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# Brazil

# Grain and Feed

# Annual

# 2005

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**Report Highlights:**
Corn production in 2004/05 is forecast at 40.5 million tons and marketing year (March/Feb.) exports at 4.4 million tons. Production in 2005/06 is forecast at 44.0 million tons with exports of 2.5 million tons. Post forecasts wheat production in 2005/06 at 4.5 million tons and imports at 5.2 million tons. Rice production in 2005/06 is forecast at 8.3 million tons (rough basis) and imports at 700,000 tons (milled basis).

Includes PSD Changes: Yes
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**Executive Summary**

Corn production in 2004/05 is forecast at 40.5 million tons; a 1.5 million ton decrease from last year's crop. Trade year (March/Feb.) exports are forecast at 2.5 million tons. Production in 2005/06 is expected to expand to 44.0 million tons with trade year exports of 2.5 million tons. Exports would be even greater if not for very strong domestic demand from the domestic feed industry.

Wheat production in 2004/05 is estimated at 6.0 million tons, which is the largest crop since 1987/88. Due to the large crop, imports are forecast at only 5.0 million tons for the marketing year with the U.S. forecast to supply only 50,000 tons. Production in 2005/06 is forecast to fall to 4.5 million tons with imports at 5.2 million and only 50,000 tons of exports.

Brazil is forecast to produce a large rice crop of 8.4 million tons (milled basis) this year or 12.4 million tons of rough production. Imports for 2005 are forecast at 550,000 tons, which is 200,000 tons less than the forecast for this year's crop. Production in 2005/06 is forecast to fall slightly to 12.2 million tons due to reduced area. Meanwhile, 2005/2006 imports are forecast at 700,000 tons with continued imports for Mercosul countries.

### Economic Overview

After weak economic growth in 2002 and 2003, 2004 proved to be a very good year. GDP expanded at a rate of 5 percent, the best result since 1994. Consumer price inflation dropped to 7.6 percent, down from 9.6 percent in 2003. Exports in 2004 reached an all-time record at US$ 96 billion. The agriculture sector accounted for 41 percent of all Brazilian exports and registered a positive balance of trade of 34 billion dollars. The agriculture sector also accounts for 30 percent of all GDP.

The Brazilian economic and political outlook is guardedly optimistic. Though Brazil's President, Luiz Ignacio Lula da Silva, known as Lula, hails from the Labor Party, he has continued the sound macroeconomic policies of his predecessor, Fernando Henrique Cardoso, since taking power in January 2003. In addition, Lula has shown an ability to press forward with reforms in the Brazilian Congress, which at least in the short run is more likely to ensure growth and expand tax revenues.

## Economic Indicators

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|
| GDP Growth (%) | 0.9 | 4.0 | 1.5 | 1.5 | 0.5 | 5.0 | 3.5 |
| Inflation (%) (IPCA/IBGE)) | 8.9 | 6.0 | 7.7 | 12.5 | 9.6 | 7.6 | 5.0 |
| Average Exchange Rate (R$/US$) | 1.81 | 1.83 | 2.35 | 2.93 | 3.07 | 2.94 | 2.95 |
| Total Exports (US$ billion) | 48.1 | 55.0 | 58.2 | 60.4 | 73.1 | 96.0 | 101.0 |
| Total Imports (US$ billion) | 49.2 | 55.7 | 55.5 | 47.2 | 48.3 | 62.3 | 75.0 |

Source:
- Brazilian Ministry of Development, Industry and Commerce (MDIC)/Secretariat of Foreign Trade (SECEX) trade databases (1999-2004)
- Brazilian Institute of Geography and Statistics (IBGE) (1999-2004)
- Brazilian Central Bank trade data
- Current trend analysis

* GDP and Inflation Projections for 2005 are taken from the Central Bank of Brazil.

**Corn**

**Corn PS&D**

| Brazil | | | | | | | |
|---|---|---|---|---|---|---|---|
| Corn | | | | | | | |
| | 2003 | Revised | 2004 | Estimate | 2005 | Forecast | UOM |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | |
| Market Year Begin | | 03/2004 | | 03/2005 | | 03/2006 | MM/YYYY |
| Area Harvested | 12440 | 12800 | 12600 | 12500 | 0 | 13000 | (1000 HA) |
| Beginning Stocks | 3881 | 5440 | 3431 | 5230 | 1731 | 2790 | (1000 MT) |
| Production | 42000 | 42000 | 41500 | 40500 | 0 | 44000 | (1000 MT) |
| TOTAL Mkt. Yr. Imports | 350 | 300 | 300 | 500 | 0 | 350 | (1000 MT) |
| Oct-Sep Imports | 677 | 625 | 400 | 400 | 0 | 250 | (1000 MT) |
| Oct-Sep Import U.S. | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| TOTAL SUPPLY | 46231 | 47740 | 45231 | 46230 | 1731 | 47140 | (1000 MT) |
| TOTAL Mkt. Yr. Exports | 4000 | 4400 | 3500 | 2500 | 0 | 2500 | (1000 MT) |
| Oct-Sep Exports | 5818 | 5818 | 3000 | 2000 | 0 | 3000 | (1000 MT) |
| Feed Dom. Consumption | 35000 | 31400 | 36200 | 34000 | 0 | 35000 | (1000 MT) |
| TOTAL Dom. Consumption | 38800 | 38110 | 40000 | 40940 | 0 | 41990 | (1000 MT) |
| Ending Stocks | 3431 | 5230 | 1731 | 2790 | 0 | 2650 | (1000 MT) |
| TOTAL DISTRIBUTION | 46231 | 47740 | 45231 | 46230 | 0 | 47140 | (1000 MT) |

**Production**

Post forecasts 2004/05 corn production at 40.5 million tons (29.5 million tons for the summer crop and 11 million tons for the winter crop) on 12.5 million hectares. Meanwhile CONAB forecasts 04/05 production at 43.1 million tons of which the summer crop is 32.6 million tons and the winter crop is 10.6 million tons. However, while CONAB provides reasoning behind the summer crop forecast, the winter crop is simply a rollover from the previous year's winter crop total and thus cannot be considered a true forecast. Post estimates a drop in the 2004/05 summer crop area from the previous year due primarily to low corn prices at last year's harvest as well as very high input costs. Therefore, many producers opted to plant soybeans, which are less input intensive and expected to return a greater profit.

Despite the fall in area and production, the summer crop is forecast to be larger than last year in some regions due to higher yields. Last year's crop was plagued by very dry conditions at critical stages of development while this year conditions, except for in Rio Grande do Sul (RGDS), are much better. Summer corn crop yields are expected to increase from last year in the Center-West where growing conditions are near ideal. The crop observed by Post in Goias looks particularly promising with record forecast yields. The only exception to this improved year-to-year outlook is in RGDS where drought has severely impacted the crop. Cooperatives in the region report that yields are forecast down 40 percent or more from the original forecasts at planting. Many contacts indicate that yields will actually be lower than last year's poor drought-impacted crop. Only early-planted (August) corn is reported to have escaped serious drought damage. Post recently observed corn in the region where retarded growth was obvious and grain fill very poor.

| Post Forecast 2005 Winter Corn Production | | | |
|---|---|---|---|
| | Area (1000 Hectares) | Yield (Tons/Hectare) | Production (1000 Tons) |
| Parana | 1,350 | 3.4 | 4,590 |
| Mato Grosso | 700 | 3.3 | 2,310 |
| Mato Grosso do Sul | 510 | 3.5 | 1,785 |
| Sao Paulo | 330 | 3.1 | 1,023 |
| Goias | 210 | 4.4 | 924 |
| Others | 368 | 1.0 | 368 |
| **Total** | **3,490** | **3.16** | **11,000** |

Post sees the winter crop as the key to internal prices this year and thus exports. Last year winter corn planted area was down primarily due to the low soil moisture conditions at winter crop planting from April to June. Therefore, producers opted to plant wheat out of necessity despite low wheat prices (see wheat production section for more information). However, after very disappointing returns and great difficulty in marketing the wheat crop, producers are emphatic that they will move away from wheat this year.

Winter corn is the main competitor for winter wheat area and therefore, is expected to get some planted area from wheat this year. Assuming trend yields, the crop is forecast by Post at 500,000 tons greater than last year at 11.0 million tons. The table below shows that since 2002, the wheat/corn price spread has been narrowing. As of February 2005, the price spread has been nearly cut by two-thirds since 2002, which would indicate an incentive to plant winter corn instead of wheat. Though planting is still a few months away, corn and wheat prices are both expected to stay low over the next several months due to abundant global supplies and thus the spread is not expected to change greatly. While Post feels that 11.0 million tons is the best forecast for the winter crop at this time, it should be noted that there is strong potential for a drop in the crop. This is mainly due to reports of much lower sales of nitrogen-based fertilizers with winter corn planting already 30 percent complete in Mato Grosso. The continuing high cost of inputs combined with very low producer prices and a general lack of government involvement, in the form of options contracts to boost prices and assure producers of liquidly for their winter crop, could lead more producers than expected to forgo winter crop planting in the south and Mato Grosso. Furthermore, low soil moisture conditions are beginning to resemble those at winter corn planting last year, which could lead to lower-than-expected overall winter crop planted area.

| Parana Wheat and Corn Prices (R$ per Sack) | | | | | | |
|---|---|---|---|---|---|---|
| | 2002 Avg. | 2003 Avg. | Jan 04 | July 04 | Jan 05 | Feb* 05 |
| Wheat | 29.5 | 27.2 | 23.7 | 26.8 | 19.6 | *19.3* |
| Corn | 13.9 | 15.7 | 14.9 | 15.9 | 13.0 | *13.3* |
| **Wheat/Corn Spread** | **15.6** | **11.5** | **8.8** | **10.9** | **6.6** | ***6.0*** |

*Post estimates based on weekly prices
Source: DERAL

Though overall the winter crop is expected to increase over last year, there are significant differences in the prospects by region. Winter area in the South and Southeast is expected to increase from last year while area in the Center-West is expected to fall. In the South and Southeast, particularly Parana, some wheat area is expected to move to winter corn and yields should improve if expected rain falls over the next few months. Corn is almost always

a profitable winter crop in Parana due to greater liquidity than in other regions of Brazil. Proximity to ports and demand from the hog and poultry industries in the South sustains corn prices. Meanwhile, in the Center-West, distance to ports and less internal demand result in much lower corn prices than the national average. Evidence of this can be seen in dismal prices in parts of Mato Grosso in January of just R$10 per sack. At these prices producers in Mato Grosso would face a certain loss if winter corn is planted, given current high input costs. Therefore, contacts report that many producers will actually opt to plant only one crop this year, soybeans, and forego a winter corn crop. The other more likely option for many producers is to reduce the investment in the crop by applying less fertilizer. Therefore, both area and yield in Mato Grosso, the top winter corn state, should fall. However, as previously noted, Post expects this fall to be more than compensated by greater area in the South and Southeast.

Post forecasts 2005/06 corn area at 13 million hectares and yield at 3.38 tons per hectare for total production of 44 million tons. Forecast yield is slightly below the trend due to an expected reduction in fertilizer applications as a result of very high input costs. Furthermore, winter crop yields tend to fluctuate greatly and yields for the winter crops over the past few years have been very good due to generally favorable weather and thus these yields may not be a good predictor for the 2006 crop.

Record internal demand (see corn consumption section) is forecast in 2005 due mainly to consumption of corn by the poultry and pork industries that is expected to increase by 5 percent. Additionally, industrial demand is expected to increase as the economy continues to recover. The summer crop forecast will greatly depend on prices at planting, but a reduced 2004/05 crop in RGDS and Santa Catarina should provide stimulus for greater area. Naturally, the U.S. crop will largely influence Brazilian prices. However, as the chart below demonstrates, input costs relative to commodity prices would favor corn over soybeans. This is largely due to higher costs for fungicide to prevent rust in soybeans and low soybean prices. Therefore, the trend of summer area leaving corn for soybeans in Parana should slow.

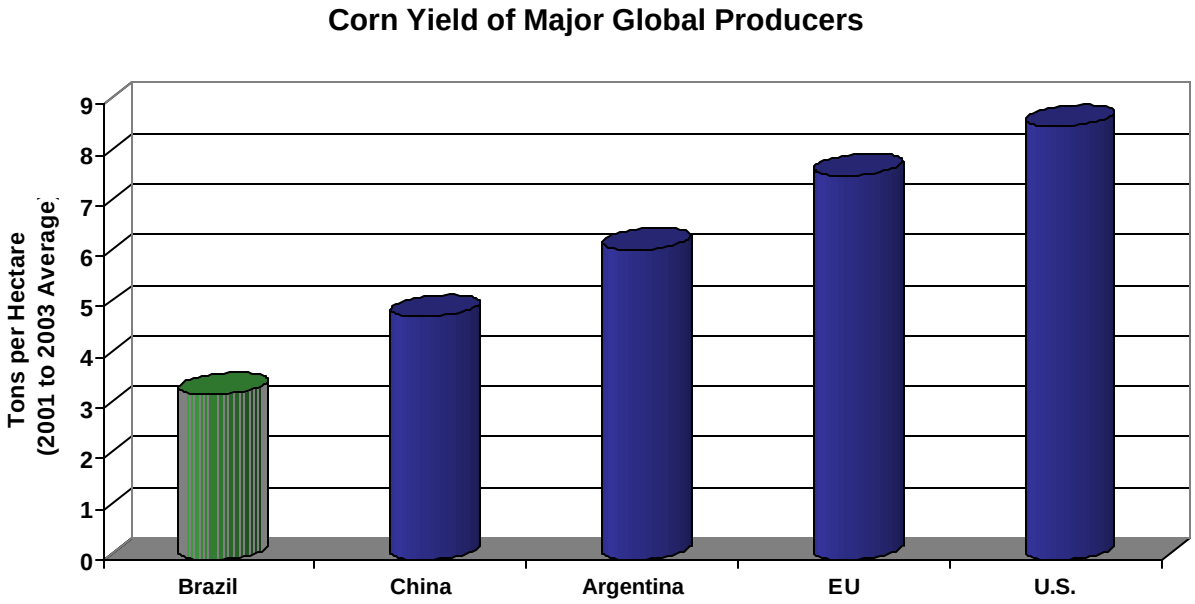
Exchange Ratio of Fertilizers to Selected Crops
**Amount of Commodity needed to purchase 1 ton of fertilizer**

| | Wheat 60 kg Sack | Rice 50 Kg Sack | Corn 60 Kg Sack | Soybeans 60 Kg Sack |
|---|---|---|---|---|
| Nov. 03 | 32.8 | 21.5 | 52.9 | 17.1 |
| Nov. 04 | 42.6 | 30.7 | 66.8 | 29.5 |
| Increase Nov. 03 – Nov. 04 | **29.9%** | **42.8%** | **26.3%** | **72.5%** |

Source: DERAL & CONAB

Corn yields in Brazil have doubled in the past 20 years but still remain far below those of other major corn producers (see chart below). Even China, with its many small-scale producers has a greater yield than Brazil. Reasons for this low Brazilian productivity include that almost no corn is irrigated, fertilizer use is relatively low, many producers don't invest in high-quality seeds, small family farms in Northeastern Brazil bring down the national average yield, and winter corn crop yields are low due to unpredictable precipitation. Yield in the less-developed region of the North is 1.9 tons/hectare while the Northeast is 1.1 tons/hectare. Meanwhile, yields are much better in the primary producing regions of the south (4.3 tons/hectare) and the Center-West (4.0 ton/hectare). The largest producing state

in Brazil is Parana, which is considered one of the most agriculturally advanced states with yields of 4.5 tons/hectare. However, even the productivity in Parana is below that of China and nearly half the yield of the United States. Production over the next several years will increasingly depend on productivity gains through improved varieties and the adoption of biotechnology. The trend of increasing winter corn production will also be important to the domestic supply situation over the next few years. The importance of this winter or safrinha crop has been rapidly increasing from just 12 percent of total corn production four years ago to about 26 percent of production last year. This expansion has mainly occurred in the Center-West region, which produces 46 percent of the safrinha crop, compared to just 12 percent of the summer crop




**Trade**

2004/05 marketing year (March/Feb.) exports are forecast at 4.4 million tons, which is just 225,000 tons less than the previous year. With only one month of data remaining in the marketing year, exports total 4.1 million tons (see chart below). Exports to the EU are down more than 800,000 tons from last year's total due to a rebound in EU production. However, the weaker EU demand is largely compensated by much greater demand from South Korea and Iran, with Iranian imports up over 700,000 tons from last year.

| Brazilian Exports by Destination (1000 tons) | | |
|---|---|---|
| Destination | March 2003/Feb 2004 | March 2004/Jan 2005 (11 months) |
| Spain | 997 | 395 |
| South Korea | 965 | 1,336 |
| Iran | 507 | 1,215 |
| Japan | 262 | 24 |
| Holland | 200 | 123 |
| Italy | 187 | 226 |
| Portugal | 182 | 99 |
| Israel | 159 | - |
| Morocco | 146 | - |
| Belgium | 133 | 25 |
| Saudi Arabia | 125 | 68 |
| Poland | 162 | 110 |
| Slovenia | 118 | 50 |
| Bulgaria | 62 | 46 |
| Chile | 40 | 13 |
| Algeria | 18 | - |
| North Korea | - | 138 |
| Others | 359 | 196 |
| **Total** | **4,625** | **4,064** |

Exports for the 2004/05 international trade year (Oct./Sept.) are forecast at just 2.0 million tons due to lower year-to-year production, strong domestic demand, increased competition from Argentine supplies, and uncompetitive prices. Shipments for the first quarter of the year are just 623,000 tons compared to 1,750 tons for the first quarter last year. Marketing year exports (beginning in March 2005) are also forecast down from last year to just 2.5 million tons. One aspect limiting corn shipments this year is the smaller crop in 2004/05 from the relatively small southern state of Parana. Parana accounts for over 90 percent of corn exports due to its proximity to ports and the long history of exporting by cooperatives from the state. With a smaller summer crop last year, less is available for export.

As noted above, prices and increased export competition will be major impediments to Brazilian exports. Over the past few months Brazilian prices, though considered very low by producers, have been uncompetitive, particularly in comparison with Argentine supplies which are currently priced nearly U.S.$20 per ton less. Additionally, U.S. supplies resulting from a bumper crop last year are priced $10 under Brazilian corn. Nevertheless, shipments have been flowing to Iran due to the fact that Argentine and U.S. supplies are not preferred for political reasons. It is primarily due to continued demand from Iran and South Korea (for non-GMO corn) that Post does not forecast exports even lower. Exports could turn out better than expected if the safrinha crop is large and the Brazilian currency weakens.

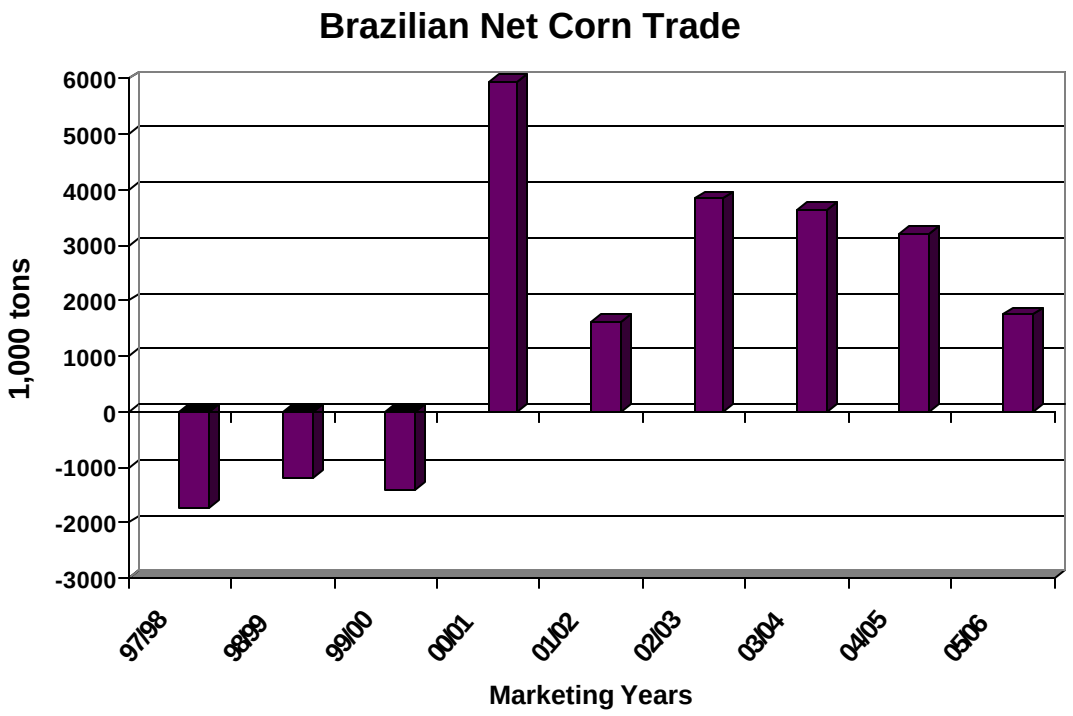
Post forecasts exports for the marketing year beginning March 2006 at just 2.5 million tons and trade year 2005/06 exports at 3.0 million tons. Though production is forecast at 44.0 million tons, strong internal demand and relatively low carryin stocks will limit exportable supply. While demand for Brazilian corn should continue strong, especially from Iran and South Korea, internal prices will likely limit exports.

Imports for the marketing year (March 2004/Feb 2005) are forecast at 300,000 tons, with 272,000 tons imported through 11 months of the year. Paraguay remains the largest supplier with over 250,000 tons. Nearly all Paraguayan corn is produced in the winter and

demand for corn from the southern Brazilian swine and poultry industries is greatest at this time as summer crop supplies are low. Therefore, it is expected that imports from Paraguay will continue along with limited imports in the Northeast. Over the past few years, several hundred thousand tons of corn have been transshipped though Brazil with a 9.25% PIS/COFINS tax charged to the corn entering Brazil but refunded when exported out of Brazil. However, this loophole was recently closed and therefore, it is expected that Paraguayan transshipments though Argentina will increase.

Post forecasts imports in 2005/06 at 500,000 tons for the marketing year as a strong Brazilian currency and reduced domestic supply make imports attractive. Imports will be even higher if the government allows in supplies from Argentina (transgenic) into Northeastern Brazil to supply that market. Argentine supplies are expected to be plentiful and priced very competitive compared to supplies from southern Brazil.

After decades of being a net importer of corn, in 2001 Brazil turned the table as cooperatives in the state of Parana began exporting a bumper crop to Europe at prices more attractive than in the domestic market. Since that record export year, Brazil has maintained a position as one of the top five global corn exporters. This has brought greater liquidity to the corn market, though it is still far behind the liquidity of soybeans. The threat of corn exports forces many poultry companies to forward purchase corn to ensure a steady supply. Celeres, a Brazilian agriculture research company, forecasts future exports in 2009 at 13.2 million tons and exports in 2013 at 18.6 million tons. This is based on projections of Chinese imports, growing global demand for animal protein, and U.S. production of ethanol. Post believes these forecasts are a too optimistic given the current low yields in Brazil (see production section) and the growing demand for corn from the Brazilian pork and poultry industries. However, if Brazil approves the planting of biotech corn and invests more in seed varieties, it could remain one of the top five global corn exporters.



**Consumption**

**Food, Seed and, Industrial**

Industrial (human) consumption of corn in Brazil consists primarily of corn starch, corn flour (mainly for polenta), brewery grits, corn oil, pre-cooked flakes, and corn cuscus. Consumption of these and other corn products increased steadily during the 1980s and early 1990s from just 2.5 million tons in 1983 to 4.1 million tons in 1993. However, consumption stalled for nearly a decade and has only minimally increased the past few years to 4.4 million tons in 2004. One reason for the fall in consumption, in per capita terms, over the past 12 years is greater consumption in the wet milling industry (primarily starch) of manioc and tapioca. Consumption of dry milled products has also suffered as increased protein consumption has substituted for many corn products. As a result, the Brazilian Corn Miller's Association (ABIMILHO) launched a campaign "Corn is Better" to increase consumption by promoting the nutritional benefits of consuming corn. Contacts at ABIMILHO report that stimulating industrial corn consumption is vital to the survival of many companies in the industry and the campaign is having some success.

As is the case with industrial corn products, fresh corn consumption has suffered over the past decade with 2004 consumption estimated at just 1.5 million tons. ABIMILHO estimates that human corn consumption (both fresh and industrial) has fallen from 50 kg per person in 1940 to just 15 kg per person in 2004. Post forecasts industrial use in 2005/06 (March/Feb) to increase slightly to 4.5 million tons due to economic growth and resulting slightly higher consumption of corn polenta in southern Brazil and higher consumption of corn cuscus and corn soups in the Northeast. Fresh corn consumption is forecast at 1.5 million tons for overall human consumption of 6.0 million tons.

**Feed**

Post forecasts 2005/06 corn for feed consumption at 35 million tons, of which 28 million tons consists of industrialized feed and 7.0 million of on-farm feed consumption. Post concludes that the Brazilian Animal Feed Industry Association (Sindiracoes) is the best source for an estimate of corn use in industrialized rations. Sindiracoes forecasts rations based, in part, on the amount of pre-mixes purchased by the industry for use in preparing industrialized rations. Use of corn in feed rations is forecast at 28.0 million tons in 2005, which is two million tons greater than in 2004. This forecast increase in demand is a result of greater feeding from the pork and poultry industry as a result of both an increase in exports and greater internal consumption. The chart below shows that the poultry industry is the major consumer of industrialized feed. Corn comprises approximately 60 percent of rations, followed by soybean meal at 20 percent with total industrialized feed rations forecast at 47 million tons in 2005.

**Total Feed Ration Consumption by Sector**
(Million Metric Tons)

| Industry | 2003 | 2004 | 2005 |
|---|---|---|---|
| Poultry | 22.6 | 24.4 | 25.9 |
| Swine | 12.4 | 11.5 | 12.8 |
| Cattle | 4.3 | 5.2 | 5.9 |
| Pet Food | 1.3 | 1.4 | 1.5 |
| Others | 0.9 | 0.9 | 0.8 |
| **Total** | **41.5** | **43.4** | **46.9** |

Sources: SindiRacoes

While post has a high degree of confidence in the estimate of corn use in balanced rations, on-farm feeding of corn is much less certain. Yearly estimates of on-farm feeding range from 4 to 8 million tons but due to the large number of small corn growers, particularly in the Northeast, the level of this "backyard" feeding is unknown. However, on-farm feeding is believed to increase in years of low corn prices, when producers can feed on-farm to pork and swine. Conversely, on-farm feeding should decrease in years of higher corn prices. As noted in the corn production section, prices have been very low the past several months and thus on-farm feeding in 2004/05 is estimated at 8 million tons. Post forecasts slightly better corn prices in 2005/06 and thus on-farm feeding should fall to 7 million tons. Total consumption is forecast by Post at 39.9 million tons in 2004/05 and 42.0 million tons in 2005/06.

| Brazilian Corn Consumption | | | |
|---|---|---|---|
| **Consumption base** | **2003** | **2004** | **2005*** |
| Industrialized Rations | 24.91 | 26.00 | 27.99 |
| On Farm Feeding | 6.50 | 8.00 | 7.00 |
| Fresh Food Consumption | 1.48 | 1.50 | 1.50 |
| Industrialized Milling | 4.22 | 4.44 | 4.5 |
| Loses and Seeds | 1.0 | 1.0 | 1.0 |
| **Total** | **38.11** | **39.94** | **41.99** |

Sources: SindiRacoes, Abimilho, and Post

* Post Forecast

- Based on a Calendar year.
- Note: the 2005 table year corresponds to the 2005/06 PS&D table year (March/Feb) since the majority of the year falls in 2005.

**Wheat**

**Wheat PS&D**

| Brazil | | | | | | | |
|---|---|---|---|---|---|---|---|
| Wheat | | | | | | | |
| | 2003 | Revised | 2004 | Estimate | 2005 | Forecast | UOM |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | |
| Market Year Begin | | 10/2003 | | 10/2004 | | 10/2005 | MM/YYYY |
| Area Harvested | 2495 | 2464 | 2750 | 2756 | 0 | 2300 | (1000 HA) |
| Beginning Stocks | 656 | 886 | 486 | 701 | 986 | 1422 | (1000 MT) |
| Production | 5851 | 5851 | 5800 | 6021 | 0 | 4500 | (1000 MT) |
| TOTAL Mkt. Yr. Imports | 5179 | 5339 | 5000 | 5000 | 0 | 5200 | (1000 MT) |
| Jul-Jun Imports | 5559 | 5558 | 5000 | 4800 | 0 | 5500 | (1000 MT) |
| Jul-Jun Import U.S. | 369 | 369 | 0 | 50 | 0 | 200 | (1000 MT) |
| TOTAL SUPPLY | 11686 | 12076 | 11286 | 11722 | 986 | 11122 | (1000 MT) |
| TOTAL Mkt. Yr. Exports | 1400 | 1375 | 200 | 100 | 0 | 50 | (1000 MT) |
| Jul-Jun Exports | 1378 | 1375 | 200 | 100 | 0 | 50 | (1000 MT) |
| Feed Dom. Consumption | 200 | 200 | 300 | 300 | 0 | 200 | (1000 MT) |
| TOTAL Dom. Consumption | 9800 | 10000 | 10100 | 10200 | 0 | 10300 | (1000 MT) |
| Ending Stocks | 486 | 701 | 986 | 1422 | 0 | 772 | (1000 MT) |
| TOTAL DISTRIBUTION | 11686 | 12076 | 11286 | 11722 | 0 | 11122 | (1000 MT) |

**Production**

Post forecasts wheat area in 2005/06 at 2.3 million hectares with yield at 1.96 tons per hectare and production of 4.5 million tons, which is 1.5 million tons less than last year. Current and expected wheat prices in Brazil look very dismal for producers and these prices are the best indicator of producer's winter crop planting intentions. In northern Parana wheat is quoted at R$360 per ton, which is R$40 below the government minimum price and 21 percent below last year's price of R$435 per ton. The situation is even more difficult for producers in Rio Grande do Sul (RGDS) where the price is R$310 per ton compared to R$405 last year at the same time. According to figures provided by the Rio Grande do Sul Cooperative Federation (FecoAgro), production costs increased 15.6 percent from October 2003 to October 2004 while over the same period prices fell 9.7 percent. Under these conditions many producers are unable to repay production loans. It is important to note that even last year's somewhat higher prices were not welcomed by producers, which claimed that production costs were just barely covered.

Despite low wheat prices last year at planting, many southern producers were forced to plant wheat due to dry soil conditions, which made winter corn a more risky option. This year, producers indicate that regardless of the soil conditions, they will not plant wheat again. Preliminary data from the Brazilian Seed Association confirms producer planting intentions as the organization reports almost no wheat seed sales, whereas in late February of 2004, 80 percent of the wheat seed was sold. The only factor that could ameliorate the situation for producers would be a dramatic increase in prices before planting in May and June. However, this is unlikely given abundant global wheat supplies and a massive crop harvested in Argentina, which is estimated at 16 million tons. Recently, Argentine wheat, which is considered to be higher quality than Brazilian supplies, was sold to Brazil at just R$305 (U.S.$117) per ton FOB. Nevertheless, Argentine prices have gained some strength over the past few weeks due to impressive forward sales to Asian buyers. In fact, Mercosul supplies are so abundant that even wheat from Uruguay and Paraguay is being imported in small quantities.

| Wheat Area, Yield, and Production | | | | | |
|---|---|---|---|---|---|
| | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06* |
| **Area** (million hectares) | 1.72 | 2.04 | 2.46 | 2.75 | 2.30 |
| **Yield** (tons/hectare) | 1.88 | 1.44 | 2.37 | 2.18 | 1.96 |
| **Production** (million tons) | 3.25 | 2.93 | 5.85 | 6.02 | 4.50 |

* Post Forecast

Another factor, which should contribute to a fall in wheat area in Parana and RGDS, is increased area planted to barley. Producers in southern states comment that given dismal wheat prices and lack of liquidity, barley is an attractive substitute winter crop. Although barley area is only about 7 percent that of wheat area, its increasing profitability, estimated at 26 percent, should lead to some substitution. Breweries typically set barley contracts before winter crop sowing, with prices established above the government set minimum price for wheat. This encourages producers to plant barley and ensures breweries of an adequate supply. With current wheat prices in Southern Brazil significantly below the minimum price, many soybean producers have indicated that they will plant barley instead of wheat as their second crop and cooperatives in central RGDS report that barley area could double in the coming year.

Wheat is also expected to lose some area in RGDS to sorghum as area continues to expand throughout Brazil due to export demand and increasing usage by the poultry industry. Finally, canola production is expanding in the state and cooperative agronomists are urging producers to plant canola instead of wheat. Therefore, soy/canola and soy/barley rotations will replace some of the traditional soy/wheat area. Furthermore, it is believed that some wheat area will be planted to pasture in areas where winter rainfall does not allow for another substitute crop.

**Cost of Production for Wheat and Competing Crops**
Sales Margin Based on Current Prices

| | Sorghum | Corn | Cotton | Soybeans | Wheat | Rice* |
|---|---|---|---|---|---|---|
| Mechanical Operations | 159 | 293 | 1,258 | 271 | 274 | 417 |
| Inputs | 282 | 981 | 2,230 | 892 | 602 | 645 |
| Administration | 121 | 81 | 175 | 119 | 78 | 149 |
| Post-Harvest Costs | 98 | 151 | 120 | 59 | 54 | 83 |
| Total Cost per Hectare | 661 | 1,506 | 3,783 | 1,342 | 1,009 | 1,294 |
| Revenue per Hectare | 760 | 1,625 | 3,704 | 1,346 | 720 | 1,215 |
| Profit per Hectare | 99 | 119 | 79 | -4 | -289 | -79 |
| **Sales Margin** | **10%** | **7.3%** | **2%** | **0%** | **-40%** | **-6%** |
| Prior Year's Sales Margin | 37% | 36% | 39% | 35% | 29% | 17% |

Source: FNP Consultoria and Agroinformativos and Post
* Non-irrigated
- Land values and rents not included in costs
- Sorghum, rice, and cotton in Goias, corn and soybeans in Parana, and wheat in Rio Grande do Sul.
- 2004 Cost in $ Reais and Feb. 2005 commodity prices

While wheat area is expected to decline in RGDS due to greater plantings of barley, sorghum, canola, and pasture, in Parana winter corn will be the primary substitution crop for wheat. Strong demand by the pork and poultry sectors in Parana along with concerns over drought-impacted yields further south in Rio Grande do Sul for the summer corn crop is likely to lead to an acreage shift from wheat to winter corn (see chart below). Though corn prices are also currently quite low, profit prospects for winter corn are said to be greater than for wheat.

Roughly 85 percent of wheat production is concentrated in RGDS and Parana and Post expects that wheat area in both states will fall by about 450,000 hectares. However, the drop in wheat area in Parana will likely be less significant as some cooperative in RGDS expect as much as a 50 percent drop in area. Parana enjoys better quality wheat and thus demand for Parana supplies from Sao Paulo and Rio de Janeiro is greater. Additionally, much of the Parana crop last year was sold prior to the drop in prices, whereas even as of early February, 35 percent of the RGDS crop was still unsold. Finally, last year nearly 1.3 million tons of wheat exported from Brazil came from RGDS and without this outlet this year, due to a large Argentine crop and very low international prices, prices in the state are very bleak.

Posts forecast for winter crop area assumes normal soil moisture conditions at planting. Post also believes that along with area, yields will be constrained due to less fertilizer applied, particularly in RGDS. Wheat is planted in many areas as an "after-thought" crop to soybeans and is needed as a cover crop in direct planting systems. Therefore, in areas where producers have little option but to plant wheat after soybeans, they will likely reduce fertilizer applications given their high cost and the poor outlook for wheat prices. Prices paid by cooperatives in RGDS are currently R$18 per sack and the cost of production is R$28 per sack. However, if drought hits the south prior to planting, winter corn area will be lower than forecast and wheat area greater.

| Winter Grains Production and Area (1,000 HA & 1,000 tons) | | | | | |
|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 |
| **Wheat Area** | 1,725 | 2,043 | 2,464 | 2,755 | 2,300 |
| Wheat Production | 3,250 | 2,925 | 5,851 | 6,019 | 4,500 |
| Winter Corn Area | 2,462 | 2,885 | 3,562 | 3,354 | 3,490 |
| Winter Corn Production | 6,456 | 6,180 | 12,797 | 10,568 | 11,000 |
| Sorghum Area | 486 | 418 | 800 | 900 | 1000 |
| Sorghum Production | 773 | 1,900 | 2,100 | 2,100 | 2,500 |
| Barley Area | 141 | 155 | 114 | 137 | 175 |
| Barley Production | 283 | 235 | 304 | 362 | 450 |
| **Total Area** | 4,814 | 5,501 | 6,940 | 7,146 | 6,915 |
| **Total Production** | 10,762 | 11,240 | 21,052 | 19,049 | 18,250 |

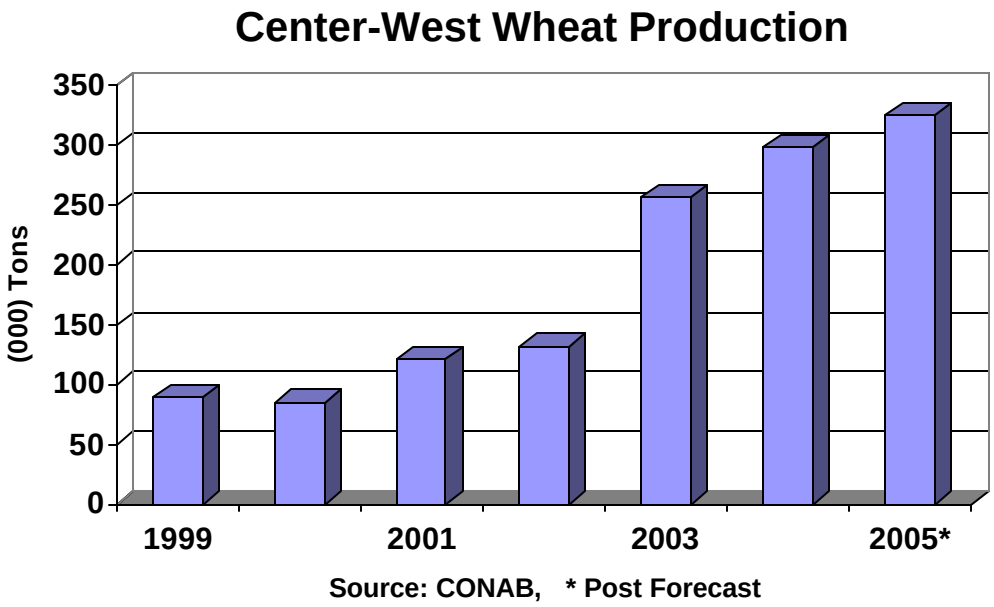
* Post Forecast

**Center-West Wheat Production**

Though nationally wheat area is forecast to fall, area and yields in the Center-West are expected to increase slightly. Improved wheat varieties developed by Embrapa are partly responsible for increased plantings in the region over the past several years, with some areas showing yields of greater than seven tons per hectare. However, many point to direct government involvement in minimum prices as a major factor for expansion. While it is true that the government set minimum price in the Center-West is above that in the traditional growing areas, the minimum prices are almost always (except for this year) below market prices and thus have very little impact on planting intentions.

Increasing production in the Center-West is given much attention by the media and the government but while it is true that production in the region is increasing, it makes up a very small portion of the entire crop. Therefore, reports in the Brazilian press that national production has increased the past few years due to greater wheat area planted in the cerrado region, are a bit of an exaggeration. Total Center-West (Cerrado) production this past crop accounted for only 4.8 percent of national area, up from 4.5 percent the previous year.

Nevertheless, growth in the cerrado region is impressive due to better varieties and improved irrigation technology, most of which is under center-pivot irrigation. However, total Center-West yields average only 2.3 tons/hectare compared to the national average of 2.2. It is just in the state of Goias and the Federal District where yields are very high at 4.6 tons per hectare. This concentrated area of high yields only accounts for less than 1 percent of national area.




Despite the very limited overall impact of Center-West production, it is clear that area and yield are increasing and should continue to climb. Local (Federal District and Goias) contacts and wheat farm managers report that wheat area is taking land from dry beans. However, sources agree that the growth potential is limited and believe wheat will always be a relatively small crop in the region in comparison to soybeans, cotton, and dry beans. In a visit by Post to a large farm on the Goias-Minas Gerais border, the farm agronomist reported that margins are impressive on the farm's several hundred hectares of irrigated wheat. Wheat area will continue to expand but the market is primarily limited to Center-West population centers since transportation costs make it difficult to compete in Southern and Southeastern cities.

In summary, it is very true that production in the Center-West is on the rise and the quality is considered exceptional. However, current logistics and the high cost of production for irrigated wheat limit the growth rate, which begins from a very small base. It is likely that area will continue to expand at about 15 percent per year. However, even at this rapid expansion rate, production in 5 years would still only constitute less than 10 percent of the national crop.

**Trade**

According to Brazilian government import statistics, imports for the 2003/04 marketing year (Oct./Sept.) totaled 5.0 million tons of grain, 46,000 tons of flour (grain equivalent) and 293,000 tons of pre-mix flour (grain equivalent) for total wheat and product imports of 5.3 million tons. This total is 160,000 tons more than total shipments to Brazil as reported by all exporters. Since Argentina is the predominant exporter, this indicates that official Argentine export data matches closely with official Brazilian import data for wheat and products. Imports of U.S. wheat were 369,000 tons for the July/June trade year, most of which arrived early in the year.

Post raised the 2004/05 July/June import forecast by 300,000 tons to 4.8 million tons. Imports through the first seven months of the year totaled 3.0 million tons including 180,000 tons of flour and pre-mix. Post forecasts 2004/05 marketing year (Oct/Sept) imports at 5.0 million tons, which is 340,000 tons less than last year. Imports of wheat in

grain for the first quarter of the year (October to January) were just 1.5 million tons of which 92 percent came from Argentina along with rare imports from Paraguay of 110,000 tons. Imports for the same period last year were 1.7 million tons but sales from Argentina are significantly trailing the pace of last year. However, Brazilian millers are expected to pick-up the pace of purchases over the next few months as Argentine supplies are falling due to high demand by African and Asian importers.

Post forecasts 2005/06 marketing year imports at 5.2 million tons, which is just 200,000 tons more than this year's forecast. Though production is forecast 1.5 million tons less next year, imports should be up only minimally as stocks are drawn down. Ending stocks this year are expected to double from last year and thus minimize the need for imports. While the Post forecast for 2004/05 marketing year imports of U.S. wheat is only 50,000 tons, the outlook for 2005/06 is a bit more promising and forecast at 200,000 tons. With lower Brazilian production, prices should recover somewhat thereby making U.S. wheat more competitive in the Northeast.

Brazilian consumption is estimated at around 10 million tons with 6.5 million tons consumed in the states of RGDS, SC, PR, SP, MG, GO, MT, and MS. These same states produced 6.04 million tons of wheat this year, which will fill 93 percent of their demand. The opportunity for U.S. wheat comes from the other 3.5 million tons of consumption in areas where internal freight rates are restrictive to domestic supplies. One reason that freight rates are restrictive is due to the law that requires Brazilian flagships be used for transport from the South to the Northeast. This law minimally helps U.S. exports, but any advantage is more than offset by government transportation subsidies under the PEP program (see policy section below).

Export potential for U.S. wheat will also be impacted by Argentine supplies next year. Argentina enjoys a significant freight advantage in most of the country and benefits from the Common Extern Tariff (TEC, in Portuguese) charged on non-Mercosul imported supplies. Nevertheless, the U.S. is more competitive in the Northeast due to a more favorable freight comparison and the high quality reputation of U.S. Hard Red Winter over Argentine wheat. In order to deal with growing discontent from Brazilian millers regarding Argentine quality and uniformity and to better compete with U.S. supplies, Argentina has instituted a National Wheat Quality Program with the following components:

- All wheat varieties will be tested and the information released to the public.
- The Ministry of Food and Agriculture will administer the program.
- A study will be undertaken to show the varieties planted by region.
- Penalties will be applied for wheat with protein less than 11 percent and the tolerance for broken/shrunken kernels will be lowered.

Last year Brazil exported over 1.3 million tons of wheat; of which nearly all came from RGDS. However, Post forecasts just 100,000 tons of exports for the 2004/05 (Oct/Sep) marketing year. Exports for the first quarter of the year are only 3,000 tons, but more shipments are expected later in the year as Argentine supplies diminish. Primary reasons for this drastic fall in exports, despite an even larger RGDS and national crop, are low international prices, a stronger Brazilian currency, and greater competition from Argentina. Mid February Argentine exports were priced at just R$305 per ton, which is below the current very low market price in RGDS of R$310 per ton. However, the spread needed to compete with Argentine supplies would need to be even greater than R$5 per ton given that Argentine supplies are higher quality. Market analysts estimate that Brazilian wheat would need to be just R$265 per ton FOB to be competitive internationally, which appears highly unlikely.

**Consumption**

Post forecasts consumption in 2004/05 at 10.2 million tons of which 300,000 tons is consumed by the feed industry. Though the exact level of wheat consumption in Brazil is unknown, due mainly to on-farm wheat feeding, it is fairly widely accepted that total consumption is about 10.0 million tons. This figure is accepted by the Brazilian Wheat Miller's Association (ABITRIGO), which is the best source for consumption data in Brazil. As mentioned in the wheat policy section, consumption in the State of Sao Paulo, where 40 percent of all Brazilian flour is consumed, should get a boost from a seven percent reduction in the ICMS tax on wheat flour. Bread consumption is also expected to rise slightly as a result of the strengthening economy. Post believes that consumption is a more reliable figure than stocks, however, both the stock and consumption levels presented in the Post PS&D, match closing with government, industry, and trade forecast levels.

**Policy**

At harvest this past October, the government released a package of intervention measures aimed at supporting prices following the large crop. Under a program know as "Market the Harvest" (PEP, in Portuguese), the government subsidizes freight costs from Southern Brazil to the Northeast in an attempt to encourage northeastern mills to buy more Brazilian supplies from the states of Santa Catarina, Panana, Rio Grande do Sul, and Mato Grosso as opposed to supplies from Argentina, the United States, and Canada. However, to date only supplies from Rio Grande do Sul have entered the program.

Around 800,000 tons (50,000 tons per week) of wheat is expected to enter this program but to date only 220,000 tons have been sold to the Northeast and North of Brazil. Under the PEP, the buyer of wheat receives a set premium to compensate for transport from the South. In theory, this premium should be the difference between the government set minimum price in the south and the price of imported wheat to the Northeast and basically translates into a transportation subsidy. The program had very little success early on because the government "transport subsidy" was only about half that needed to entice Northeast mills to buy from the south. However, in recent months the subsidy has increased and product is moving north. The government plans to continue to purchase wheat from the interior of Brazil, where prices are under the government set minimum price.

A second program used by the government to sustain prices is options contracts. As of mid February, 655,000 tons had been sold under options contracts and an additional 182,000 tons had been purchased directly by the government. Therefore, a total of 837,000 tons of wheat have received some form of government price support. However, with a harvest above 6 million tons, the impact on prices has been minimal.

The Brazilian Wheat Industry Association (ABITRIGO) has lobbied over the past several months to exempt wheat flour from the PIS/Cofins tax for which other staple products have received exemption. It is estimated that the government earns R$44 million per year on the PIS/Confins tax charged to wheat flour. However, ABITRIGO insists that one way to make basic products more affordable for the poor is to eliminate taxes on them, which President Lula has done by exempting rice, manioc flour, and other staples from the PIS/Cofins tax. Despite the efforts of ABITRIGO wheat flour has not yet been exempted but it was recently announced that the ICMS charged in Sao Paulo state was eliminated from the previous seven percent charge. As a result, Mills have promised to reduce flour prices by six percent and bread consumption is expected to get a boost in the state.

**Rice**

**Rice PS&D**

| Brazil | | | | | | | |
|---|---|---|---|---|---|---|---|
| Rice, Milled | | | | | | | |
| | 2003 | Revised | 2004 | Estimate | 2005 | Forecast | UOM |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | |
| Market Year Begin | | 04/2004 | | 04/2005 | | 04/2006 | MM/YYYY |
| Area Harvested | 3735 | 3618 | 3500 | 3500 | 0 | 3350 | (1000 HA) |
| Beginning Stocks | 586 | 570 | 1394 | 1300 | 1519 | 1350 | (1000 MT) |
| Milled Production | 8708 | 8709 | 8200 | 8432 | 0 | 8296 | (1000 MT) |
| Rough Production | 12806 | 12807 | 12059 | 12400 | 0 | 12200 | (1000 MT) |
| MILLING RATE (.9999) | 6800 | 6800 | 6800 | 6800 | 0 | 6800 | (1000 MT) |
| TOTAL Imports | 650 | 750 | 600 | 550 | 0 | 700 | (1000 MT) |
| Jan-Dec Imports | 700 | 801 | 550 | 500 | 0 | 750 | (1000 MT) |
| Jan-Dec Import U.S. | 0 | 0 | 0 | 25 | 0 | 75 | (1000 MT) |
| TOTAL SUPPLY | 9944 | 10029 | 10194 | 10282 | 1519 | 10346 | (1000 MT) |
| TOTAL Exports | 50 | 50 | 25 | 100 | 0 | 100 | (1000 MT) |
| Jan-Dec Exports | 50 | 37 | 25 | 100 | 0 | 100 | (1000 MT) |
| TOTAL Dom. Consumption | 8500 | 8679 | 8650 | 8832 | 0 | 9096 | (1000 MT) |
| Ending Stocks | 1394 | 1300 | 1519 | 1350 | 0 | 1150 | (1000 MT) |
| TOTAL DISTRIBUTION | 9944 | 10029 | 10194 | 10282 | 0 | 10346 | (1000 MT) |

**Production**

Post estimates 2004/05 rice area at 3.50 million hectares and yield at 3.54 tons per hectare for total production of 12.4 million tons, compared to 12.8 million tons for last year's crop. The Post area forecast is raised from the previous forecast due primarily to information collected on a recent visit to Rio Grande do Sul (RGDS). Though prices were low at planting, growers did not reduce area as Post, many industry analysts, and producer organizations had predicted. Though production costs were high at planning, producers gambled on maintaining area in hopes of improved prices at harvest. While planted area did not fall as much as thought, Post forecasts that harvested area will fall by nearly 100,000 hectares from last year due, in part, to greater abandonment as a result of two consecutive years of drought in RGDS. The drought has lowered reservoirs in western RGDS to very low levels and many cooperatives worried that irrigation water may run out before harvest if rains don't pickup over the next several weeks. Furthermore, some area in the far south of RGDS may be abandoned due to excessive salinization of irrigation water resulting from very low river levels which have been impacted by sea water contamination.

The southern state of RGDS and the Center-West state of Mato Grosso account for over 60 percent of Brazilian rice production. Over the past decade rice has been a typical first crop for newly cleared land destined for soybean production in Mato Grosso. This was a result of poor soil conditions and high acidity for which rice is a more suitable crop than soybeans. However, the development of soybean varieties tolerant to acidity has reduced the need for rice as a pioneer crop. Furthermore, the soaring cost of inputs favors soybean production over rice since soybeans has much higher liquidity. Nevertheless, rice planted area expanded slightly in the state this past year.

Despite the lower harvested area in RGDS, yields in RGDS as well as Mato Grosso are expected to be very strong at 3.54 tons per hectare. Yields in Mato Grosso, which are always much lower than RGDS yields, look particularly promising, forecast by Post at 3.1 tons per hectare, due to ideal growing conditions. Harvest is well underway for spring rice in Mato Grosso and Post forecasts production in the state at 1.85 million tons. Production would be even higher in Mato Grosso if not for widespread infestation of Brusone, which is a fungus that attacks the spring variety of rice grown in the state. Yields in RGDS are also forecast to be high due to abundant sunlight received to date and the limited impact of the drought on yields.

**Brazilian Rice Yields**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005* | 2006* |
|---|---|---|---|---|---|---|---|
| Yield (mt/ha) | 3.12 | 3.24 | 3.30 | 3.25 | 3.42 | 3.54 | 3.64 |

Source: USDA
* Post Forecasts

Post forecasts 2005/06 area to fall to 3.35 million hectares with a record yield of 3.64 tons per hectare for total production of 12.2 million tons. For the third straight year yields are forecast to reach a record level due to improved rice varieties and a strong campaign in RGDS by the Rio Grande do Sul Rice Institute (IRGA) to increase yields in the state. Additionally, yields will benefit from continuing wider use of a rice variety resistant to herbicides used to control red rice. Meanwhile, post expects that planted area will fall in 2005/06 due to the bleak outlook for rice prices. Prices last year at planting were down from the previous year but farmers did not react by planting lower area. However, the year-to-year drop in prices at planting this year is expected to influence producers faced with a second year of negative to break-even returns. Since most rice producers have little option but to plant rice or pasture, Post forecasts only a 150,000-ton reduction in area with most coming from Mato Grosso, where rice is unirrigated and switching to other crops is easier. Nevertheless, it should be noted that if rice returns continue low over the next several years rice growers in the southern half of RGDS could begin switching to other crops. The Brazilian Agricultural Research Agency (Embrapa) introduced a program in the state to help rice growers that are discouraged with rice production. The program seeks to move area to production of soybeans, corn, and sorghum. Embrapa provides technical assistance and training and so far under the program 250,000 hectares of soybeans and 50,000 hectares of corn have been introduced to the traditional rice growing area of southern RGDS.

**Rough Rice Prices in Rio Grande do Sul**
R$ Per 50 Kg Sack

| | Jan | Feb | March | April | May | June | July | Aug | Sept | Oct | Nov | Dec | Avg. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2002 | 26.4 | 22.8 | 21.1 | 21.5 | 23.2 | 23.9 | 24.1 | 25.5 | 27.9 | 31.7 | 33.0 | 31.7 | **24.3** |
| 2003 | 32.2 | 29.8 | 27.6 | 31.7 | 37.3 | 36.2 | 36.8 | 37.6 | 37.0 | 36.0 | 39.6 | 41.6 | **35.3** |
| 2004 | 41.6 | 38.5 | 33.5 | 34.0 | 33.6 | 31.2 | 30.4 | 29.7 | 29.8 | 27.8 | 26.3 | 23.3 | **31.6** |
| 2005 | 23.2 | 24.3 | | | | | | | | | | | **24.0** |

Source: Secretaria De Agricultura e Abastecimento de RGDS and CONAB
* Post forecast based on weekly prices

Though prices have increased slightly from January (see chart above) due to concerns over production in RGDS as well as reduced area in Southeast Asia, they are still 35 percent below quotes last February. The last time prices were this low was in February of 2002, which was a year when rice area and production did not increase from the previous year and production was only 10.3 million tons. Typically, prices are the lowest at harvest but this year the outlook is that prices could fall even further before planting. This is due to a massive

expected Mercosul harvest and high internal stocks, which will have to be flooded on the market before this year's rice and soybean harvest. As the profit margin table in the wheat section demonstrates, based on costs at planting and current prices, a six percent loss is expected. For the upcoming crop season, contacts estimate that the cost per sack will be about R$32. With the current price in Mato Grosso at R$20 per sack and R$24 in RGDS, it appears that at least some area reduction is inevitable without an unexpected recovery in prices.

**Trade**

Brazilian rice imports in trade year (January/December) 2004 totaled 801,000 tons, according to official Brazilian trade statistics. However, Post uses USDA reported rice exports from the U.S., which totaled less than one ton, whereas Brazilian statistics show 43,000 tons of imports. Argentina and Uruguay were the leading exporters with a combined 79 percent of the market while imports from the United States fell to zero after 321,000 tons imported in 2003. Bumper harvests in Argentina and Uruguay made U.S. prices uncompetitive and this is expected to continue through the next year.

**2004 Calendar Year Rice Imports**
(Thousand tons – milled bases)

| Exporter | Paddy (milled bases) | Milled | Total |
|---|---|---|---|
| Uruguay | 67 | 316 | 383 |
| United States | - | - | - |
| Argentina | 33 | 214 | 247 |
| Thailand | | 129 | 129 |
| Vietnam | | 27 | 27 |
| Paraguay | 8 | 4 | 12 |
| French Guiana | | 3 | 3 |
| Surinam | | 3 | 3 |
| **Total** | **84** | **696** | **801** |

**2003 Calendar Year Rice Imports**

| Exporter | Paddy (milled bases) | Milled | Total |
|---|---|---|---|
| Uruguay | 94 | 401 | 495 |
| United States | 316 | 5 | 321 |
| Argentina | 30 | 140 | 170 |
| Thailand | 0 | 49 | 49 |
| Vietnam | 0 | 11 | 11 |
| Paraguay | 1 | 2 | 3 |
| French Guiana | 0 | 3 | 3 |
| South Africa | 0 | 1 | 1 |
| **Total** | **441** | **612** | **1,063** |

Source: Minister of Industrial Development and Foreign Trade
* U.S. exports reported by USDA

Post forecasts trade year 2004 (April 04/March 05) imports at 750,000 tons with imports through the first 10 months at 673,000 tons (milled basis) based on Brazilian import statistics. Post believes that Brazilian government import statistics are more reliable than export figures from neighboring Mercosul countries as well as Asian exporters. Normally February and March are the lowest import months as Brazilian producers push old crop supplies onto the market as the new crop is being harvested. However, some imports are

expected for the remaining two months of the year as Argentine prices continue to be below prices in Rio Grande do Sul.

Post forecasts imports for the marketing year beginning April 2005 at just 550,000 tons, which is 200,000 tons less than the forecast for this marketing year. The lower year-to-year forecast is due to very large carryover stocks, low internal prices, and the likely action by the government to limit Mercosul imports (see policy section). Imports of U.S. rice are forecast at only 25,000 tons, as Mercosul exporters should continue to dominate the market due to advantages in FOB price, freight rates, and a tariffs on outside supplies. For 2005, the Common External Tariff on all non-Mercosul rice imports is 10 percent for paddy rice and 12 percent for brown and milled rice. However, the stronger Brazilian currency and abundant U.S. supplies are likely to lead to at least limited imports.

Post forecasts 2005/06 imports at 700,000 tons for the marketing year and 750,000 tons for the calendar year. Due to a reduction in area and slightly lower forecast production, imports are expected to continue from neighboring Mercosul countries, which enjoy lower production costs and favorable quality. The main determining factor behind imports will be Brazilian production but planting is several months away and thus conditions could change thereby lowering the potential for imports. Nevertheless, with increasing internal consumption and an expected reduction in planting area, significant imports are likely.

Post forecasts 2005 exports at 100,000 tons (milled basis). Industry contacts suggest that up to 500,000 tons could be exported in 2005/06 to destinations such as Chile, Venezuela, and Cuba. However, Post believes such high exports are unlikely, though exports should increase somewhat to a forecast 100,000 tons.

**Stocks**

Post forecasts ending stocks as of March 30, 2005 at 1.3 million tons. The Rio Grande do Sul Federation of rice producers (Federarroz) along with the Mato Grosso Association of Rice Producers report that this stock level is reasonable given that producers are holding onto supplies in hopes of better prices. Post has revised 2004/05 and 2003/04 consumption estimates to better reflect stock levels. Contrary to wheat and corn, little is know about the exact level of rice consumption and therefore, Post now uses stocks as the more reliable figure for balancing the PS&D. CONAB also forecasts stocks at 1.3 million tons.

**Consumption**

Though Post relies on stocks as the PS&D balancer, Post forecasts for consumption are near those of industry and government estimates. The range of estimates from contacts for 2003/04 consumption is 8.6 to 9.0 million tons (milled). The Post forecast is 8.7 million tons but growth to 9.1 million tons is expected over the next few years. This is due to a combination of cheaper prices due to growing domestic and Mercosul supplies and greater demand as a result of a growing economy, which is forecast to grow 5 percent in 2005. Additionally, some demand is expected to be generated through the government's "Zero Hunger" program, though not as much as originally expected.

**Policy**

Producers in the southern rice producing states have long complained about the influx of inexpensive rice from neighboring Argentina and Uruguay. The frustration of these producers boiled over in November and December of 2004 as producers blocked trucks carrying rice at border crossings. Despite these actions, Argentine rice continues to pour into Brazil and in late January producers from the state of RGDS requested provisional

safeguards be placed against imported rice. The request was sent to the government through the Federation of Rice Producer Associations of Rio Grande do Sul (Federarroz), for a tariff of 50 percent on the imported price of rice for the next four years.

Brazilian producers complain that rice from Argentina is imported at just R$23 per sack while the cost of production in RGDS is more than R$28 per sack. Argentine production costs are estimated to be 48 percent less than in Southern Brazil due largely to less expensive inputs which are not taxed as heavily as in Brazil. Federarroz also asserts that domestic rice from RGDS shipped to Sao Paulo is charged 12 percent ICMS tax while imported Argentine rice is charged only 7 percent.

The proposed measures are primarily directed at Mercosul suppliers but would also impact imports from the United States and Southeast Asia. However, some contacts are skeptical that the government will accept the measure proposed by Fedderarroz due to the President's commitment to keep food prices low and thus control inflation. Nevertheless, with the harvest near, the Department of Commercial Defense, which is responsible for evaluating the request, could issue a finding in favor of Brazilian producers.