



Bi-weekly Bulletin

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BRAZIL

Brazil is one of the largest soybean producers in the world and has become the second largest exporter of soybeans. Its long-term potential to increase the production of soybeans at a low cost is one of the main factors to watch in relation to infrastructure and credit problems which constrain expansion. It has also played a major role in the on-going negotiations of the World Trade Organization as the leader, along with India, of the Group of Developing countries (G20). It is also a leader in the production and use of ethanol derived from its high sugar production. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for Brazil for grains, oilseeds, pulses and special crops.

Introduction

Agriculture contributes 10% to Brazil's Gross Domestic Product (GDP) and employs 20% of the country's labour force. If agriculture related sectors, such as; packaging, crop inputs, biofuels and agricultural equipment are included, Agriculture would contribute nearly 30% to the GDP.

The main agriculture products produced in Brazil are: coffee, soybeans, wheat, rice, corn, sugar cane, cocoa, citrus, beef and poultry. The main exports are: cocoa, coffee, soybeans, beef, poultry, tobacco, orange juice, various tropical fruits and nuts.

Brazil faces major competitors on the international market from United States (US), the European Union (EU), Canada, Australia, New Zealand and other emerging nations such as Thailand, Malaysia, South Africa, Mexico and Chile.

Canadian agri-food exports to Brazil have declined steadily from CAN\$394 million (M)

in 1996 to CAN\$39M in 2005. This is largely due to the depreciation of the Brazilian *real* (R), along with competition from Mercosur countries, in which wheat exports, Canada's dominant export to Brazil, were replaced by less expensive Argentine wheat. Canada continues to have a substantial negative trade balance with Brazil (CAN\$512M in 2005) for agricultural and agri-food products, despite the fact that Brazil is a large importer. Canada's market share of Brazilian imports was less than 1% in 2005.

The successful negotiation of the Canada-Brazil Consultative Committee on Agriculture in June 2006 will provide both countries an instrument to improve the bilateral relationship and work strategically together towards areas of mutual interest. However, further branding and promotion by Agriculture and Agri-Food Canada's interdepartmental Brazil Team, will be necessary in order to gain a more balanced agri-food trading relationship with Brazil.

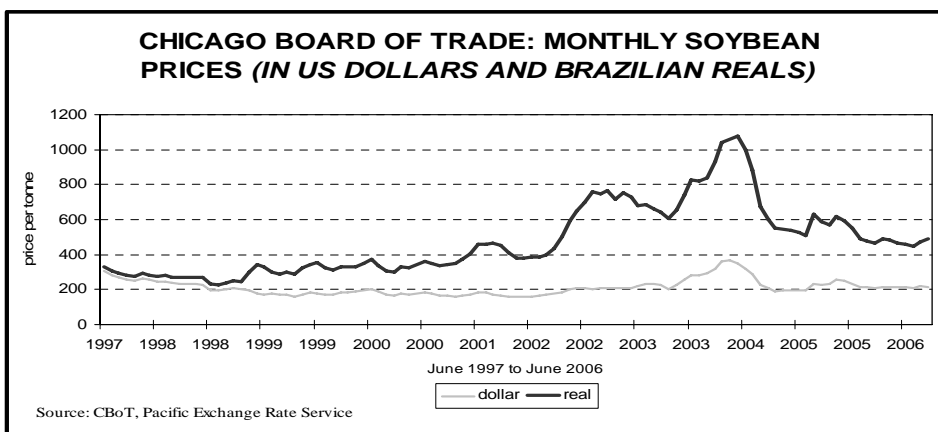
Agriculture Policy

Brazilian agricultural policy is based on two main tools: credit and income guarantees to producers. Credit is provided for working capital, marketing, storage, and investment. Income guarantees rely on a set of devices developed under the Minimum Guaranteed Price Policy to support prices and producers' income.

Government credit is by far the dominant source of financing available to agricultural producers. The credit system provides financial resources at subsidized fixed, low-interest rates through separate production and marketing programs (60%), investment programs (30%), and programs for financing agribusinesses at market rates (10%).

Brazilian agriculture has been in a financial crisis. The *real* has appreciated by 29% for the past three years, from 3.07 reals per US dollars (R/US\$) in 2003 to 2.19 R/US\$ for 2006 to date. This is in comparison to a depreciation of 185% from 1997 to 2003. The recent appreciation of the *real* depressed domestic prices significantly. The Chicago Board of Trade (CBOT) soybean future prices in US dollars decreased by 28%, from US\$297 per tonne (t) for 2003-2004 to US\$214/t for 2005-2006 to date. For the same period, CBOT soybean prices in reals decreased by 46% from 878 R/t to 474 R/t.

The rising energy price has significantly raised input costs for Brazilian producers, such as fertilizer, machinery and transportation costs. As a result, local soybean prices have been below production costs in some areas. Producers have been unable to pay off their debts and farmland



prices have been declining sharply. The drought and soybean rust made the situation even worse.

On April 6, 2006 the Minister of Agriculture, Roberto Rodrigues, announced an aid package of \$14.7 billion (G) reals (US\$6.9G) to alleviate financial difficulties. This is the second year in a row that the Brazilian government has helped farmers with an aid package.

On May 12, 2006, the Brazilian government announced a plan offering US\$470M in price supports to soybean growers. On May 26, 2006, the government announced another aid package primarily for debt deferments up to 4 years. Soybean farmers are struggling with low prices, a 75% increase in internal transportation costs and sharply higher fertilizer, fuel and rust control chemical costs.

The Brazilian government's support to producers has been very low, amounting to about 3% of the value of production in 2004. Only a small portion of the latest aid package will provide a subsidy, and therefore will not likely affect production or trade. The aid is expected to increase Brazil's level of producer support by an additional percentage point in 2006.

Trade Agreements

Mercosur, the Southern Common Market customs union, was formed in 1991 by Brazil, Argentina, Paraguay and Uruguay. Venezuela became the fifth member on July 4, 2006. There are currently five associate members of Mercosur, i.e. Bolivia, Colombia, Ecuador, Peru, and Chile.

Mercosur is presently involved in 24 trade dialogues and negotiations, with partners such as India, the South African Customs Union, Egypt, Morocco, China and Mexico. In 2004, Mercosur signed a trade agreement with the Andean Community comprised of Bolivia, Columbia, Ecuador, Peru and Venezuela.

On May 11, 2005 Mercosur signed a free trade zone frame agreement with the Gulf Cooperation Council, consisting of Saudi Arabia, Bahrain, Qatar, the United Arab Emirates, Kuwait, and Oman.

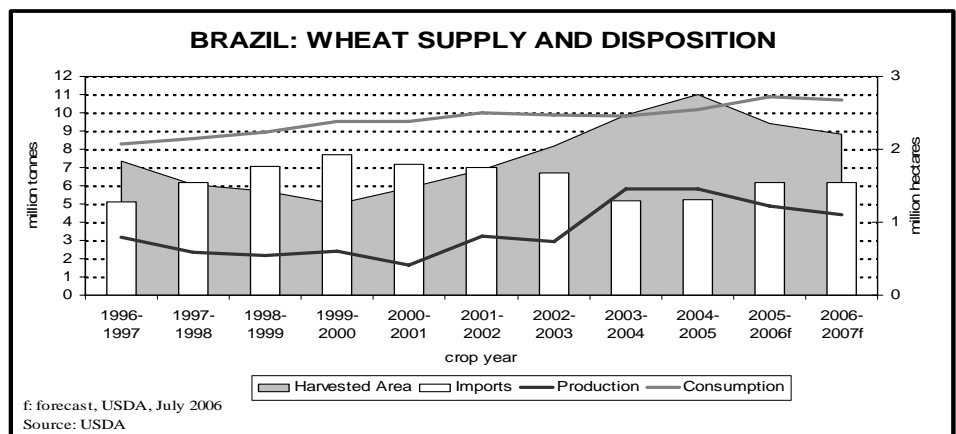
Wheat

Brazil is one of the world's five leading wheat importers. Over the last five years, Brazilian wheat imports averaged 6.4 million tonnes (Mt), accounting for 65% of the total domestic consumption. Over the past ten years, while wheat consumption increased steadily, wheat imports have been relatively stable, as seeded area and production increased. However, wheat area was still small, at about 11% and 17% of the area harvested for soybean and corn, respectively.

For 2005-2006, wheat production decreased to 4.9 Mt, 17% below 2004-2005, as heavy rains during harvest led to a fall in harvested area and lower yields. Imports are forecast to rise by 19% to 6.2 Mt, mostly from Argentina, Paraguay and the US. Brazilian wheat imports from the US are largely Hard Red Winter (HRW) wheat. Brazil has not historically been a wheat exporter. However, in 2003-2004, it exported 1.3 Mt of wheat due to excessive supplies of medium to lower quality wheat. In 2005-2006, Brazilian exports are estimated at 0.75 Mt.

For 2006-2007, area seeded is forecast to fall slightly and, assuming average yields, production is forecast to decrease by 10% to 4.4 Mt, with imports unchanged at 6.2 Mt and exports declining to 0.03 Mt.

Brazil was an important wheat market for Canada and Canadian exports averaged 1.4 Mt during the 1991-1992 to 1995-1996 period. However, Canadian wheat exports to Brazil have decreased significantly since then. With the establishment of the Mercosur, a 10% tariff differential plus a



BIOFUELS

Brazil is the world's largest producer of biofuels, producing 16.5 billion litres (GL) and exporting over 2.0 GL of ethanol in 2005. In Brazil, renewable fuels account for over 20% of transportation fuels.

The Brazilian government began a National Fuel Alcohol Program in the 1970s to increase the share of domestically produced fuel used in the transportation sector. The original program was eliminated but the government still provides support to ethanol production through a combination of market regulation and tax incentives. Primary support through market regulation takes the form of an official blending ratio of ethanol with gasoline of between 20-25% in transportation fuel.

In Brazil, ethanol is produced from sugarcane, which is a more efficient source of fermentable carbohydrates as well as much easier to grow and process. One tonne of harvested sugarcane contains about 145 kilograms (kg) of dry fiber (bagasse) and 138 kg of sucrose. If the cane is processed for ethanol and all the sucrose is used, 72 L of ethanol is produced. Vehicles that can run on ethanol, gasoline or a mixture of the two account for 70% of all vehicles manufactured in Brazil. The US produced 16.2 GL of fuel ethanol and imported 500 ML almost all from Brazil, in 2005. As a low cost ethanol producer, Brazil may be interested in exporting ethanol to Canada. However, Canada has an import tariff of CAN\$0.0492 per litre on ethanol.

On October 30, 2002, Brazil introduced the Prodieisel program to develop technology for the production, industrialization, and use of biodiesel, and its mixtures with diesel using pure and residual veg oils. The Brazilian government has also enacted a law establishing biodiesel obligations: 2% by the end of 2007 (800 ML per year) and a final goal of 20% by 2020 (12 GL per year).

25% tax on the freight for non-Mercosur countries practically excludes Canadian wheat from being priced competitively with Argentinean wheat. In addition, the closer proximity, as well as less expensive (lower quality) wheat, gives Argentina a geographical advantage in the price sensitive Brazilian market. For 2005-2006, Canadian wheat exports to Brazil are forecast at 40,000 t. For 2006-2007, Canadian wheat exports to Brazil are forecast to be similar to 2005-2006.

Corn

Brazil is the third largest corn producer in the world only behind the US and China. A major portion of the corn crop is consumed by the large livestock industry. The poultry industry accounts for about 60% of the domestic feed use. The corn crop is predominantly non-genetically modified (GM).

For 2005-2006, corn production increased to 41.0 Mt, 17% above 2004-2005 due to higher harvested area and yields. Imports are forecast at 0.5 Mt, mostly from Paraguay and Argentina. Brazilian corn exports are estimated at 1.5 Mt, up from the previous year but much lower than before, as Brazilian export prices are not competitive with US and Argentine free on board (FOB) prices, partially due to the relative strength of the *real* against the US dollar.

For 2006-2007, area seeded to corn is forecast to fall marginally and, assuming average yields, production is forecast to decrease marginally to 40.5 Mt. However, due to large carry-in stocks and an expected rise in imports, Brazilian corn supplies are forecast to rise marginally, while exports are projected to drop by 50% to 1.0 Mt

Barley and Oats

For 2005-2006, Brazilian barley imports are estimated at 150,000 tonnes (t) and are consumed domestically as feed. For 2006-2007, Brazilian barley imports are forecast to be similar to 2005-2006.

Canadian malt exports to Brazil have decreased significantly since 1997-1998, when exports reached the highest of 114,000 t. Competition from cheaper, lower quality EU malt and preferential treatment for Mercosur countries are the major factors contributing to declining market shares for Canada. For 2005-2006, Canadian malt exports to Brazil are expected to be similar to 2004-2005 at 27,000 t. For 2006-2007, Brazilian malt imports are forecast to be

similar to 2005-2006 with Canadian malt exports to Brazil unchanged from last year.

Brazilian oat production for 2006-2007 is projected at 0.5 Mt, down marginally from 2005-2006. The majority of oats used in Brazil are also consumed as feed, with very little used for food use.

Soybeans

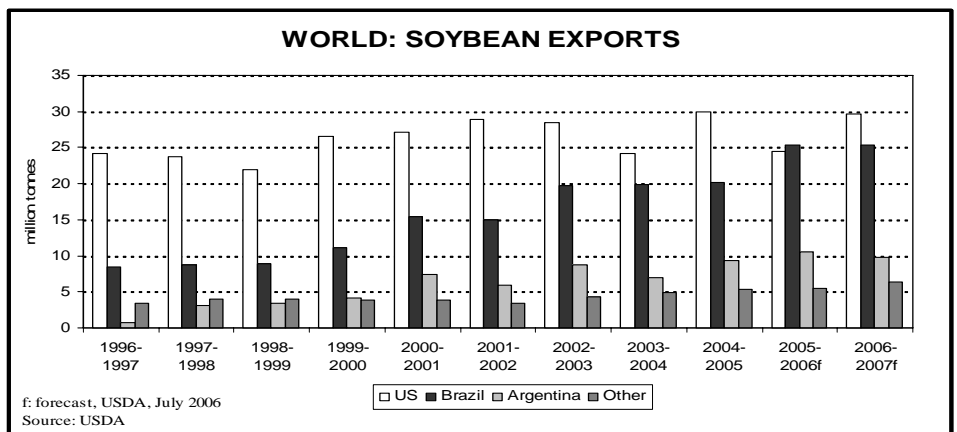
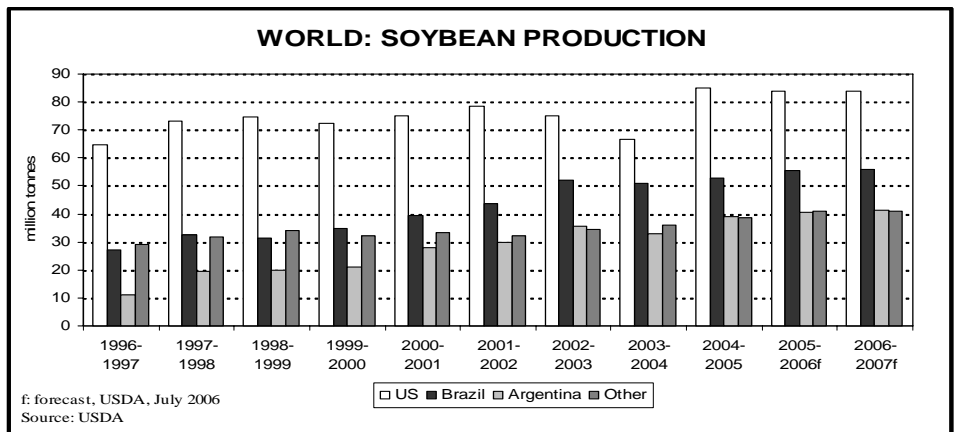
Brazil is one of the largest exporters of soybeans, soymeal and soyoil with over 30% of the market share. The use of soybeans and soybean products in animal feed has been a major factor in the increase of soybean production. Brazilian exports of these three commodities have risen from 17 Mt to over 40 Mt in the last 10 years.

It is expected that in 3-5 years, Brazil will be the world's largest producer of soybeans. Lower production costs give Brazil a strong competitive edge in international markets for soybeans. The cost of production in Brazil is much lower than in Canada and the US and has contributed to Brazil's increase in market share. Currently, this advantage is partially offset by higher transportation and marketing costs to export destinations.

Brazil plays an important role in determining soybean prices. Brazil produces about 25% of world's soybean production. Between Brazil and Argentina, they account for about 55% of the world market for soybean exports.

Brazil is one of the few major soybean producers that have officially banned the use of GM varieties. However, producers would like to have the option to plant both GM and non-GM soybeans so they can capture cost savings and improve productivity. Brazil feels that it will lose access to markets in Europe and Asia, if GM soybeans are approved for commercial use.

For 2005-2006, soybean production increased to a record 55.0 Mt, 4% above 2004-2005 due to higher yields. As a result, Brazilian soybean exports for the October-September marketing year are currently estimated at a record 25.3 Mt, up 26% from 2004-2005. The main markets for Brazilian soybeans are China and the EU. The appreciation of the *real* and the high transportation and handling costs have depressed soybean prices in interior producing areas to levels below production costs.



For 2006-2007, area seeded to soybeans is expected to fall for the second consecutive year, in response to low prices from burdensome domestic stocks and large US supplies. This, combined with high costs for fungicides required to control the spread of the Asian Rust Fungus is expected to cause producers to shift area out of soybeans and into rice. However, Brazilian soybean production is forecast to increase marginally to 56.0 Mt, due to higher yields. Soybean exports are forecast to fall marginally to 25.4 Mt.

Soymeal

The domestic demand for soymeal has increased in line with the expansion in the poultry sector. Approximately 65% of domestic soymeal consumption goes to the poultry sector and 25% goes to pork production. Generally, about 60-65% of the soymeal produced is exported, mainly to Japan and China.

For 2005-2006, domestic crush of soybeans is estimated at 27.5 Mt, down 6% from last year. Soymeal production is estimated at 21.2 Mt, marginally below the record production of 2004-2005. With lower total supplies, soymeal exports are projected at 12.4 Mt, compared to 14.2 Mt in 2004-2005.

For 2006-2007, soybean crush and soymeal production are projected to rise to 28.0 Mt and 21.7 Mt, respectively. Exports are forecast to increase marginally to 12.5 Mt.

Soyoil

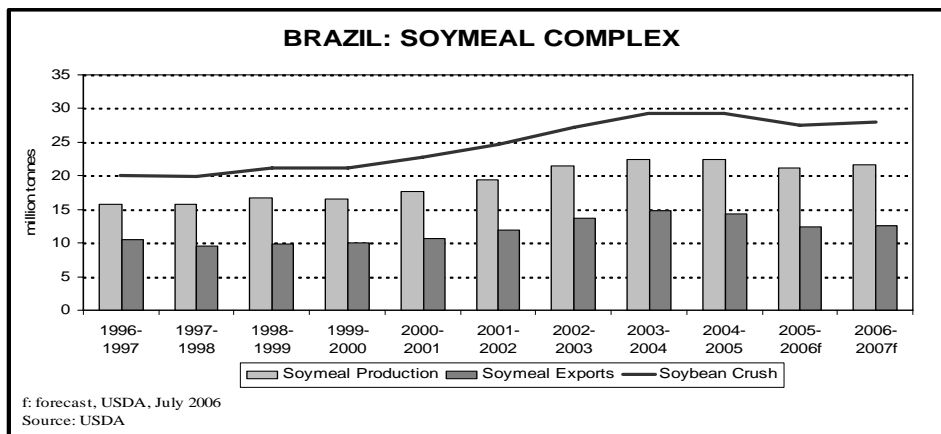
Soyoil and canola oil are substitutes in the vegetable oil market. As Brazilian soybean exports increase, the world price of soybeans falls, depressing the price of canola. Brazilian soyoil production and exports have been flat during the last 4 years, at about 5.5 Mt and 2.4 Mt, respectively.

For 2005-2006, soyoil production is projected to fall by 6% to 5.1 Mt and exports are forecast to decrease by 13% to 2.1 Mt.

For 2006-2007, soyoil production is forecast to increase to 5.2 Mt, while exports are forecast to be similar to 2005-2006.

Pulse and Special Crops

Brazil is the second or third largest, depending on the year, market for Canadian **canary seed**. In 2004-2005 Canadian



exports were 24,000 t and are expected to increase to 25,000 t in 2005-2006.

For 2006-2007, Canadian exports are forecast to remain at about 25,000 t. Although Argentina is the preferred supplier of canary seed to Brazil because of the free trade agreement, its production is only about 18,000 t. Therefore, Canada supplies most of the canary seed used in Brazil.

Canada exported 8,000 t of **dry peas** to Brazil in 2004-2005. Exports for 2005-2006 and 2006-2007 are expected to be similar to 2004-2005. Brazil imports green peas for food use. Imports have been relatively stable during the past 5 years at about 22,000 t. Argentina is the main supplier.

Canada exported 13,000 t of **lentils** to Brazil in 2004-2005. Exports for 2005-2006 and 2006-2007 are expected to be similar to 2004-2005. Brazil imports mostly large green lentils. Nearly all of Brazilian lentil imports were from Canada. Imports have been relatively stable.

Canada exported 1,400 t of **chickpeas** to Brazil in 2004-2005. Exports for 2005-2006 are expected to be similar to 2004-2005, but increase to 2,000 t in 2006-2007, as Canadian production increases. Brazil imports mostly large kabuli chickpeas. Imports have been relatively stable during the past 5 years at about 4,000 t. Mexico and Canada are the main suppliers.

Market Prospects

Canada is expected to continue to support existing exports of Canadian agricultural products to Brazil while exploring new opportunities with agricultural organizations that have targeted Brazil as

potential market. Canada will continue to explore niche opportunities to reach Brazil's consumer market for agricultural foods.

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