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Brazil

Grain and Feed

Opportunities for U.S. Wheat in Brazil

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Report Highlights:

Brazil will need to import a substantial amount of wheat from outside of Mercosul-possibly as much as 2.0-2.5 million tons this year. The United States, Canada and Russia have the potential to fill this demand. Brazilian millers have requested that the Government of Brazil temporarily eliminate the 10% import tariff and create a quota for non-Mercosul wheat to ensure supply and control prices. Argentina's wheat crop production is estimated to drop almost in half this year, to 8.4 million tons from last year's 16 million tons. In reaction, Argentina which normally provides more than 90 percent of Brazilian wheat imports has suspended export licenses which will affect Brazilian supply.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Brasilia [BR1]
[BR]

Supply

Argentina normally provides more than 90 percent of Brazilian wheat imports due to proximity and advantages associated with being a member of Mercosul (no import tariff or Merchant Marine tax). However, Argentina does not have a great deal of wheat to export this year. Production is estimated at 8.4 million tons and domestic demand is between 6-7 million tons. Argentina had approved licenses of 1.27 million tons before the Argentine government suspended export licenses.

Based on recent years' consumption, Brazil should import from 5.3-5.9 million tons this year. It will probably import 3 million tons from Argentina, and will likely be able to import from Uruguay and Paraguay 500,000 tons. Thus, Brazil's estimated import needs outside of Mercosul are around 2.0-2.5 million tons.

Brazilian supply will also be affected by other factors such as the amount of Argentine wheat already stored at harbor terminals, the 2009 wheat crop in Brazil and pricing. Regarding storage, the millers, particularly those in the Northeast, do not have large storage capacity (on average 30 days of milling demand) so from March onwards those millers may feel a squeeze in their stocks. Brazil needs to import less wheat than usual this year because of last year's bumper 6 million ton harvest. However, producers will make planting decisions for the 2009 wheat crop in March in the state of Parana and May in state of Rio Grande do Sul. These decisions will subsequently determine in part the amount harvested in September (Parana) and October (Rio Grande do Sul).

Potential Suppliers

Brazil likely will seek non-Mercosul wheat from the United States, Canada and Russia. Canada and the United States are well-situated to be the main suppliers. Canada may grab a large share of imports due to flexible prices. Although last year when Canada had an opportunity to export to Brazil, it decided to focus instead on maintaining new markets in Asia and shipped only 272,000 tons while the United States shipped 906,000 tons. The fundamentals this year are markedly different. While last year's Canadian exports were limited due to lower wheat supplies, the crop in 2008 was quite large and of high quality due to higher than expected yields resulting from ideal growing conditions. As a result of the increased supplies, the Canadian Wheat Board (CWB) has announced ambitious exports targets. The CWB's export target is 16 million tons of wheat (up 1.4 million tons from last year).

U.S. wheat production also increased in 2008 to 68 million tons, a 21% increase. In spite of a larger crop there has been substantial reduction in demand for U.S. wheat. With three and a half months left in the marketing year, U.S. wheat exports are at 84 percent of USDA's lower prediction. On a positive note, last year the United States shipped wheat valued at \$285 million to Brazil. This year, U.S. exporters will have opportunities particularly in providing SRW to the north.

Brazil is negotiating with Russia to import Russian wheat. Sources indicate that an agreement between Brazil and Russia was signed in January. Russia is eager to export wheat as it has a record crop and a lack of storage. It is estimated that there could be up to 20 million tons in

government storage in the soon. A group of Brazilian millers plan to visit Russia at the end of February. Producer representatives from the Brazilian state of Santa Catarina have also suggested a barter agreement proposal to the federal government –an exchange of Brazilian pork for Russian wheat in order to reduce the excess of meat in the Brazilian domestic market provoked by a fall in exports. Expectations are that 50,000 tons of pork will be made available for R\$150 million (current exchange rate R2.3=\$1) However, even though the Brazilian government seems interested in importing Russian wheat significant phytosanitary, logistic, quality and tax issues need to be overcome. A Brazilian official delegation will visit Russia in February to resolve phytosanitary issues. Russian wheat is considered low quality and is used more in the production of cookies while Brazilian millers require higher quality wheat for blending to make bread. One analyst noted that from an economic standpoint it makes more sense to buy from Canada or the United States.

Import Tariff

Brazilian millers are lobbying the government for a temporary elimination of the 10% tariff on wheat imports outside of Mercosul. The GOB did this last year as a means to help control inflation. Inflation is less of a concern this year, but the government may still grant the waiver.

On the other hand, four factors weigh against the government's granting a waiver. The first factor is that not only is inflation less of a concern this year but also the government may question the effectiveness of the waiver as a tool to fight inflation. Last year instead of prices going down after the waiver was implemented, flour prices actually increased. The second factor is that the government may not want to upset cooperatives and producers in the South who do not support the waiver. The third factor is that the government does not want to send the "wrong signal" to producers. If the government were to agree to a waiver and subsequently prices dropped while producers were making their planting decisions, producer incentives to plant might be reduced. Lastly, the government has Brazilian produced wheat in stock. The government may delay a decision to lift the tariff because it wants millers to first buy the Brazilian-produced wheat it has in stock at auctions.

It is important to note that many of these same concerns were raised last year and the waiver was still approved.