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Brazil

Grain and Feed

Wheat Update

2006

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Report Highlights:

Tight supplies, rising prices, and action to limit wheat exports by the Argentine government have Brazilian millers concerned about supplies before harvest this November. Consequently the Brazilian Wheat Millers' Association is pressing the government to suspend the 10 percent Common External Tariff on wheat. If this action is taken and prices continue to climb in the Brazilian market, imports of U.S. and Canadian wheat are likely.

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

Just over half of Brazil's consumption needs are met by imports making Brazil the world's second largest wheat importer with about 95 percent typically purchased from Argentina. The Argentine government recently expressed concern that the reduced domestic crop combined with a healthy export pace will result in rising flour and bread prices and thus contribute to inflation. As a result, several measures were considered such as suspending exports for 30 days or increasing the export tariff above the current 20 percent. However, after deliberations, Argentine exporters decided to cap the amount of exports at seven million tons while the government opted to increase the reference export price from which the 20 percent export tariff is calculated from \$156 to \$186. In addition, the Argentine government has warned that if bread and flour prices increase further, additional action to limit exports is likely. These announcements to limit exports caused an immediate market reaction with domestic Argentine prices falling while FOB prices increased U.S.\$14 per ton in just two weeks. As a result, Brazilian prices also climbed on fears that Argentine supplies may run short before the Brazilian harvest.

In response to the above actions to limit exports and the subsequent increase in prices, the Brazilian Wheat Millers Association (Abitrigo) is pressing the government to enact the following measures:

- 1) Suspend the Common External Tariff on wheat of 10 percent.
- 2) Suspend the Merchant Marine tax, which is 25% of the cost of freight
- 3) Impose a 10.5 percent import tax on flour and 25 percent on premix from Argentina

Abitrigo is also forming a consortium of millers to look at importing U.S., Canadian, and Eastern European wheat. The goal of this group at this point is to "study the possibility" of importing one million tons from these destinations. Currently, Brazil has imported 2.3 million tons from Argentina with a further 1.5 million tons purchased. Market contacts estimate between 1.2 and 1.5 million tons more are needed.

If prices continue to climb in Brazil, the government is likely to eliminate the 10 percent TEC. This has been done in the past to keep rice prices down and in an election year the government has an extra incentive to keep bread prices low. Trade contacts believe that if prices reach over R\$400 a ton, Abitrigo may be successful in pressing the government to enact some of the above-mentioned measures.

Post has not revised the 2005/06 (Oct/Sept) import forecast of 6.1 million tons but if further measures are implemented in the next few months this forecast could fall as much as 500,000 tons, though other suppliers such as the United States and Canada may step in to compensate with a few hundred thousand tons of exports into the Northeast. The recent rise in U.S. HRW prices limits the potential for large-scale Brazilian purchases. However, if Brazilian prices continue to climb some SRW and HRW sales are possible.