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Agricultural Situation

Brazil's Northeast Sao Francisco Valley Expanding Fruit Production and Trade

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Report Highlights:

Over the past decade, Brazil has become an important fresh fruit producer, now ranking third after China and India with estimated annual production of 45 million metric tons and area of 3.5 million hectares. Fresh fruit exports have also increased significantly over the past several years to nearly half a billion dollars, but Brazil still holds only a small share of the world's fruit trade. This report provides information gathered during a field trip to Brazil's Northeast region, focused on the Sao Francisco Valley, which accounts for nearly half of Brazilian fruit exports.

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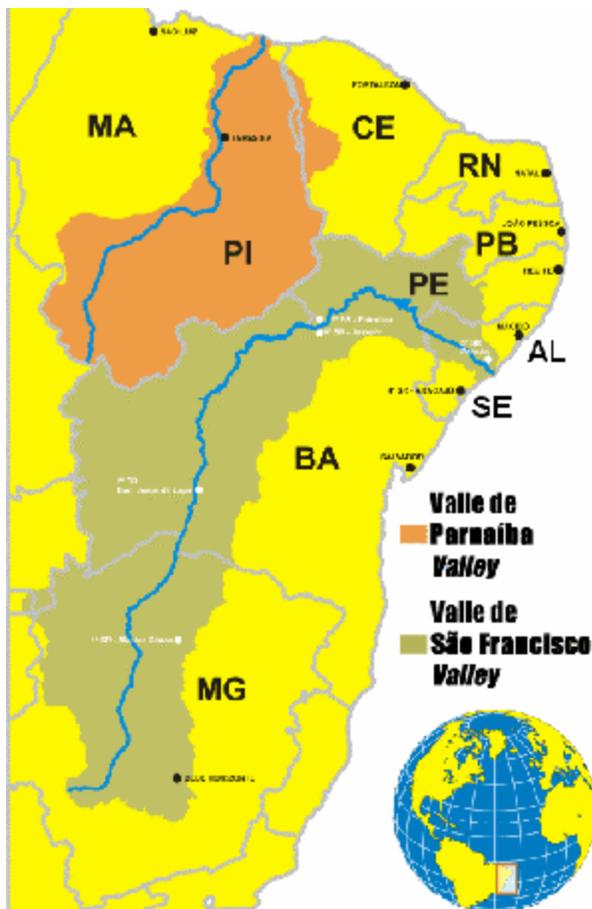
Brazil's Northeast and The Sao Francisco Valley..... 3
Fruit Production in the Sao Francisco Valley 4
Threats to Expanded Production in the SFV 5
Fruit Fly Programs..... 5
Papaya experience in Rio Grande do Norte 5
Annex: Brazil's fresh fruit exports, by fruit, 2004-05 6

Brazil's Northeast and The Sao Francisco Valley

Brazil's Northeast region, which is semi-arid and suffers from perennial droughts, is mostly known for its subsistence agriculture, although it remains a major producer and exporter of sugar. For instance, the entire U.S. Sugar Tariff Rate Quota for Brazil is filled by sugar exported from the Northeast, principally from the states of Alagoas and Pernambuco. Although sugar continues to be the most important crop in the region, fruit production and exports have increased substantially in the past 10 years, due mainly to irrigation projects located in the Sao Francisco Valley (SFV).

The Valley covers an area that includes the states of Bahia and Pernambuco around the Sao Francisco River, which is second only in size to the Amazon River. The federal government first used the Sao Francisco River as a source of hydroelectric power, building huge dams such as Sobradinho, with its six Russian turbines. Early in the 1980's, the water from the huge Sobradinho reservoir (over 200 miles long) began being used for irrigation in a federal development project called the Sao Francisco Valley Development Company (CODEVASF).

In 2000, CODEVASF extended its area of scope to the Parnaiba Valley (see picture below), including the states of Piaui and Maranhao.



Fruit Production in the Sao Francisco Valley

The São Francisco and Parnaíba Valleys cover an area of 960,000 square kilometers (560 square miles), with over 20 million inhabitants. The region has a semi-arid climate, with insufficient precipitation and high evaporation and sunlight rates. Besides being scarce, rains are extremely irregular with regard to their distribution in time and space. However, this type of climate is favorable to irrigated agriculture and both Valleys are rich in underground and surface water. The potential irrigation area is estimated at one million acres, but at this point only 300,000 acres are currently under irrigation, mostly drip irrigation.

Comparative advantages of the Sao Francisco Valley for fruit production:

- 1) Many horticultural crops provide two harvests a year
- 2) Low incidence of plant diseases
- 3) Availability of low cost labor
- 4) Availability of water
- 5) Access to ports and foreign markets
- 6) Average temperature: 26 C (79 F)
- 7) Average annual precipitation: 450 mm (15 inches)
- 8) Hours of sunlight: 3,000 hours/year

The most important fruits produced in the SFV are:

Fruit	Area (Hectares)	Production (Metric tons)
Mango	23,300	405,000
Grapes	11,400	200,000
Guava	5,700	117,000
Watermelon	2,500	31,100
Melon	1,300	16,700
Acerola Cherries	1,900	30,520
Passion fruit	1,400	7,100

Source: Valexport, 2005 data.

The SFV accounts for nearly half of Brazil's total fresh fruit exports, of which mangoes and grapes have a share of 93 percent each. Grape production is basically seedless varieties. The predominant mango variety is Tommy Atkins, but the Kent variety is increasing sharply. Currently, 80 percent of the grapes and 60 percent of the mangoes exported go to the European Union. The United States absorbs 20 percent of Brazil's mangoes and 12 percent of its grapes.

Although the majority of grapes produced are table grapes, some major wineries from the South of Brazil have moved to the area and begun wine production in the Valley, and have won some notable prizes during international events. Agricultural projects are divided among small farmers and major agro-industries. Currently, there are ten packing houses in the area, mostly exporting grapes and mangoes.

Threats to Expanded Production in the SFV

The SFV's growing commercial center is formed by the twin cities of Petrolina, in Pernambuco state on the north bank of the Sao Francisco River, and Juazeiro, on the south in the state of Bahia with an estimated total population of 700,000 people. Fruit exports have visibly changed the SFV from a sleepy backwater area into a fast-developing region attracting international investment, particularly for wine production.

However, the valley is facing some threatening challenges. First, changes in climatic conditions, including out-of-season rainfall, in the past year increased the presence of fruit nematodes, consequently increasing the cost of production for producers, and reducing export prospects. Current estimates are that mango exports in 2007 will be 30 percent lower than 2006 due to an average loss in production of 10 percent. The same is expected for grapes, although at lower rates. Second, a combination of high domestic interest rates and the highly valued Brazilian currency has reduced packer margins, thus reducing revenues to producers. Third, poor road infrastructure to the three ports of Salvador, Recife and Fortaleza remain a major producer complaint. And, last, but not least, there is a shortage of processing capacity in the region to further process fruits.

Fruit Fly Programs

It is estimated that the Mediterranean fruit fly, *Ceratitidis capitata*, causes Brazilian fresh fruit exporters a loss of US\$ 60 million per year in general (not just from the SFV). USDA maintains a pre-clearance program during the mango export season (August-December) to control the Med fly for exports to the United States.

However, the Brazilian government, state governments in the Northeast and fresh fruit exporters have combined efforts to build a bio plant, called MOSCAMED, to produce sterile adult flies in order to combat the dissemination of Med fly in the SFV and other areas of Brazil. The bio plant is the first of its kind in Brazil and follows the model of the largest bio plant in the world situated in Guatemala. Production of sterile flies began recently at MOSCAMED with 2 million insects per week, with full production capacity of 200 million per week estimated for early 2007. At that time, MOSCAMED plans to export these sterile insects to Spain and Morocco, since preliminary studies show the Brazilian product as highly competitive.

Papaya experience in Rio Grande do Norte

Brazil is also authorized to export papayas to the United States, which absorbs 15 percent of total Brazilian exports, while the European Union accounts for nearly 80 percent. The states of Bahia and Espirito Santo are the largest producers and exporters of papayas. However, one interesting project of papaya exports is located in the state of Rio Grande do Norte, which is also authorized to export to the United States. In that state, a partnership between a large packing house and settlements established through official agrarian reform in Brazil works quite well and represents a successful integration between traders and producers.

Annex: Brazil's fresh fruit exports, by fruit, 2004-05

Fruit	2004		2005	
	Metric Tons	US\$ 1,000	Metric Tons	US\$ 1,000
Apple	153,043	72,550	99,332	45,771
Banana	188,087	26,983	212,176	33,027
Grape	28,815	52,755	51,213	107,276
Lemon	37,326	18,290	44,258	26,300
Mango	111,037	64,187	113,758	72,526
Melon	142,587	63,251	179,831	91,479
Orange	90,119	21,492	30,652	8,953
Papaya	35,930	26,563	38,757	30,638
Pineapple	23,375	6,063	19,630	6,096
Watermelon	16,143	4,003	22,531	6,919
Tangerine	18,014	8,191	12,475	6,256
Others	3,834	5,428	3,095	4,889
Total	848,310	369,756	827,708	440,130

Source: Foreign Trade Department.