International Agricultural Trade Report

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# Opportunity Knocks in Brazil for Global Wheat Suppliers

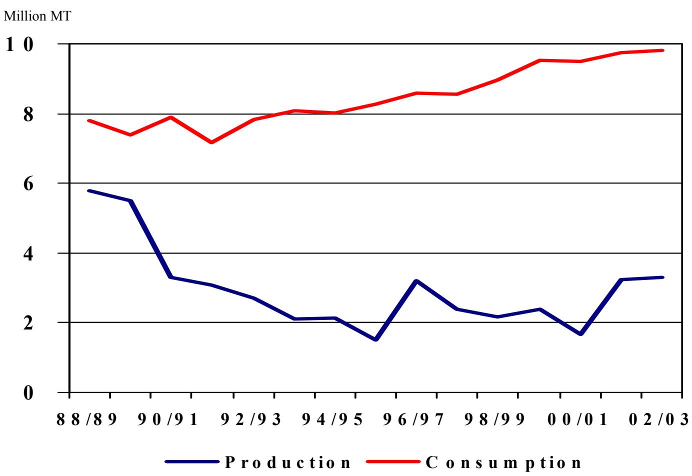
## Summary

Brazil is looking elsewhere for wheat supplies as prices are skyrocketing in Argentina, thereby creating an opportunity for the United States, Canada, and many non-traditional suppliers.

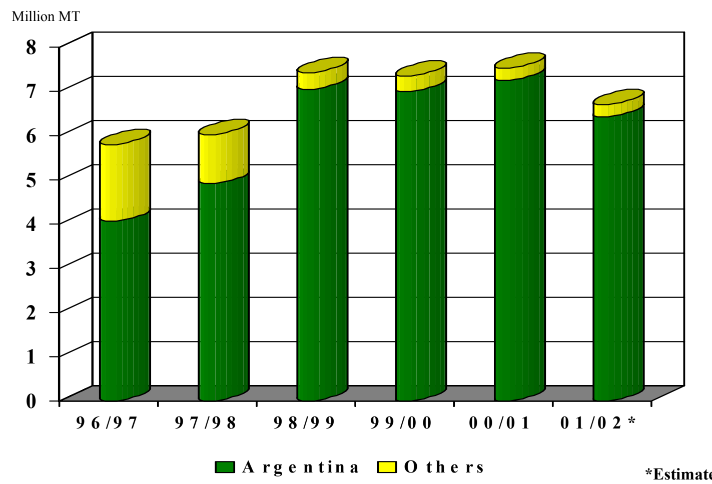
## Historically the Brazilian Market Has Been Dominated by Argentina

Internal production meets only about a third of Brazil's consumption needs. Therefore, Brazil has been among the top three global wheat importers over the past decade. Argentina is the main supplier to this massive market because of an obvious freight advantage coupled with a preferential tariff rate as a Mercosul member. In fact, it has supplied 95 percent of Brazil's import needs over the past three years with only small amounts shipped by the United States and Canada.

**Brazil's Wheat Supply and Demand**




**Brazilian Imports by Source**



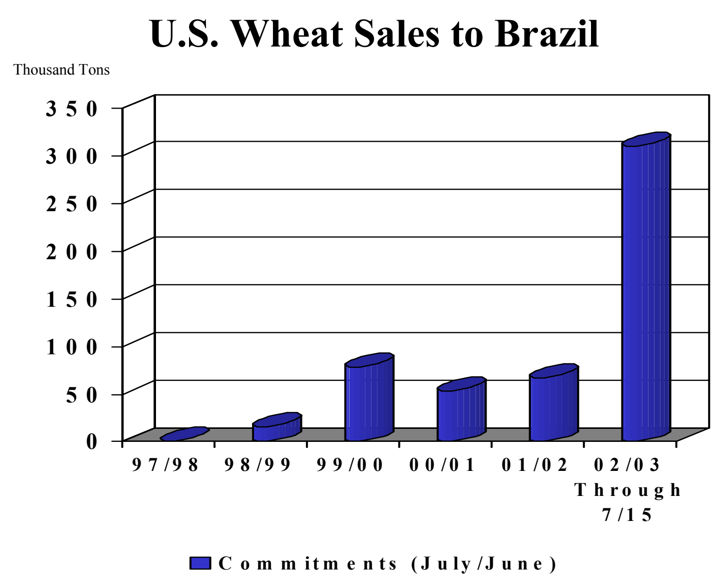

## However, Argentine Supplies Tighten for the Short Term…

Typically Argentine exports fall and prices rise from June to November as supplies from harvest tighten. However, this year Argentine prices have soared to unusually high levels amid concerns over future domestic supplies with the 2002/03 wheat crop forecast smaller than last year. Planted area will likely be down as a result of the high cost of inputs, tight credit, and economic uncertainty. Exacerbating the problem is the fact that Argentine farmers are retaining wheat as a form of currency.

Therefore, Brazilian millers, which need to import over the next few months before their local harvest, are forced to look elsewhere for supplies. Therefore, millers are requesting that the 11.5% Common External Tariff (CET) placed on non-Mercosul wheat be removed. Though the CET was recently removed in Uruguay, it is unlikely to occur in Brazil given resistance from domestic producers.

## … So Brazil is Turning to Other Suppliers.

The United States appears to be the main beneficiary of Brazilian needs to this point as sales have already reached 310,000 tons. According to Brazilian traders, imports from the U.S. are likely to exceed 500,000 tons. Meanwhile small amounts of Canadian and Polish wheat have been bought. The purchases from Poland, estimated at 120,000 tons, are particularly surprising given Brazilian phytosanitary restrictions, which apparently have been eased to accommodate the urgent need for wheat. In addition, rumors have surfaced that Russian, Ukrainian, and French wheat may be imported in the near future. This leads to an interesting situation in which the United States, Canada, and new suppliers will be battling over the next few months for a Brazilian market typically dominated by Argentina

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