



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 2/2/2005

GAIN Report Number: BR5604

Brazil

Oilseeds and Products

Soybean Update

2005

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Report Highlights:

Soybean production for MY 2004/05 is forecast at 61.8 million tons on an area of 23 million hectares, up 9.2 million tons from the previous year. Exports for the 2004 calendar year were 19.2 million tons, virtually unchanged from the previous year, while marketing year exports will increase as farmers begin to sell the new crop.

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

Executive Summary

A combination of lower prices and higher production costs is putting the brakes on the explosive growth of Brazil's soy area. After years of expanding as much as 15 percent annually, the area planted with soybeans is expected to rise by 9 percent this season, to 23 million hectares. Production is also forecasted to increase 9 percent, to 61.8 million metric tons. The continuing battle against soy rust has contributed significantly to the rising cost of production for farmers at a time when profit margins are already narrowing due to low international prices and an unfavorable exchange rate relative to the U.S. dollar. Farmers are being squeezed by the need to improve crop management and combat soy rust, while facing very tight profit margins or in some cases negative returns. As a result, the rapid growth of Brazil's soy industry, accounting for nearly half Brazil's farm exports, is starting to slow, making it unlikely that it will overtake the U.S. in soybean production as early as next season as once predicted.

PSD Table Country Brazil Commodity Oilseed, Soybean (Local) (1000 HA)(1000 MT)							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		02/2003		02/2004		02/2005	MM/YYYY
Area Planted	18448	18475	21475	21436	23000	23000	(1000 HA)
Area Harvested	18448	18475	21475	21400	23000	23000	(1000 HA)
Beginning Stocks	681	553	3129	3090	4402	4420	(1000 MT)
Production	52000	52400	52600	52580	64500	61800	(1000 MT)
MY Imports	1124	1124	402	350	222	350	(1000 MT)
MY Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
MY Imp. from the EC	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	53805	54077	56131	56020	69124	66570	(1000 MT)
MY Exports	19987	19987	19750	20000	24286	25000	(1000 MT)
MY Exp. to the EC	10500	10500	10200	10720	12000	12000	(1000 MT)
Crush Dom. Consumption	27796	28300	28829	29000	33809	33800	(1000 MT)
Food Use Dom. Consump.	0	0	0	0	0	0	(1000 MT)
Feed,Seed,Waste Dm.Cn.	2893	2700	3150	2600	3758	3700	(1000 MT)
TOTAL Dom. Consumption	30689	31000	31979	31600	37567	37500	(1000 MT)
Ending Stocks	3129	3090	4402	4420	7271	4070	(1000 MT)
TOTAL DISTRIBUTION	53805	54077	56131	56020	69124	66570	(1000 MT)
Calendar Year Imports	0	1100	0	1100	0	820	(1000 MT)
Calendar Yr Imp. U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Year Exports	0	16000	0	20000	0	22000	(1000 MT)
Calndr Yr Exp. to U.S.	0	3	0	2	0	75	(1000 MT)

Production

Area

Although Brazilian farmers are experiencing increasing costs of production and lower market prices, expansion of crop land into soybeans continues in the frontier areas of Northeastern Mato Grosso, Tocantins, and Pará. A recent post trip to expansion areas in a small aircraft revealed that the land-clearing process continues, despite low soybean and cattle prices. While many farmers are still clearing cerrado or forested lands for pasture, it would appear that the majority of farmers are now planting with an initial crop of rice or simply going directly to soybeans. Some farmers are only applying lime and doing minimal soil preparation before planting soybeans after clearing, which results in less than average yields

during the first few years. As the remaining available land in Northern Mato Grosso continues to be purchased at a rapid pace, increasing land values have pushed soybean production into the new frontier areas of Pará, Piauí, Tocantins, and Rondônia, areas with more affordable prices and lower transportation costs due to port options such as Santarém and Itacotiara.

Post estimates planted area at 23 million hectares, a 9 percent increase compared to last year. Soy expansion could slow, as farmers struggle with higher cost of production, the exchange rate, and low CBOT prices. The potential impact of soybean rust in the U.S. will be one of the few variables that could cause a market upswing in Brazil's favor and cause a continued growth in area planted.

Yields

2004/05 crop yields are expected to average approximately 2.7 metric tons per hectare, a significant improvement from last year's average of 2.45, but shy of the record of 2.82 set in 2002/03. Yields in the center-west area of Mato Grosso and Goiás as well as in the state of Paraná could surpass the national average. Post's trip to this area confirmed the excellent crop management in these areas, a reflection of lessons learned from last year's rust losses. In the face of rising production costs, farmers are also looking for innovative ways to improve yields. These methods include the use of cheaper natural forms of phosphate, potassium sulfate, lime, and bone meal. However, farmers in the region appear to have invested in the fertilizer and pesticide applications because the crops are in excellent condition.

Yields in Rio Grande do Sul, which accounts for 25% of Brazil's total soy area, will be lower than in the Center-West. This is due to continued dry weather, during the critical months of both December and January.

Overall yields in Brazil may improve due to the intensive region-specific research programs. The high-quality seed and technical services in Brazil continue to receive international recognition. The Mato Grosso Foundation has created a successful program that sponsors over 30 field days and 40 technical meetings in agricultural centers across the state. The latest technology and procedures for managing rust and other diseases are extended to farmers at crucial periods during the crop season.

Soybean Rust

Now in its fourth year of struggling with rust, Brazilian farmers seem to be managing the disease better and are more assiduous in their preventative spraying. To date, rust is present in every major soy-producing area, encompassing 12 states plus the federal district and 401 municipalities. The state of Paraná, number two in Brazilian soy area, has suffered the greatest number of rust outbreaks.

The disease, which can destroy up to 80 percent of a crop if left untreated, has significantly raised production costs for farmers at a time when profit margins are already narrowing because of the drop in international prices and increases in the costs of other inputs. To keep the disease in check, farmers must apply fungicides to the crop at least two to three times, raising production costs by as much as 15 percent. Last season, when heavy rainfall in parts of Brazil exacerbated the rust epidemic, the country's soybean output fell for the first time in five years. Over all, the fungus lowered production by 4.5 million tons last season, costing farmers \$2 billion.

Soybean rust has hit organic soybean producers in Brazil particularly hard. Considered the second-largest organic producer of soybeans in the world, after the U.S., last year Brazil produced 25,000 MT of organic soybeans. It is reported that this specialty commodity receives a 40% premium above conventional soybeans, but Brazil's organic crop is now in serious jeopardy because a successful natural combatant of soybean rust has not been discovered. Although a rust-resistant seed is under development, it may not be released for at least the next couple of years.

Production Costs

When prices were at their peak last March, with farmers receiving as much as \$20 for a 60-kilo (132-pound) bag of soybeans in the domestic market, most growers could afford the high costs of fungicides for rust management. Now, with prices ranging about \$12.50 a bag, many farmers are concerned whether they will break even. This year could be the first year of losses for many Brazilian soybean farmers, who have enjoyed several profitable years. They now face increasing costs of inputs, particularly fertilizers and fungicides, and in transportation (see BR4622 for more information on production costs).

The agri-business industry believes that many growers, especially small farmers, will not be able to meet their financial obligations at the end of the harvest. Some banks are already offering to renegotiate and refinance loans based on the current difficult market situation. Large, well-capitalized producers appear to be in a position to increase their land holdings by buying farmland from bankrupt farmers. A period of farm consolidation may occur if over-leveraged growers are not able to renegotiate their short-term crop production loans with major banks and/or the multinational corporations.

The current exchange rate, which is hovering at just below 2.7 Reals to the dollar, has presented farmers another challenge in their ability to make a profit from their export sales. A local ag consulting firm has stated that, under present market conditions, Brazilian farmers need an exchange rate of at least 2.9 Reals to the dollar to achieve positive returns. At the present, there is no expectation that the exchange rate will return to this level in 2005.

Trade

Total Soybean exports for 2004 were 19.2 million tons, according to official Brazilian export statistics. This number is down slightly from last year's export totals, an indication of high stock levels of old crop beans.

Brazilian Soybean Exports by Destination 2004 (1000 tons)		
Exporter	2004	2003
Soybeans		
EU	9,143,700	10,660,919
China	5,678,004	6,101,948
Netherlands	3,569,138	3,669,294
Germany	1,635,513	2,206,527
Spain	1,563,141	1,569,667
Italy	862,253	773,359
Taiwan	841,003	555,689
Iran	627,502	359,457
UK	532,093	618,222
Portugal	523,004	373,487
Mexico	447,002	43,848
Other	6,163,981	7,051,000
Total Exports	19,258,372	19,881,279

Source: Aliceweb

Post is forecasting MY 2004 (year beginning February 2005) exports to increase as the new harvest begins, because with limited storage capacity, farmers will be forced to sell their product. Although the EU and China continue to be Brazil's leading buyers of beans and their derivatives, unpredictable Chinese buying behavior continues to be a source of frustration to Brazilian farmers. Last year, soybean exports to China halted in May with four shipments refused within a period of 30 days. Eight multinational companies were also prohibited from exporting soybeans. Although the reason given for the refusal of the beans was contamination of the shipments with treated seeds, the fungicide residue levels were within the acceptable limits based on international standards. Total losses from the temporary suspension were estimated at \$3 billion.

Stricter regulations have been put in place and shipments have resumed to China. A certification of safety has also been renewed by the Brazilian agricultural ministry (MAPA), ensuring that its soybeans do not pose health, animal, or environmental risks. Traders report that avian flu is slowing Chinese demand for poultry meat, which is down by 20 percent compared to last year. As a result, demand for soy meal is also down. With a record Chinese soybean harvest of 18 million metric tons, Chinese imports of soybeans will not improve this year.

Crushing

The delay of the early-developing soy varieties in the Center-West and producers' hesitancy to fix prices has caused some crushers to resume at a slower pace than this time last year. One crusher in Goiás will start crushing on February 11, two weeks later than originally scheduled. Prices in Rio Verde, GO are barely reaching \$10 per bag compared to \$13.50 last year.

Even so, Bunge has announced its plans to invest \$86 million in a vegetable oil refinery in Rondonópolis, MT, to be completed by the end of 2006, with a capacity of 1 thousand tons per day. The project will also include an industrial oil production facility, cottonseed meal processor, and five new storage units.

Policy

The Provisional Measure 223 was approved by Congress on December 21, 2004, and signed into a full law by President Lula on January 12, 2005. Although President Lula had the authority to veto the change introduced by the House related to the collection of royalties, he accepted the full text received from the Congress.

The text introduced by the House (Article 7 of Law 11,092/05) forces the company holding the patent rights to beans planted by the farmer to collect royalties only after showing sale invoices. This is a major change from a previous agreement Monsanto had with soybean producers in Southern Brazil, under which collection of royalties were based on production including biotech seeds sold illegally.

This change to require sales invoices was introduced by the House during the discussion of MP 223 and was due to pressure they received from soybean producers in Southern Brazil. According to these producers, Monsanto agreed to charge R\$0.60 per soybean bag of 60 kilos during the last crop year (2003/04), but was planning to double the value to R\$1.20 during the 2004/05 crop year. Being faced with growing production costs and shrinking revenues, this increase apparently caused these farmers to reconsider their commitment.

At the moment, FARSUL, the state farm bureau representing farmers from Rio Grande do Sul, is attending meetings with Monsanto representatives in order to renegotiate the royalties that they will be assessed with this crop year. FARSUL has also petitioned the government for a new extension of March 31, 2005 for Brazilian farmers to sign the declaration of agreement (TCRAC) to market Biotech beans from its original deadline of January 31, 2005. Farmers that plant RR soybeans without signing the agreement could be denied access to crop loans or insurance from the banks and risk fines of at least R\$6,000 (US\$ 2,300).