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## **Brazil**

### **Grain and Feed Annual**

#### **Report 2010**

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**Report Highlights:**

Post now forecasts corn production in 2009/10 at 51 million metric tons (mmt) and trade year exports at 7.2 mmt, due to good yields. Corn production for 2010/11 is expected to drop slightly to 50 mmt and exports are expected to reach 8 mmt. In 2009/10, Brazil's expected rice production is down 9 percent to 7.85 mmt (milled) necessitating imports of 1 mmt of rice with possibly some U.S. imports. Exports for 2009/10 are estimated at 300,000 metric tons (mt). Rice production in 2010/11 is expected to rebound to 8.3 mmt as a result of normal weather conditions. As a result, 2010/11 rice imports are anticipated to return to a more typical level of 700,000 mt and exports to reach 500,000 mt. Post's estimate of wheat imports in 2009/10 at 6.5 mmt remains unchanged. Moreover, 2010/11 wheat production is expected to remain stable with quality improvements as a result of normalized weather conditions. Therefore, 2010/11 wheat imports are anticipated to decrease slightly to 6.2 mmt.

## Economy:

The outlook for the Brazilian economy in 2010 calls for a rebound in economic growth to 5.3 percent, with an inflation rate of 4.9 percent and a continued increase in consumer purchasing power. In March 2010, the Real is trading at about U.S. \$1.00=R\$1.80.

## Economic Indicators

<b>Brazil</b>	<b>2008</b>	<b>2009 (p)</b>	<b>2010 (f)</b>
GDP Growth (%)	5.1	(0.2)	5.3
Inflation (%) (IPCA/IBGE))	5.6	5.1	4.9
Average Exchange Rate (R\$/US\$)	1.84	1.99	1.85
Total Exports (US\$ billion)	\$198	\$153	\$168
Total Imports (US\$ billion)	\$173	\$128	\$158

Source: Brazilian Ministry of Development, Industry and Commerce (MDIC)/Secretariat  
Foreign Trade databases  
Brazilian Institute of Geography and Statistics (IBGE)  
Brazilian Central Bank Data

**Commodities:**

Corn

**Production:**

Post estimates 2009/10 corn production at 51 million metric tons (mmt). Despite the drop in area for the 2009/10 summer corn crop, most regions are expecting summer crop yield increases thereby enabling corn production to remain the same as last year.. Favorable climate after planting, as well as the use of more biotechnology and greater investment in inputs is expected to boost yields near record levels. As of March 1, the summer corn crop was about 30 percent harvested a pace well above last year's 20 percent. There continue to be reports of excellent yields. In Rio Grande do Sul, the state with the fourth largest production, the 2009/10 crop is expected be its second largest harvest ever.

There are two corn crops in Brazil, the first or main crop, planted in September through November; and the second crop, or "safrinha", planted in Mato Grosso and Parana states from late January through March following the soybean harvest. In Parana, the safrinha competes for area with winter crops such as wheat. The local corn marketing year in Brazil runs from March to the following February.

Winter corn production, about 55 percent planted to date (well ahead of last year's 21 percent), is forecast by Post at 19 million tons, 1.6 million tons more than last year. Early planting of safrinha corn in Mato Grosso reduces the risk of a lack of moisture during key development periods. Residues from fertilizer applied to the soybean crop should also help to boost safrinha yields. However, the winter crop is typically more variable than the summer crop due to lower input use and less favorable growing conditions. For example, in a normal crop year the yield for the winter crop in Parana is only 70 percent that of the summer crop.

Restrained prices as a result of high stocks this year could be seen as a disincentive for producers. However, reports are that farmers in Mato Grosso are planting safrinha corn even though current corn prices are below the cost of production. While corn prices per sack (60 kilos) in Mato Grosso currently hover around R\$7, production costs are estimated at R\$10.50 per sack. Producer concerns about the profitability of the safrinha were evidenced by a significant delay in input purchases. In the Center-West, for example, sales that normally would have occurred in September or October were delayed to January and February.

**Outlook 2010/11 Production**

Post forecasts 2010/11 area planted to corn to remain at 12.9 million hectares. Despite low soybean prices, Post does not expect any increase in corn planted area as corn lacks liquidity and is selling for comparatively low prices. Producers will continue to opt to plant soybeans based on their lower input costs and greater liquidity. Post is forecasting 2010/11 corn production at 50 mmt; slightly less than current 2009/10 production reflecting an expected drop in yields from 2009/10 levels as that crop benefitted from near optimal growing conditions in major growing areas.

## Biotechnology

### Rate of Adoption of Genetically Engineered (GE) Seeds in 2009/10 Safrinha

Region	Safrinha Crop Area Planted (thousand hectares)	% Rate of Adoption of GE	% Rate of Conventional
North	32	17	83.
Northeast	369	20	80
CenterWest	2764	58	42
Mato Grosso	1704	60	40
Mato Grosso do Sul	795	55	45
Goiias	258	50	50
SouthEast	273	40	60
South	1574	55	45
Parana	1574	55	45

Source: Celeres

Brazil has become the second largest user of genetically-engineered (GE) products, responsible for about 16 percent of all GE crops grown worldwide. Although the rate of adoption is less for corn than soy, the adoption rate of GE seed is increasing rapidly. The 2010 summer corn crop could surpass 50 percent GE. An official from the Ministry of Agriculture's National Supply Company (Conab) was quoted in the local press saying the GE seeds could increase yields by as much as 10-15 percent. Even more significant than yield gains, GE corn can reduce chemical costs an estimated R\$ 300 (US\$ 166) per hectare. There are currently 12 different varieties available for commercial use.

Syngenta announced a goal of increasing the corn adoption rate by 15 percent in the next two years. To achieve this goal Syngenta will launch the MIR 162 variety this coming season. The MIR 162 contains a protein to specifically control the Fall Armyworm, by far the biggest threat to Brazilian corn. This event was approved by CTNBIO in 2008.

As Brazil now harvests a significant biotech corn crop, there are concerns about the cost of segregating the GE and conventional corn. A researcher noted that this additional cost, estimated at 15 percent, would make Brazil less competitive than the United States or Argentina. In 2009, producers who planted conventional corn were given an R\$2 bonus per sack. Contacts note that these additional payments only covered the increased costs related to the segregation requirements. In order to reduce the risk of contaminating conventional fields with GE corn, the GOB plans on issuing a decree defining rules for planting GE corn.

### Prices

The price of corn in the main growing regions in Brazil is at its lowest levels in nominal terms since July 2007. On March 5, 2010, the price was R\$18.38 per 60 kg (discounted by the CDI/CETIP tax), about 40 percent below last year's price. Domestic corn prices are below the cost of production as well as the minimum price set by the government. Large stocks and a relatively strong Real will continue to depress prices.

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2008/2009 Basic Government Minimum Prices for Corn

Unit: 60 kg

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Region	Price (R\$/unit)	Price (US\$/unit)
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		<b>At 1.80 (R\$-US\$) Exchange</b>
South, Southeast, Center-West(except Mato Grosso)	16.50	9.17
Mato Grosso, Rondonia	13.20	7.33
North (except Rondonia) and Northeast	19.00	10.56

Source: MAPA/SPA/DEAGRO

Since the mechanism to provide farmers with the minimum price is slow, some farmers in Mato Grosso have had to sell corn to pay their bills. Reports are that these farmers received about 50 percent of the government minimum price.

As demonstrated in the chart below local corn prices have decreased significantly since the “commodity price boom” in 2008.

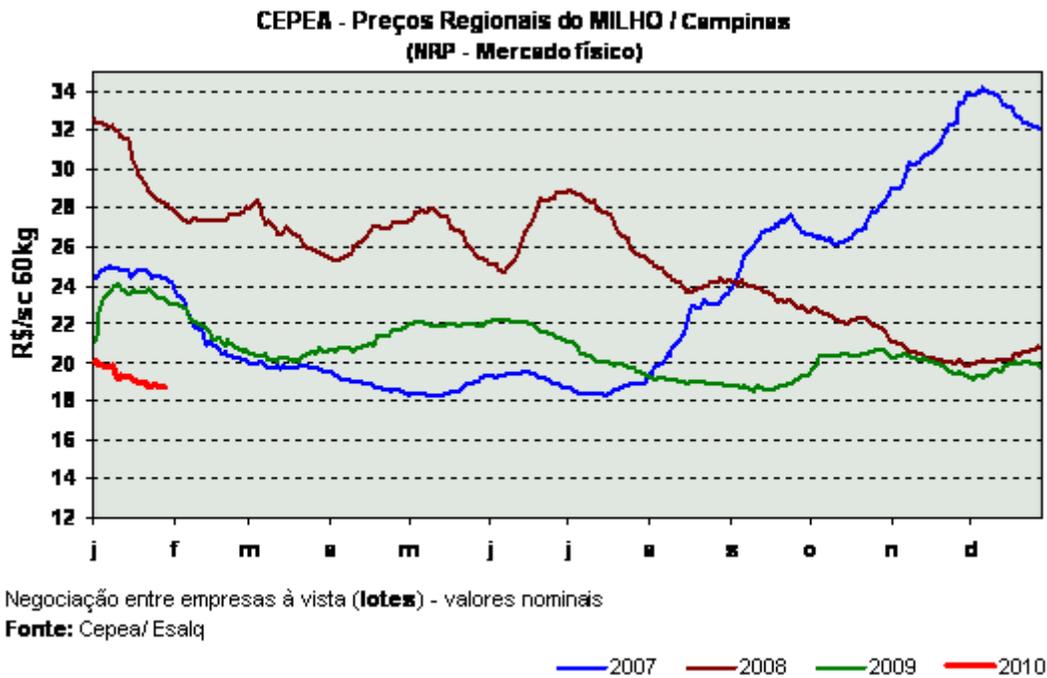
### **Corn Prices**

Prices in R\$ per 60 kg (discounted by the CDI/CETIP tax)

Year	2008	2009	% Change
Jan	30.19	23.67	-22
Feb	27.79	22.21	-20
Mar	27.19	20.62	-24
Apr	26.66	21.29	-25
May	27.42	22.25	-23
Jun	26.88	22.24	-17
Jul	27.76	20.55	-26
Aug	24.56	19.41	-21
Sep	23.77	19.12	-20
Oct	22.37	20.60	-9
Nov	20.55	20.49	0
Dec	20.75	20.02	-4

Source: CEPEA

Corn Prices 2007-2010/Campinas  
 Cash exchanges between businesses  
 Nominal values  
 Source: Cepea/Esalq



**Consumption:**

Consumption in 2009/10 was raised to 46.5 mmt and consumption in 2010/11 is forecast at 48.3 mmt.. The poultry sector is the primary user of corn in Brazil, followed by the pork sector. About 70 percent of the corn is used for industrialized feed rations. In 2010, Post forecasts pork and poultry production to increase 3.5 percent, supported by an increase in export growth and firm domestic demand for animal proteins. This increase is consistent with the animal protein sector’s annual rate increase in consumption of 3.3 percent for the past decade. Demand for feed should be stronger in 2011 as industry leaders expect a rebound in feed production between 5 and 10 percent, partially based in the expansion of poultry and swine.

**Trade:**

<b>Brazil Corn Export Trade Matrix</b> ( '000 mt)		
<b>Time Period</b>	<b>Mar 2008- Feb 2009</b>	<b>Mar 2009- Feb 2010</b>
<b>Exports to:</b>		
EU	3,002	211
<b>Iran</b>	<b>669</b>	<b>1,906</b>
Korea	615	332
Malaysia	587	705
Saudi Arabia	512	560
Colombia	486	648
Taiwan	383	665
<b>Japan</b>	<b>0</b>	<b>468</b>
Other	1,480	1,641
<b>Total</b>	<b>7,734</b>	<b>7,136</b>

Source : Secretaria de Comércio Exterior

Corn exports reached 7.1 mmt in 2009/10. Export demand has been weak and producers have been reluctant to sell below the government minimum price. Instead, producers have relied on the government to purchase corn at the minimum price and sell it at a loss to domestic user or exports. The problem is that this mechanism is slow and cumbersome.

In 2009/10, Brazil's corn exports to Iran almost tripled to 1.9 mmt and Japan emerged as a major importer. Iran accounted for 28 percent of Brazil's total exports. Exports to Japan leapt from 14,000 mt to 468,000 mt. Japan, the world's largest corn importer, may be increasing purchases from Argentina and Brazil due to concerns with 2009/10 U.S. crop quality. It is estimated that Japan has booked at least 500,000 mt of corn from Brazil for January-to-June shipment, more than 10 times the volume bought in 2009. It is expected that Japan will source from Argentina rather than Brazil once Argentine production becomes available. Corn imports in 2009/10 doubled to 1.2 mmt compared to 615,000 mt in 2008/09 as Paraguay corn prices made imports attractive

## Outlook 2010/11: Trade

### Exports

In 2010/11, given that current international prices are well below the government minimum price, significant government intervention in the market is expected to reach 8 mmt of corn exports.

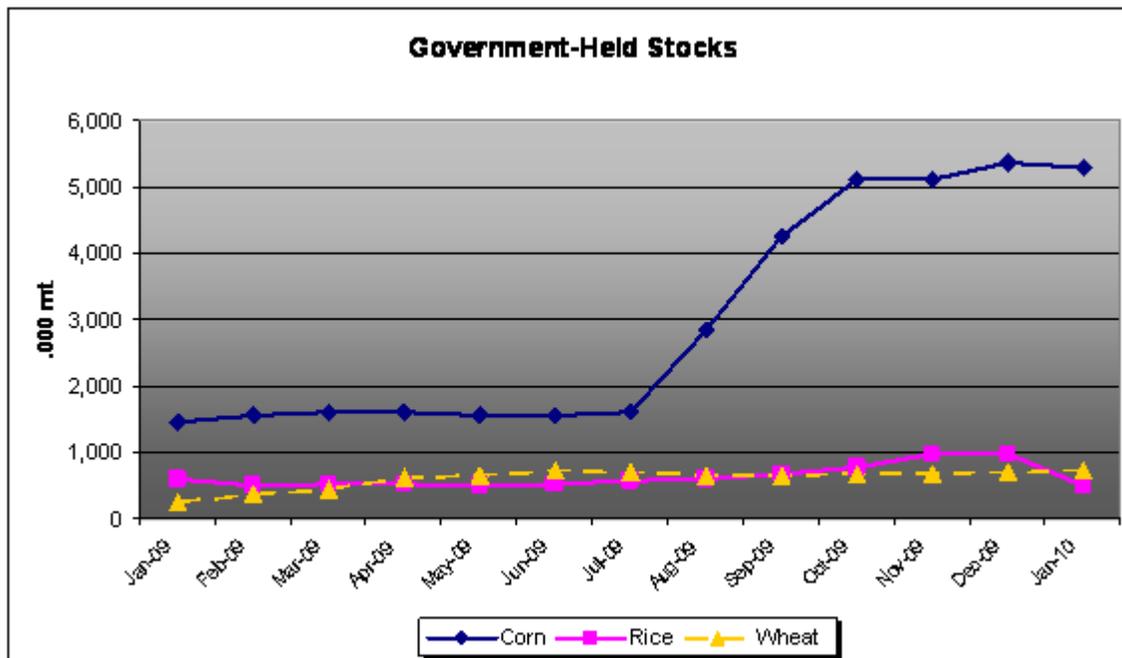
### Imports

Post forecasts 2010/11 corn imports at 1 mmt as Paraguayan corn, which accounts for 95 percent of imports, continues to be priced more competitively than domestic corn.

### Stocks:

Government-held corn stocks remain above 5 mmt in stark contrast to previous years when stock depletion occurred in December/January.

In Mato Grosso large stocks of last season's winter corn still remain in storage taking up about 3 mmt of space of the state's 24 mmt capacity. Mato Grosso production including soybeans, corn and other grains is estimated at 27 mmt, creating competition for storage capacity and available trucks. The resulting lack of storage space in the state is going to force grain elevators to store safrinha corn production on the ground for the second year in a row. Since the last harvest, very little new storage capacity has been built in Brazil.



Source: CONAB

**Production, Supply and Demand Data Statistics:**

Corn Brazil	2008		2009		2010		
	2008/2009		2009/2010		2010/2011		
	Market Year Begin: Mar 2009		Market Year Begin: Mar 2010		Market Year Begin: Mar 2011		
	USDA Official Data	New Post Data	USDA Official Data	New Post Data	USDA Official Data	New Post Data	
Area Harvested	14,100	14,100	13,300	13,300		13,300	(1000 HA)
Beginning Stocks	12,579	12,579	13,279	13,179		10,679	(1000 MT)
Production	51,000	51,000	51,000	51,000		50,000	(1000 MT)
MY Imports	1,200	1,200	500	1,000		900	(1000 MT)
TY Imports	1,092	1,100	700	800		800	(1000 MT)
TY Imp. from U.S.	0	0	0	0		0	(1000 MT)
Total Supply	64,779	64,779	64,779	65,179		61,579	(1000 MT)
MY Exports	7,000	7,100	8,000	8,000		7,000	(1000 MT)
TY Exports	7,178	7,200	8,000	7,500		7,000	(1000 MT)
Feed and Residual	37,000	37,000	38,500	39,500		41,300	(1000 MT)
FSI Consumption	7,500	7,500	7,000	7,000		7,000	(1000 MT)
Total Consumption	44,500	44,500	45,500	46,500		48,300	(1000 MT)
Ending Stocks	13,279	13,179	11,279	10,679		6,279	(1000 MT)
Total Distribution	64,779	64,779	64,779	65,179		61,579	(1000 MT)

**Commodities:**

Wheat

**Production:**

The majority of the wheat in Brazil is grown in the South Region states of Parana, Rio Grande do Sul and Santa Catarina. Parana is the largest wheat producing state, followed by Rio Grande do Sul. Together these two states account for 90 percent of annual Brazilian wheat production. In Brazil, wheat is a winter crop grown during the dry season. The main planting season is roughly April in Parana through about June in Rio Grande do Sul. The main harvest period in the South is roughly September through November. The local marketing year runs from August to the following July.

The planting season for wheat is still six to eight weeks away and there are few estimates of planting intentions at this time. CONAB's (Companhia Nacional de Abastecimento - National Food Supply Company) first estimate of the 2010/11 wheat planting intentions will be published in April 2010.

Post is initially forecasting 2010/11 wheat area planted at 2.4 million hectares, the same as last season. At this time, there is a lack of consensus in the market about Brazil's wheat planted area. Although the Parana Department of Agriculture announced state planting intentions at 1.16 million hectares, an 11 percent reduction from last year, other contacts expect that Parana area planted will be about the same as last year. A deficit of quality seed due to weather-related problems may reduce planted area. In addition,, there is uncertainty about potential returns since as of this writing, there has not been a formal announcement of the minimum price of wheat.

With yields in line with historical production, 2010/11 Brazilian wheat production could reach 5.0 mmt. The major wheat growing regions in Brazil often suffer from rain during the harvest period, significantly reducing yields. For example, yields in 2009/10 fell to 1.96 kg/hectare due to torrential rains at harvest. In contrast, the 2008/09 crop reached a yield of 2.45 kg/ha as a result of very favorable weather conditions.

Producers indicate they will shift more planted area to varieties of wheat used in bread production. The Government of Brazil set a higher minimum price for the type of wheat used in bread rather than cookie production and producers are reacting by increasing seed purchases of harder wheat varieties. A recent study has shown that for the first time in the history of Rio Grande do Sul, more than half of certified seeds are bread wheat varieties. Historically, Rio Grande do Sul producers planted more soft wheat varieties due to environmental and climatic factors.

<b>Wheat Area, Yield, and Production</b>					
	2006/07	2007/08	2008/09	2009/10	2010/11 *
<b>Area</b> (million hectares)	1,758	1,851	2,400	2,450	2,450
<b>Yield</b> (tons/hectare)	1.27	2.1	2.45	1.96	2.04
<b>Production</b> (million tons)	2234	3825	5880	4800	5000

\* Post Forecast

The Brazilian Ministry of Agriculture is revising Normative Instruction 07/2001 that deals with wheat identity, quality standards, and labeling. On March 2, the Ministry opened a 30 day public consultation period. Changing this Normative Instruction is expected to be contentious as the grain market has difficulty adjusting to government regulations and interventions.

## Exports

Post continues to estimate October/September 2009/10 exports at 800,000 tons. Rain at harvest in Parana led to excess feed-quality supplies. There are reports of 400,000 mts of feed wheat still in storage in Parana. Since Brazilian wheat is not competitive in global markets, a government export subsidy -- the Premium for Marketing of Products Program (PEP) - is used to export low-quality supplies and support domestic producers. The PEP assists in the flow of grain from production areas to consumption areas (both inside of Brazil and overseas). It is expected that all exports this year will be executed under the PEP. However, the PEP is not considered an export subsidy since the recipient is not required to export the product. Most of these exports will be destined to feed rations, thus also competing with U.S. corn.

## Brazil Wheat Exports

<b>Destination</b>	<b>Brazil Wheat Exports Oct. 2009/Feb 2010</b>
	mts
Philippines	88,575
United States	81,970
Iran	56,686
Thailand	50,273
<b>Total</b>	<b>380,268</b>

Source: Secretaria de Comércio Exterior

Post forecasts October/September 2010/11 wheat exports to drop to a more typical 400,000 mts as the amount of feed wheat decreases.

## Imports

### Wheat Imports HTS 1001 (000mts)

Country	Jan-Dec 2008	Jan-Dec 2009
Argentina	4264	3215
Uruguay	91	863
Paraguay	528	820
Canada	273	302
United States	907	218
<b>Total</b>	<b>6034</b>	<b>5446</b>

Source : Secretaria de Comércio Exterior

Brazil is expected continue remain dependent on wheat imports to meet local demand. Brazil is far from self-sufficient in wheat and relies heavily on Argentina for the majority of its imports. Argentina, Brazil's major Mercosul partner, has a large competitive advantage in the Brazilian market over other exporters because of lower transportation costs, shorter delivery times, and a zero duty on wheat and flour. The tariff on non-Mercosul wheat is currently 10 percent.

Despite a shortage in milling quality wheat, the Minister of Agriculture has been lobbying to increase the Common Export Tariff (TEC) to 20 percent for wheat imports due to producers' concerns that imports depress local prices. Of major concern to U.S. exporters, the tariff on U.S. wheat is set to rise to 30 percent on April 7, 2010 as part of Brazil's WTO Cotton Case retaliation.

Wheat imports for 2009/10 are now estimated at 6.5 mmt. A shortage of milling quality wheat should support strong imports for the final five months before harvest. Canada is well-positioned to export with a large good quality crop. U.S. wheat will not likelier be competitive when 30 percent tariff becomes effective. The Minister of Agriculture has suggested millers consider buying Russian wheat, in part because of Russia purchases significant quantities of Brazilian animal proteins and has requested an exchange. Millers, however, remain skeptical of the quality of Russian wheat for bread production.

Brazil also imported wheat flour in 2009/10, principally from Argentina, as it has done in the last few years, though volumes have been in the 600,000-640,000 mt range (820,000-875,000 mt of grain equivalent). Since 2002 Brazilian wheat millers have had to contend with competition from Argentine flour, primarily as a result of the Argentine differential export taxes. The difference between the export tax for grain (20 percent) and flour/pre-mix (10 percent), has led to a dramatic increase in the amount of flour shipped to Brazil. In October 2009, the GOB determined that import licenses for Argentine flour will no longer be automatic. However, Argentine wheat flour imports are taking longer to clear customs at the border and the volume has remained the same as last year.

### Flour Imports HTS 1101 (mts)

#### Wheat Equivalent (conversion rate 1.368)

Country	Jan-Dec 2008	Jan-Dec 2009
Argentina	638	815
Uruguay	56	48
<b>Total</b>	<b>682</b>	<b>870</b>

Source: Secretaria de Comércio Exterior

Post's initial forecast of 2010/11 Brazilian imports of wheat (and flour in grain equivalent terms) is 6 mmt. A reduction in imports is expected due to a rebound in domestic bread quality wheat production. In 2010/11, given Argentine's forecast production of 12 mmt, it is expected that Argentina will reassert its position as principal provider Brazilian wheat imports with about 90 percent of the imports. For the past two year, Argentina supplied about 70 percent of all wheat imported by Brazil due to reduced supplies in Argentina

**Consumption:**

Brazilian consumption is estimated at between 10-11 mmt. During election years, such as 2010, consumption typically increases due to more social programs and government efforts to boost the economy. Although, wheat demand is stable in the South and Central regions, there is increased demand in the North and Northeast areas due to the Bolsa Familia (a government cash transfer program).

Industry contacts indicate that Brazilian wheat consumption (excluding seed and feed) breaks down as follows: 46 percent for bread-making; 23 percent flour sales for home use; 11 percent for commercial cookies and crackers etc; 16 percent for pasta; and 4 percent for pies and other miscellaneous use.

**Stocks:**

In March government stocks totaled 740,000 mt. Stocks remain high as producers are reluctant to sell wheat for less than the government minimum price of R\$530 (US\$295) per ton while industry offers of R\$420 (US\$234) per ton. With summer corn and a record soybean crop being harvested, there will be pressure to move the wheat.

**Policy:**

The Minister of Agriculture will present the National Wheat Plan which will recommend a minimum price and Common External Tariff rate as well as the amount of insurance and credit that will be made available to producers. This plan will then be sent to the International Trade Council (CAMEX) for approval.

Although the government has not yet announced its agricultural support price for 2010 winter crops (wheat, barley, rye, canola, and oats), the government is expected to maintain the minimum price at R\$530 per ton for bread quality wheat.

**Production, Supply and Demand Data Statistics:**

Wheat Brazil	2008		2009		2010		
	2008/2009		2009/2010		2010/2011		
	Market Year Begin: Oct 2008		Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		
	USDA Official Data	New Post Data	USDA Official Data	New Post Data	USDA Official Data	New Post Data	
Area Harvested	2,400	2,200	2,450	2,450		2,450	(1000 HA)
Beginning Stocks	447	447	1,227	1,347		847	(1000 MT)
Production	5,880	6,000	4,800	5,000		5,000	(1000 MT)
MY Imports	6,000	6,000	6,500	6,500		6,300	(1000 MT)
TY Imports	6,367	6,367	6,500	6,500		6,200	(1000 MT)
TY Imp. from U.S.	432	432	0	0		0	(1000 MT)
Total Supply	12,327	12,447	12,527	12,847		12,147	(1000 MT)
MY Exports	400	400	600	800		400	(1000 MT)
TY Exports	369	600	600	600		400	(1000 MT)
Feed and Residual	200	200	500	700		200	(1000 MT)
FSI Consumption	10,500	10,500	10,700	10,500		10,500	(1000 MT)
Total Consumption	10,700	10,700	11,200	11,200		10,700	(1000 MT)
Ending Stocks	1,227	1,347	727	847		1,047	(1000 MT)
Total Distribution	12,327	12,447	12,527	12,847		12,147	(1000 MT)

**Commodities:**

Rice, Milled

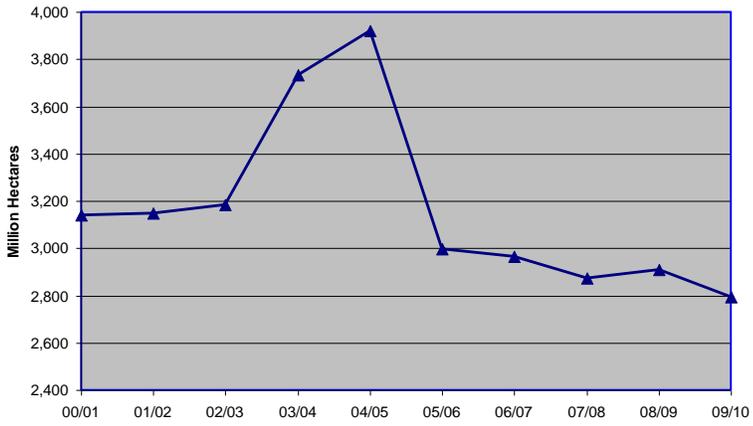
**Production:**

Rio Grande do Sul, in the South Region, is the major rice producing state in the country, generally accounting for half of Brazil's entire crop. However, as is the case with corn, some rice is produced in every state in Brazil. Brazil produces mainly long grain rice under irrigation and also dryland conditions. Nearly fifty percent of rice produced in Brazil is irrigated rice, with 90 percent of all irrigated rice production in Rio Grande do Sul. The South continues to shift from dryland to irrigated production. Yields in irrigated areas are generally high at more than 6 kilograms per hectare.

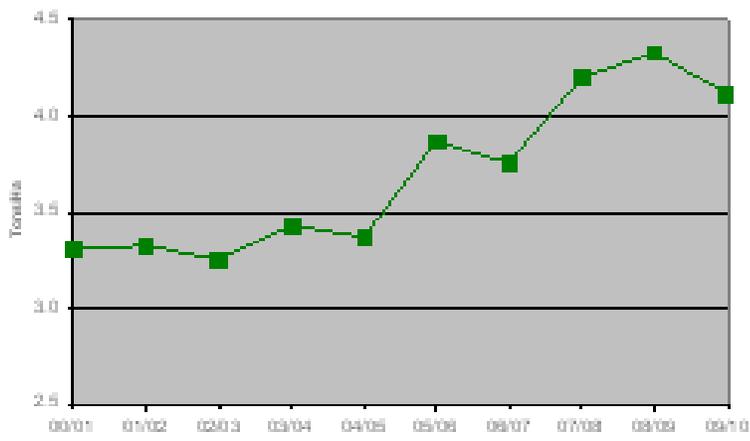
Conversely, production in the Center-West and Northeast is usually dryland cultivated with much lower yields. Center-West rice area has not grown as many had predicted. With the massive expansion of soybean and corn cropland in the region, it was thought that rice would also expand as it is often used as a precursor crop and occasionally in rotation with soybeans. However, such expansion has not occurred on the scale many had predicted and in fact, the area under cultivation has fallen from 900,000 hectares in 2003/04 to 356,000 hectares in 2009/10. In 2009/10 the Center-West fell from the second largest planted region to the fourth behind the South, Northeast and North.

The Northeast is comprised of many small producers that rely on hand labor and use few inputs, and therefore yields are only one third of those on the Southern lands. Planting runs from September through November and harvest runs from the following February through April. The local marketing year runs from March to February.

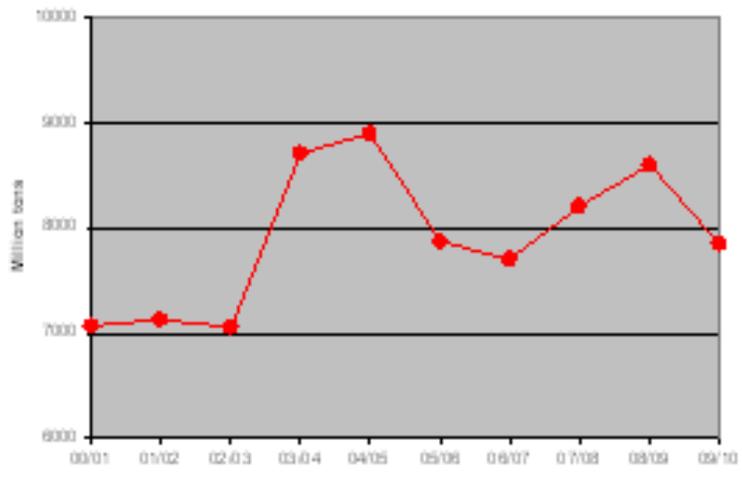
**Rice Harvested Area**



**Rice Yield**



**Milled Rice Production**



Post estimates that Brazil will produce a smaller rice crop this year at 7.85 million tons (milled basis) or 11.5 million tons of rough production. Imports are estimated at 1 mmt or double last year’s 500,000 tons. In Rio Grande do Sul, excess rain caused replanting outside the recommended period. Throughout the state, there were an estimated 1.084 million hectares planted but only an estimated 1.031 million hectares will be harvested. There are also continuing concerns that moisture and high temperatures may increase the possibility of disease outbreaks that could damage the quality of the crop.

**Outlook 2010/11: Production**

Post forecasts rice area planted in 2010/11 at 2.8 million hectares, the same level as 2009/10. Rice production is forecast at 12.2 mmt (rough basis) or 8.3 mmt (milled basis); an increase of 6 percent from the current 2009/10 estimate reflecting better yields based on moralized weather patterns.

Producers remain concerned about red rice and in particular, to its growing resistance to herbicides. Red rice is the main invasive plant in the South. The presence of red rice has resulted in lower prices to producers. Red rice infestations began to be controlled in 2004, however, now there are reports that in some areas red rice is almost 100 percent resistant to herbicides.

**Cost of Production**

<b>Cost of Production Of 50 Kilos of Rice</b>	<b>Cost in Reais (R\$)</b>	<b>Cost in Dollars (US\$)</b>	<b>Commercial Price (R\$)</b>
October 2009	28.42	16.34	27.21

Source: IRGA

## Prices

There are expectations that prices will rise as the domestic supply tightens due to the drought-reduced harvest.

### Selected 2008/2009 Government Minimum Prices for Rice

Type/Unit	Region	Price (R\$/unit)	Price (US\$/unit At 1.80 Exchange Rate)
long fine paddy, type 1 50 kg	South (except Parana)	25.80	14.33
long fine paddy, type 1 60 kg	Southeast, Northeast and Center-West (except Mato Grosso) and Parana	30.96	17.20
long fine paddy, type 1 60 kg	North and Mato Grosso	25.50	14.17
long paddy, type 2 50 kg	South (except Parana)	15.74	8.75
long paddy, type 2 60 kg	Southeast, Northeast and Center-West (except Mato Grosso) and Parana	18.88	10.49
long paddy, type 2 60 kg	North and Mato Grosso	16.12	8.96

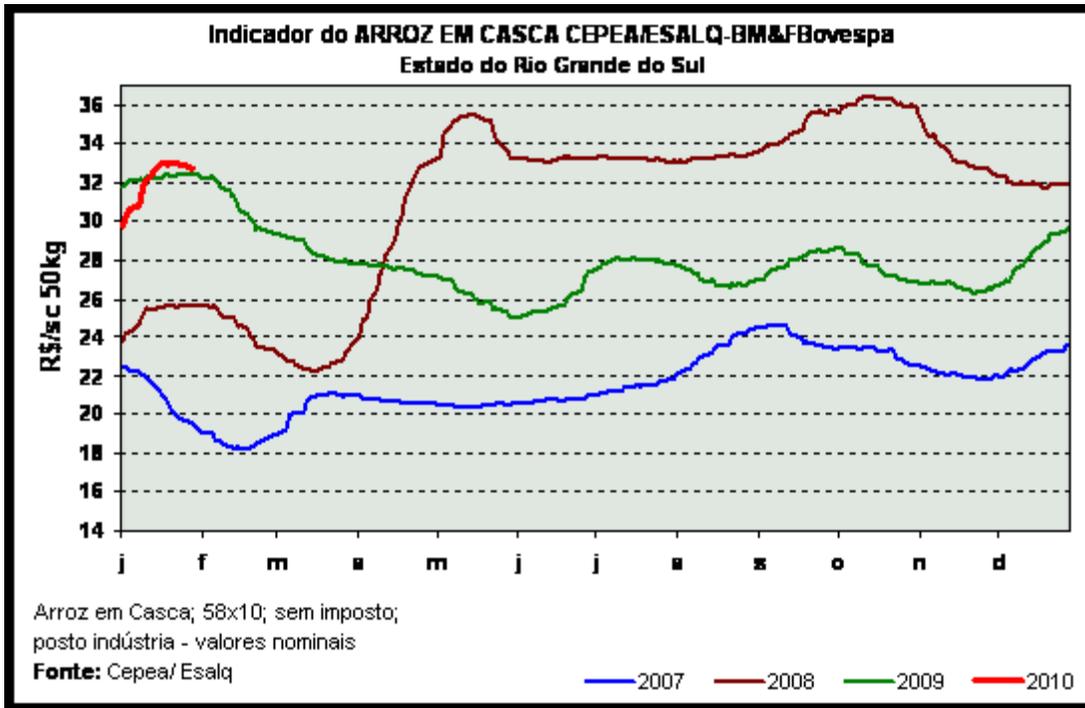
Source: MAPA/SPA/DEAGRO

## Rice Prices 2007-2010/Rio Grande do Sul

Rough

Price without tax

Nominal values



Source: Cepea/Esalq

## Imports

With 2009/10 national production down due to adverse weather, Post is increasing its import estimate to 1 mmt, the highest level since 2003/04. Brazil will source the vast majority of these rice imports within the Mercosul block, principally Argentina and Uruguay. These countries maintain competitive advantage in the Brazilian market due to lower land and production costs, lower transportation costs, shorter delivery times and zero-duty access. However, there are reports of Brazil needing to source outside of Mercosul. Although there was speculation that there would be opportunities for U.S. exports in January, the probability of this occurring has been reduced because prices have fell more than 10 percent in February..

The 2010 tariffs on non-Mercosul rice is 10 percent for HS1006.10 (excluding for seed), 10 percent for HS1006.20, 12 percent for HS1006.30.11 and HS1006.30.21, and 10 percent for HS1006.30.19 and HS1006.30.29, and 10 percent for HS1006.40.

With 2010/11 production is expected to rebound, imports are forecast to fall to 700,000 mts.

## **Exports**

Over the past few years, Brazil has positioned itself as a rice exporter. From March 2008-February 2009, it shipped a record volume with a value of over US\$330 million. Brazil now faces the challenge of maintaining its position given this year's production shortfall. The Brazilian rice industry has been upgrading its facilities at the Port of Rio Grande and investing in new processing structure with an eye toward the foreign market. Rio Grande do Sul, which accounts for one-half of domestic production, has an export target of 10 percent of its crop. In 2008, Brazil expanded export sales of value-added products finding niche markets for white and parboiled rice in Nigeria, Senegal, South Africa and Benin.

Despite these efforts, most analysts suggest that it will be difficult to keep up this export pace when faced with a production shortfall. They say that internal demand will be satisfied first. One option to maintain a presence in foreign markets is for the Government of Brazil (GOB) to take action to preserve outside markets by having the Food Supply Company (CONAB) auction off part of its 1 mmt exclusively for export sales.

Post estimates 2009/10 exports at 300,000 mt, less than one-half of the 650,000 mt exported in 2008/09. In 2010/11, exports are expected to increase to 500,000 tons.

## **Stocks:**

Storage is particularly tight at rice harvest since Rio Grande do Sul, the principal producing state, is also a major soybean producer with the two crops harvested simultaneously.

## **Policy:**

A normative instruction which establishes new classifications, identity requirements, quality and labeling standards of rice went into effect March 3, 2010. This instruction applies to imported as well as domestic rice. Producers supported updating the normative instruction to bring it more in line with international standards as they seek to increase exports.

## **Marketing:**

The Government of Brazil (GOB) announced R\$600 (US\$333) million in guarantees for the commercialization of rice. This funding will preserve rice market prices affected by excessive rain and a potential reduction in international prices. Another R\$600 (US\$333) million could still be made available if producer prices fall below R\$23 (US\$12.78) per sack.

**Production, Supply and Demand Data Statistics:**

Rice, Milled Brazil	2008		2009		2010		
	2008/2009		2009/2010		2010/2011		
	Market Year Begin: Apr 2009		Market Year Begin: Apr 2010		Market Year Begin: Apr 2011		
	USDA Official Data	New Post Data	USDA Official Data	New Post Data	USDA Official Data	New Post Data	
Area Harvested	2,909	2,910	2,820	2,820		2,830	(1000 HA)
Beginning Stocks	973	973	1,013	1,043		993	(1000 MT)
Milled Production	8,569	8,600	7,820	7,850		8,300	(1000 MT)
Rough Production	12,601	12,647	11,500	11,544		12,206	(1000 MT)
Milling Rate (.9999)	6,800	6,800	6,800	6,800		6,800	(1000 MT)
MY Imports	650	650	800	1,000		700	(1000 MT)
TY Imports	630	630	750	850		650	(1000 MT)
TY Imp. from U.S.	0	0	0	0		0	(1000 MT)
Total Supply	10,192	10,223	9,633	9,893		9,993	(1000 MT)
MY Exports	650	650	300	300		500	(1000 MT)
TY Exports	650	650	300	300		500	(1000 MT)
Consumption and Residual	8,529	8,530	8,600	8,600		8,600	(1000 MT)
Ending Stocks	1,013	1,043	733	993		893	(1000 MT)
Total Distribution	10,192	10,223	9,633	9,893		9,993	(1000 MT)

## Government Support

According to the Brazilian Ministry of Agriculture, the federal government invested R\$3.85 billion (US\$2.14 billion) to support commercialization of the harvest. The GOB reports expenditures of R\$1.48 billion (US\$822 million) to support the corn industry, R\$228 million (US\$127 million) to the wheat industry, and R\$406 million (US\$226 million) to support to the rice industry in 2009.

The amount of corn, rice and wheat supported by the government is provided in the tables below, as well as descriptions of major government programs. These programs are utilized to support commodity prices and to assist in the flow of grain from the production areas to consumption areas. While some of this grain is exported, these programs are not considered export subsidies since the recipient is not required to export the product.

### Government Support for the Commercialization of Corn ('000 mt)

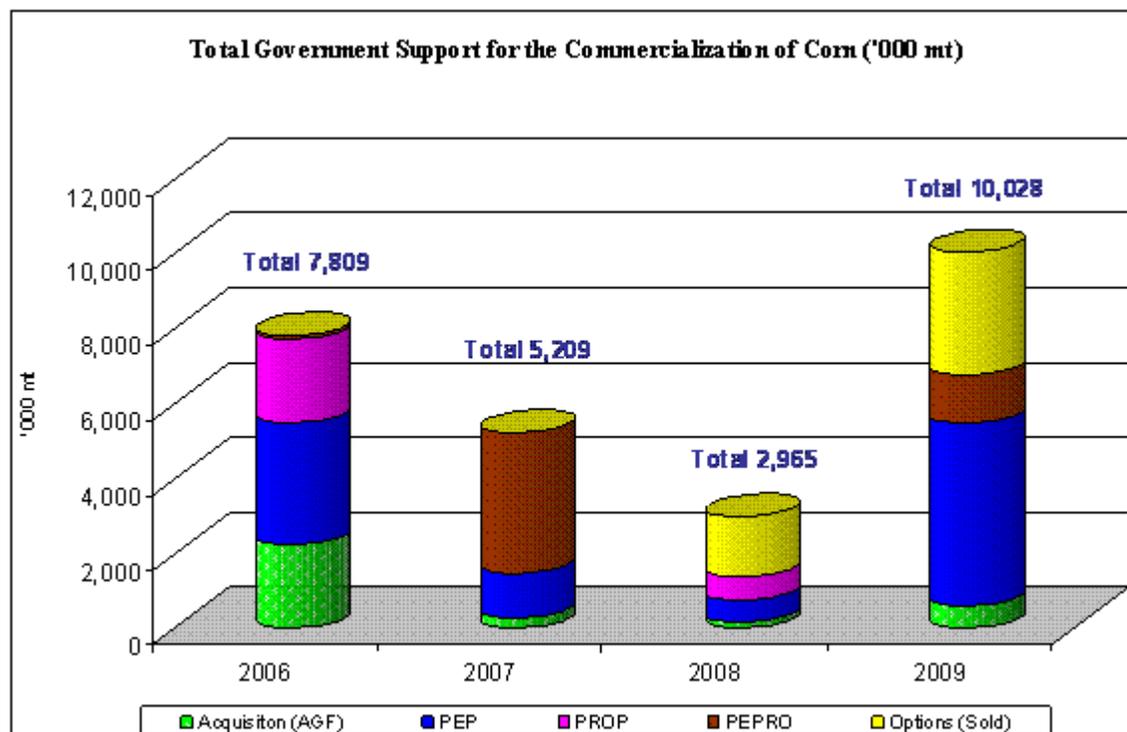
Program	2005	2006	2007	2008	2009
Acquisition (AGF)	637.5	2,223.7	273.3	149.5	587.9
PEP	790.9	3,087.9	1,183.3	599.2	4875.1
PROP	94.4	2,258.0	0.0	531.4	0
PEPRO	0.0	100.0	3,753.2	0.0	1,295.5
Options (Sold)	0.0	0.0	0.0	1,290.5	3,270.1
Total	1,522.8	7,669.6	5,209.7	2,570.6	10,028.6
Production	35,006.7	42,514.9	51,369.9	58,863.7	51,003.9
Participation %	4.3%	18.0%	10.1%	4.4%	19.7%

Source: Brazilian Ministry of Agriculture/SPA/DEAGRO

### Sales of Government-held Corn ('000 mt)

Program	2005	2006	2007	2008	2009
VEP	430.7	320.0	1,175.0	342.5	49.3

Source: Brazilian Ministry of Agriculture/SPA/DEAGRO



#### Government Support for the Commercialization of Rice ('000 mt)

Program	2004/05	2005/06	2006/07	2007/08	2008/09
Acquisition (AGF)	571.4	307.7	62.0	0.0	0.3
PEP	0	459.8	157.5	0.0	0.0
PROP	327.6	238.9	0	0.0	0.0
Options (Sold)	350.0	0	857.7	0.0	686.6
Total	1,249.0	1,006.4	1,077.3	0.0	686.9
Production	13,355.2	11,971.7	11,315.9	12,059.9	12,602.5
Participation %	9.4%	8.4%	9.5%	0.0%	5.45%

Source: Brazilian Ministry of Agriculture/SPA/DEAGRO

Note: March/February crop year

#### Government Support for the Commercialization of Wheat ('000 mt)

Program	2004/05	2005/06	2006/07	2007/08	2008/09
Acquisition (AGF)	269.7	31.9	0	236.1	21.3
PEP	433.8	1,184.2	0	425.5	1,395.2
PROP	0	153.4	0	0.0	0.0
Options (Sold)	650.0	0	0	1,103.2	
Total	1,353.5	1,369.4	0	1,764.8	1,416.5
Production	5,845.9	4,873.1	2,233.7	4,081.9	5,884.0
Participation %	23.2%	28.1%	0%	43.2%	24.1%

Source: Brazilian Ministry of Agriculture/SPA/DEAGRO

## **Government Programs That Support Grains**

Federal Government Acquisition (Aquisição do Governo Federal, AGF) allows the government to acquire agricultural products at the minimum price when the market price is below the minimum. It also allows the government to acquire products at market prices for use in the *agricultura familiar* program and to build strategic stocks.

Risk Premium for Acquisition of Agricultural Products Deriving from Private Contracts of Sales Options (Prêmio de Risco para Aquisição de Produto Agrícola Oriundo de Contrato Privado de Opção de Venda, PROP) is a subsidy program granted in the form of a public auction for the consumer to acquire, at a future date, a determined product directly from the producer and/or cooperative at a prefixed price, utilizing a private contract for the option to sell.

The Premium for Marketing of Products and Value for Marketing of Products (Prêmio e Valor de Escoamento de Produto, PEP & VEP) provide the minimum guaranteed price to producers and cooperatives by paying the difference between the minimum guaranteed price and the market price. The objective is to supplement the supply of commodities in areas of the country considered to be deficient in agricultural production, such as the Northeast of Brazil. The difference between the programs is that in PEP the products are taken from private stocks, whereas in VEP the products are taken from public stocks.

The Equalization Premium Paid to the Producer (Prêmio Equalizador Pago ao Produtor, PEPRO) is a premium granted to the farmer or cooperative which sells its products at public auction, where the government pays the difference between the Reference Value established by the government and the value of the premium (the maximum value paid by the government as a guarantee of the Reference Value).

Option to Sell Contract (Contrato de Opção de Venda) is a futures option offered by the federal government through public auctions to producers and cooperatives. By purchasing a futures option, the holder has the right to deliver to the government by a specified date a certain quantity of the commodity, named in the contract, at a specific price. This program signals to market agents the government expectations for futures prices and represents a price hedge to producers and cooperatives.