosul suppliers to meet Brazilian demand.

The Brazilian rice industry has stated its support for the new administration's "Zero Hunger" Program, which aims to eliminate hunger and malnutrition in Brazil. The industry hopes that the program will stimulate domestic rice consumption. Despite short supplies, they have been aggressive in pushing for a block on rice imports. If the Zero Hunger Program successfully increases rice consumption this year, it will necessitate considerable imports from Mercosul and non-Mercosul nations.

POLICY

MERCOSUL

Brazil is a member of MERCOSUL, which is comprised of Brazil, Argentina, Uruguay, and Paraguay. Countries within MERCOSUL enjoy duty-free access for most agricultural products traded within the trading

bloc, while a Common External Tariff (TEC) is applied for non-MERCOSUL countries. The TEC puts U.S. agricultural products at a competitive disadvantage, particularly for bulk commodity sector (wheat, corn, and rice) in which price is one of the most important factors. Mercosul was expected to reduce the TEC by one percent for all products on January 1, but moved to hold the tariffs at the current level until December 31, 2003. Despite the Mercosul decision not to reduce the TEC on January 1, the Brazilian Chamber of Foreign Trade (Camex) decided on December 19, 2002 to reduce the wheat and rice import tariff from non-Mercosul nations. The wheat import tariff was lowered from 11.5 percent to 10 percent, as of January 1, 2003. Brazil removed rice from their List of Exceptions, and lowered the tariffs to bring them in line with the rest of Mercosul. The paddy rice tariff was reduced from 14 percent to 11.5 percent, and the milled rice tariff was lowered from 18 percent to 13.5 percent.

The TEC for wheat is 10 percent, while corn and sorghum face a 9.5 percent tariff. The tariffs on non-MERCOSUL rice are 11.5 percent for HS1006.10 (excluding for seed), 11.5 percent for HS1006.20, 13.5 percent for HS1006.30.11 and HS1006.30.21, and 11.5 percent for HS1006.30.19 and HS1006.30.29, and 11.5 percent for HS1006.40.

Administrative and Fiscal Measures

U.S. agricultural products face other constraints in accessing the Brazilian market. Administrative and fiscal impediments include the Merchant Marine Tax, which is a 25-percent surcharge on the value of the freight for imports of all products (Note: this measure has been waived for imports to the North/Northeast regions of Brazil in order to stimulate development in the region). These constraints increase costs for the importer and generally results in the exporter being priced out of the Brazilian market. (Note: some measures have been removed in periods of domestic shortages, these measures are also waived for short periods of time to facilitate imports).

Support Prices

Brazil maintains agricultural support prices for many commodities, and the prices often vary by region, variety, and timing of the crop. The minimum prices for corn for the 2002/03 crop year range regionally from R\$7.50/60kg to R\$9.50/60kg. Rice minimum prices are more variable, due to greater differences in varieties and planting methods, and range from R\$7.23/60kg to R\$14.48/60kg.

In an effort to encourage wheat production and reduce dependence on imports, the Minister of Agriculture increased the minimum price for wheat and maintained higher prices for non-traditional growing regions. This year's minimum price for wheat in the three southern states of Rio Grande do Sul, Santa Catarina, and Parana is R\$400/ton while Mato Grosso do Sul, Mato Grosso, Goias, Sao Paulo, Minas Gerais, Bahia and the Distrito Federal enjoy a higher minimum price of R\$450/ton.

The government is likely to use a variety of the policies and programs discussed below for the 2003/04 crops. Although next crop year's programs will not be announced for months, Post expects that policy tools will remain essentially the same.

Key Elements of Domestic Subsidy Programs

The Brazilian government maintains a rural credit system that offers various instruments to support agricultural

production and farm income. These programs are summarized below:

1. Government Commodity Loan Program (EGF):

This program is highly used by farmers to finance the holding of their products in accredited warehouses as collateral for the bank lender. The loan amount is based on the value of product offered as guarantee, based on a minimum price set annually by the government for various products. Banks normally provide loans on the basis of 70 percent of the minimum price. Subsidized interest is available at annual rates of 8.75 percent interest (commercial rates are 26 percent). The volume of such subsidized credit available is limited.

2. EGF-Industry Commodity Loan Program:

This program is similar to EGF, but applicable only to processors of agricultural commodities under the Minimum Support Price Program, except for rice and soybeans. Access to this program is available between the processor and the farmer or cooperative. Financing is limited to 50 percent of the production capacity of the processors, and payment to the farmer cannot be lower than the government-established minimum commodity price in effect. Subsidized interest is available at annual rates of 8.75 percent.

3. Government Commodity Acquisition Program (AGF):

This program is similar to EGF and applicable to farmers who sell farm products to the federal government. Products must be in accredited warehouses, cleaned, dried and graded. The government, through the National Food Company (CONAB), an entity of the Ministry of Agriculture and Food Supply (similar to USDA/CCC) purchases the product at the minimum price.

4. Rural Promissory Note (CDR):

Processors of agricultural commodities can contract a CDR with accredited banks. Financing is limited to 50 percent of the processor's production capacity. Processors must prove they have paid at least the minimum price to the producer. Products eligible for CDR are: cotton, rice, corn and wheat. Subsidized interest rates are 8.75 percent plus banking expenses.

5. Subsidy Auction Program (PEP):

This program is similar to the U.S. loan deficiency payment program. Through this program, the government pays the difference between the prevailing market price and the minimum price of the product. Only wheat, corn, and rubber have been eligible for this program so far. The federal government through CONAB conducts public auctions to set a premium for buyers of a given product. These buyers then contact producers interested in selling their production at the minimum support price in force. Buyers (normally processors or millers) must transport the product to the destination previously established by the program.

PEP was first introduced in November 1996 to help sales of domestic wheat at the minimum price and to relieve pressure on government purchases of wheat. The PEP was initially put in place to assist in the marketing of lower quality wheat shunned by mills at prevailing market prices. Wheat was put up for auction to millers who bid on the level of the subsidy and not the price of the wheat. Through these official auctions, the government compensated for some of the difference between the prevailing market price and the minimum price. Under the

PEP, the government never takes possession of the wheat itself but facilitates the transfer of the wheat from the seller to the buyer. In some respects the program is basically a transportation subsidy as the bonus varies with the distance from the seller to the purchasing mill. After an initial slow start in 1996, PEP auctions accelerated and PEP has proven useful marketing tool for the Brazilian government. The costs of PEP are much less than purchase, storage, subsequent marketing, and eventual losses under a Government purchase program.

6. Option Contract:

The federal government through CONAB offers a futures price, normally between harvest periods, for purchase of eligible (wheat, corn, rice, and cotton) product. The futures price is established by CONAB at the moment the contract is offered, and the price is always above the minimum price. The producer may acquire a put option to sell contracts of 27 metric tons. The producer of the option contract acquires the right to sell the contracted product to CONAB at a later date and price specified in the contract.

7. Product Equivalency:

Small producers, under the Program to Strengthen Family Farms (PRONAF), are entitled to production cost financing based on the equivalency concept: farmers pay their back loans by delivering an equivalent amount of the crops. The government established minimum price is used as reference. This scheme is only available for cotton, rice, corn and wheat. Interest rates for small family farms are highly subsidized, at the annual interest rate of 5.75 percent. The volume of credit available at this rate is limited.

8. Other:

Long-term support for production and processing of agricultural products is centralized in the BNDES - Brazilian Bank for Economic and Social Development, along with the Special Agency for Industrial Financing (FINAME). Both form the BNDES system. The BNDES system's mission is to foster economic and social development in Brazil, acting as an agent for long term investments. The BNDES system provides financial support to the following sectors of the Brazilian economy: agriculture, industry, infrastructure, commerce and services. The BNDES system offers a broad range of services to support various agribusiness project types. Among those are:

- FINAME Rural. A credit line destined for acquisition, maintenance and/or rebuilding of agricultural machinery. The annual interest rate is 14.5 percent for a period of 5 years, with a grace period of two years.
- BNDES Automatic. A credit line aimed at creating pasture, other animal production projects, and for production of forest products. Annual interest rates are similar to the credit line above and terms of financing are flexible according to each project.