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Brazil

Oilseeds and Products

Annual Soybean Report

2007

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Report Highlights:

With fewer resources and on a reduced area of 20.8 million hectares, Brazilian farmers will harvest a record soybean crop of 58.2 MMT, 2 million tons greater than last year's effort. Ideal climate conditions contributed to the achievement. High international soybean prices are expected to bail farmers out of much of the debt that they have accumulated over the past three seasons due to drought and low prices. With the Brazilian soybean harvest now 95 percent complete, expectations are high for next year's crop, projected to reach 61 MMT.

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

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Executive Summary

Brazil ranks as the world's leading soybean exporter and second-largest producer behind the United States. In 2007, soybeans will make up a weighty 50 percent of Brazil's total grains. Nevertheless, what seems to be a positive performance does not capture the reality the sector has come into contact with over the past three years. Discouragement has stemmed from detrimental weather, Soybean Rust, cheapening soybean exports, and the strong national currency (Real) vis-à-vis the dollar, which has slipped from 2.20 to 2.0 over the year. However, the business of growing soybeans in Brazil still continues to thrive, as producers shrug off erratic weather conditions and produce in spite of the resistance.

They were finally rewarded for their determination, when at the commencement of the planting season in September 2006, international prices went on an upswing. Then El Nino took effect, and it began to rain to the point of excessiveness in the Center-West, however, welcome after three years of drought.

Brazil has the technological conditions and area available to become the largest oilseed producer in the world. According to local agricultural groups, there are still 90 million hectares available in Brazil without causing deforestation. Farmer groups in Brazil complain that agricultural policy must change in order for Brazil to take the lead in soybean production.

The status of being a "new agricultural frontier" gives Brazil an edge in the soybean business, taking into account that other world soybean producers such as the US and Argentina face limitations, lacking available land for expansion, especially with corn area expansion taking place due to growing interest in ethanol.

Projections

This year's harvest was the antithesis of last year's situation. In dramatic comparison with previous years, yields in 2007 were boosted by a near-perfect combination of sun and precipitation. High international prices are expected to bail farmers out of much of the debt that they have accumulated over the past three seasons of drought and low prices. Post's current production estimate is 58.2 million metric tons (MMT). The area projection is 20.75 million hectares, a 6% decrease over last year's area. This decline occurred as a result of the poor financial situation of the farmers, suffering from a lack of financing available in conjunction with their compounding debt. Some shifting from soy to sugarcane occurred. In the South, area was basically maintained, while the Center-west lost area to sugarcane, cotton, and pasture. Soy expansion in most of the frontier areas came to a halt.

Post forecasts 2007/08 production at 61 MMT and 2.78 tons per hectare. In spite of possible effects from La Niña, economic conditions will be more favorable for the ag sector than the past three years, allowing producers to once again pursue more aggressive production strategies. Production continues to benefit from the changes to Brazilian biotechnology policy that took place in 2006.

For 2007/08, the expected decrease in U.S. soybean area to expand corn production has caught the attention of Brazilian farmers. Post expects it to encourage Brazilian soy area expansion next season, which will mean that clearing of new land is likely to resume in the expansion areas of Center-west and Northern Brazil. Post expects area to rebound 4 percent to 21.9 million hectares. Although incentives to plant soybeans next year abound, Post is not projecting a complete recuperation of the soy area lost in the 06/07 crop season due to the fast-paced increase in sugarcane area, which will compete with soy area in the coming year.

Economic Overview

President Lula and his economic team have implemented orthodox fiscal and monetary policies and pursued many necessary reforms. Brazil's external accounts, aided by a stable international environment, have improved substantially over the last three years. GDP growth dropped to 2.9% in 2005 and 3.7% in 2006, down from a strong performance (5.7%) in 2004. Market expectations are for 4% growth in 2007. Brazil has experienced booming exports, healthy external accounts, inflation under control, decreasing unemployment and reductions in the debt-to-GDP ratio. Buoyed by exports and investment inflows, the Real has remained at relatively appreciated levels, allowing the government and businesses to pay down external debt, although many in agriculture and in industry complain the exchange rate is making Brazilian exports less competitive. The government pre-paid its IMF obligations, its last remaining rescheduled Paris Club obligations, and in April 2006 announced it had retired the last of its Brady bonds. This removes from the books all restructured debt associated with Brazil's late-1980's default. Based upon the improving external debt dynamics, Fitch IBCA upgraded its credit rating on Brazil's sovereign debt in February 2006, to BB (two notches below investment grade).

The public sector net-debt-to-GDP ratio is on a downward trend but remains high, at about 50%. Real interest rates also are declining, but remain high. Analysts believe that sustainably reducing interest rates will require reductions in the government's borrowing requirement, reform of the financial sector and of the judiciary. Income and land distribution remain skewed. Investment and domestic savings are low, although growing. The informal sector constitutes between 35 to 40 percent of the economy, in part because the tax burden (nearly 38 percent of GDP) is high by comparison with other emerging markets. Sustaining high growth rates in the longer term depends on reforms to improve productivity and increase investment, including fiscal reform, tax reform and labor code reform.

Economic Indicators

	2000	2001	2002	2003	2004	2005	2006	2007*
GDP Growth (%)	4	1.5	1.9	0.5	4.9	2.3	3.7	4
Inflation (%) (IPCA/IBGE)	6	7.7	12.5	9.3	7.6	5.7	3.1	3.2
Average Exchange Rate (R$/US$)	1.83	2.35	2.93	3.07	2.93	2.44	2.18	2.15
Total Exports (US$ billion)	55	58.2	60.4	73.1	96.5	118.3	137.5	148.4
Total Imports (US$ billion)	55.7	55.5	47.2	48.3	62.8	73.5	91.4	110

*Projected

Statistical Tables

A. Production, Supply, & Demand Tables

PSD Table Country: Brazil Oilseed, Soybean (Local) (1000 HA)(1000 MT)							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		02/2006		02/2007		02/2008	MM/YYYY
Area Planted	22300	22300	21100	20800	0	21900	(1000 HA)
Area Harvested	22229	22229	21000	20755	0	21900	(1000 HA)
Beginning Stocks	1638	1638	2252	1847	2078	1463	(1000 MT)
Production	57000	56200	58800	58200	0	61000	(1000 MT)
MY Imports	40	40	100	100	0	50	(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	58678	57878	61152	60147	2078	62513	(1000 MT)
MY Exports	24770	24770	26700	26700	0	28500	(1000 MT)
MY Exp. to the EC	11121	11121	9955	9955	0	0	(1000 MT)
Crush Dom. Consumption	28756	28756	29400	29000	0	30000	(1000 MT)
Food Use Dom. Consumption.	0	5	0	10	0	10	(1000 MT)
Feed,Seed,Waste Dm.Cn.	2900	2500	2974	2974	0	3100	(1000 MT)
TOTAL Dom. Consumption	31656	31261	32374	31984	0	33110	(1000 MT)
Ending Stocks	2252	1847	2078	1463	0	903	(1000 MT)
TOTAL DISTRIBUTION	58678	57878	61152	60147	0	62513	(1000 MT)
Calendar Year Imports	0	0	0	0	0	0	(1000 MT)
Calendar Yr Imp. U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Year Exports	0	0	0	0	0	0	(1000 MT)
Calndr Yr Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

PSD Table Country: Brazil Meal, Soybean (Local) (1000 MT))							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		02/2006		02/2007		02/2008	MM/YYYY
Crush	28756	28756	29400	29400	0	30000	(1000 MT)
Extr. Rate, 999.9999	0.776429	0.776429	0.77551	0.782313	0		(PERCENT)
Beginning Stocks	640	640	894	894	835	324	(1000 MT)
Production	22327	22327	22800	23000	0	23750	(1000 MT)
MY Imports	214	214	250	230	0	210	(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	23181	23181	23944	24124	835	24284	(1000 MT)
MY Exports	12287	12287	12465	13400	0	13600	(1000 MT)
MY Exp. to the EC	0	0	0	0	0	0	(1000 MT)
Industrial Dom. Consum	0	0	0	0	0	0	(1000 MT)
Food Use Dom. Consump.	0	0	0	0	0	0	(1000 MT)
Feed Waste Dom. Consum	10000	10000	10644	10400	0	10550	(1000 MT)
TOTAL Dom. Consumption	10000	10000	10644	10400	0	10550	(1000 MT)
Ending Stocks	894	894	835	324	0	134	(1000 MT)
TOTAL DISTRIBUTION	23181	23181	23944	24124	0	24284	(1000 MT)
Calendar Year Imports	0	0	0	0	0	0	(1000 MT)
Calendar Yr Imp. U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Year Exports	0	0	0	0	0	0	(1000 MT)
Calndr Yr Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

PSD Table Country: Brazil Oil, Soybean (Local) (1000 MT))							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]		Post Estimate [New]	
Market Year Begin		02/2006		02/2007		02/2008	MM/YYYY
Crush	28756	28756	29400	29400	0	30000	(1000 MT)
Extr. Rate, 999.9999	0.191995	0.191995	0.191327	0.193537	0	0.191667	(PERCENT)
Beginning Stocks	248	248	250	250	248	335	(1000 MT)
Production	5521	5521	5625	5690	0	5750	(1000 MT)
MY Imports	18	18	0	10	0	8	(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	5787	5787	5875	5950	248	6093	(1000 MT)
MY Exports	2315	2315	2292	2000	0	2100	(1000 MT)
MY Exp. to the EC	0	0	0	0	0	0	(1000 MT)
Industrial Dom. Consum	252	252	285	295	0	300	(1000 MT)
Food Use Dom. Consump.	2970	2970	3050	3300	0	3410	(1000 MT)
Feed Waste Dom. Consum	0	0	0	20	0	20	(1000 MT)
TOTAL Dom. Consumption	3222	3222	3335	3615	0	3730	(1000 MT)
Ending Stocks	250	250	248	335	0	263	(1000 MT)
TOTAL DISTRIBUTION	5787	5787	5875	5950	0	6093	(1000 MT)
Calendar Year Imports	0	0	0	0	0	0	(1000 MT)
Calendar Yr Imp. U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Year Exports	0	0	0	0	0	0	(1000 MT)
Calndr Yr Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

PSD Table Country: Brazil Oilseed, Cottonseed (1000 HA)(1000 MT)							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2006		01/2007		01/2008	MM/YYYY
Area Planted (COTTON)	850	850	1050	1030	0	1065	**(1000 MT)**
Area Harvested(COTTON)	850	850	1050	1030	0	1065	(1000 MT)
Seed to Lint Ratio	0	0	0	0	0	0	(1000 MT)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	1713	1713	2260	2260	0	2350	(1000 MT)
MY Imports	0	0	0	0	0	0	(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	1713	1713	2260	2260	0	2350	(1000 MT)
MY Exports	5	5	100	100	0	115	(1000 MT)
MY Exp. to the EC	0	0	0	0	0	0	(1000 MT)
Crush Dom. Consumption	1470	1470	1875	1875	0	1935	(1000 MT)
Food Use Dom. Consump.	0	0	0	0	0	0	(1000 MT)
Feed,Seed,Waste Dm.Cm.	238	238	285	285	0	300	(1000 MT)
TOTAL Dom. Consumption	1708	1708	2160	2160	0	2235	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	1713	1713	2260	2260	0	2350	(1000 MT)
Calendar Year Imports	0	0	0	0	0	0	(1000 MT)
Calendar Yr Imp. U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Year Exports	5	5	100	100	0	110	(1000 MT)
Calndr Yr Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

PSD Table Country: Brazil Meal, Cottonseed (1000 MT)							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2006		01/2007		01/2008	MM/YYYY
Crush	1470	1470	1875	1875	0	1935	(1000 MT)
Extr. Rate, 999.9999	0.465986	0.471429	0.464	0.453333	0	0.4677	(PERCENT)
Beginning Stocks	5	5	5	11	5	6	(1000 MT)
Production	685	693	870	850	0	905	(1000 MT)
MY Imports	0	6	0	5	0	5	(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	690	704	875	866	5	916	(1000 MT)
MY Exports	5	13	10	0	0	0	(1000 MT)
MY Exp. to the EC	0	0	0	0	0	0	(1000 MT)
Industrial Dom. Consum	0	0	0	0	0	0	(1000 MT)
Food Use Dom. Consump.	0	0	0	0	0	0	(1000 MT)
Feed Waste Dom. Consum	680	680	860	860	0	905	(1000 MT)
TOTAL Dom. Consumption	680	680	860	860	0	905	(1000 MT)
Ending Stocks	5	11	5	6	0	11	(1000 MT)
TOTAL DISTRIBUTION	690	704	875	866	0	916	(1000 MT)
Calendar Year Imports	0	0	0	0	0	0	(1000 MT)
Calendar Yr Imp. U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Year Exports	0	0	0	0	0	0	(1000 MT)
Calndr Yr Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

PSD Table Country: Brazil Oil, Cottonseed (1000 MT)							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2006		01/2007		01/2008	MM/YYYY
Crush	1470	1470	1875	1875	0	1935	(1000 MT)
Extr. Rate, 999.9999	0.160544	0.167347	0.16	0.16	0	0.160207	(PERCENT)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	236	246	300	300	0	310	(1000 MT)
MY Imports	0	0	0	0	0	0	(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	236	246	300	300	0	310	(1000 MT)
MY Exports	35	45	45	45	0	47	(1000 MT)
MY Exp. to the EC	0	0	0	0	0	0	(1000 MT)
Industrial Dom. Consum	75	75	84	84	0	87	(1000 MT)
Food Use Dom. Consump.	126	126	171	171	0	176	(1000 MT)
Feed Waste Dom. Consum	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumption	201	201	255	255	0	263	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	236	246	300	300	0	310	(1000 MT)
Calendar Year Imports	0	0	0	0	0	0	(1000 MT)
Calendar Yr Imp. U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Year Exports	0	0	0	0	0	0	(1000 MT)
Calndr Yr Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

B. Trade Matrices

Soybeans

Brazil Soybean Exports							
In 1000 Metric Tons							
Feb/06-Jan/07							
Country	Quantity			% Share			% Change
	2005	2006	2007	2005	2006	2007	2007/2006
World	19,256	22,799	24,770	100	100	100	8.6
United States	241	0	6	1.3	0.0	0.0	-
China	5,580	7,302	10,624	29.0	32.0	42.9	45.5
Netherlands	3,559	5,223	3,673	18.5	22.9	14.8	-29.7
Spain	1,596	2,118	1,873	8.3	9.3	7.6	-11.6
Italy	906	1322	1097	4.7	5.8	4.4	-17.0
Germany	1,630	895	1049	8.5	3.9	4.2	17.2
Iran	640	914	900	3.3	4.0	3.6	-1.5
Portugal	523	367	790	2.7	1.6	3.2	115.3
Thailand	327	632	767	1.7	2.8	3.1	21.4
United Kingdom	514	636	639	2.7	2.8	2.6	0.5
Others	3,981	3,390	3,358	20.7	14.9	13.6	-0.9

Brazil Soybean Imports							
In 1000 Metric Tons							
Feb/06-Jan/07							
Country	Quantity			% Share			% Change
	2005	2006	2007	2005	2006	2007	2007/2006
World	364	353	40	100	100	100	-88.7
Paraguay	364	352	40	100	100	100	-88.6
United States	0	0	0	0	0	0	0.0
Others	0	0	0	0	0	0	0.0

Soybean Meal

Brazil Soybean Meal Exports							
In 1000 Metric Tons							
Feb/06-Jan/07							
Country	Quantity			% Share			% Change
	2005	2006	2007	2005	2006	2007	2007/2006
World	14,567	14,225	12,275	100.0	100.0	100.0	-13.7
Netherlands	4,086	3,477	2,491	28.0	24.4	20.3	-28.4
France	2,993	2,943	2,434	20.5	20.7	19.8	-17.3
Thailand	616	1,041	1,199	4.2	7.3	9.8	15.2
Germany	1054	1,093	875	7.2	7.7	7.1	-19.9
Iran	644	197	560	4.4	1.4	4.6	184.3
Indonesia	476	460	504	3.3	3.2	4.1	9.6
Korea South	434	947	443	3.0	6.7	3.6	-53.2
Autralia	145	300	407	1.0	2.1	3.3	35.7
United Kingdom	482	440	400	3.3	3.1	3.3	-9.1
Italy	448	502	391	3.1	3.5	3.2	-22.1
Saudi Arabia	387	290	353	2.7	2.0	2.9	21.7
Slovenia	35	143	342	0.2	1.0	2.8	139.2
Spain	621	315	266	4.3	2.2	2.2	-15.6
Norway	90	249	208	0.6	1.8	1.7	-16.5
United States	270	41	0	1.9	0.3	0.0	-100.0
Others	1,786	1,787	1,402	12.3	12.6	11.4	-21.5

Brazil Soybean Meal Imports							
In Metric Tons							
Feb/06-Jan/07							
Country	Quantity			% Share			% Change
	2005	2006	2007	2005	2006	2007	2007/2006
World	178,009	186,178	164,844	100	100	100	-11.5
Paraguay	177,905	186,167	164,826	99.9	100.0	100.0	-11.5
China	0	0	12	0	0	0	0.0
United States	104	11	6	0	0	0	-45.5

Soybean Oil

Brazil Soybean Oil Exports							
In 1000 Metric Tons							
Feb/06-Jan/07							
Country	Quantity			% Share			% Change
	2005	2006	2007	2005	2006	2007	2007/2006
World	2531	2697	2315	100	100	100	-14.2
Iran	676	699	712	26.7	25.9	30.8	1.9
Netherlands	61	174	528	2.4	6.5	22.8	203.4
India	297	431	201	11.7	16.0	8.7	-53.4
China	839	386	200	33.1	14.3	8.6	-48.2
Italy	1	37	165	0.0	1.4	7.1	345.9
France	2	9	104	0.1	0.3	4.5	1055.6
Turkey	4	38	50	0.2	1.4	2.2	31.6
South Africa	85	144	36	3.4	5.3	1.6	-75.0
Bangladesh	78	31	36	3.1	1.1	1.6	16.1
Tunisia	19	26	28	0.8	1.0	1.2	7.7
United States	80	0	0	3.2	0.0	0.0	0.0
Others	389	722	255	15.4	26.8	11.0	-64.7

Brazil Soybean Oil Imports							
In 1000 Metric Tons							
Feb/06-Jan/07							
Country	Quantity			% Share			% Change
	2005	2006	2007	2005	2006	2007	2007/2006
World	14	3	26	100.0	100.0	100.0	766.7
Argentina	13	0	25	92.9	0.0	96.2	
Paraguay	1	0	0	7.1	0.0	0.0	0.0
Bolivia	0	1	0	0.0	33.3	0.0	-100.0
United States	0	2	1	0.0	66.7	3.8	-50.0

Cottonseed Meal

Brazil Cottonseed Meal Exports				
In Metric Tons				
Country	Quantity			% Change
	2005	2006	2007	2007/2006
World	13,164	0	0	-100
United Kingdom	13,164	0	0	-100
Belgium	0	0	0	0
Germany	0	0	0	0
Angola	0	0	0	0

Brazil Cottonseed Meal Imports				
In Metric Tons				
Country	Quantity			% Change
	2005	2006	2007	2007/2006
World	9252	5,661	2,218	-60.8
Paraguay	9182	5,590	2,063	-63.1
United States	71	71	155	118.3
Uruguay	0	0	0	0.0
Argentina	0	0	0	0.0

Cottonseed Oil

Brazil Cottonseed Oil Exports				
In Metric Tons				
Country	Quantity			% Change
	2005	2006	2007	2007/2006
World	59,950	45,250	25,932	-42.7
Greece	0	0	6,300	-
South Africa	2,500	6,750	5,630	-16.6
Netherlands	0	0	5,500	-
Korea North	3,000	1,700	3,000	76.5
Korea South	5,500	3,000	2,500	-16.7
Turkey	0	5,346	1,500	-71.9
Malaysia	2,000	1,700	1,000	-41.2
Japan	42	433	333	-23.1
Bolivia	87	171	143	-16.4
Trinidad & Tobago	25	64	13	-79.7
United States	0	1	13	1200.0

Brazil Cottonseed Oil Imports				
In Metric Tons				
Country	Quantity			% Change
	2005	2006	2007	2007/2006
World	200	0	100	-
Paraguay	200	0	100	-
United States	0	0	0	0
Argentina	0	0	0	0

C. Prices

Soybean Price Table					
Country	Brazil				
Commodity	Soybeans				
Prices in	US$/ton				
Year	2004	2005	2006	% Change 04/05	% Change 05/06
Jan	290.16	206.28	229.25	-28.9	11.1
Feb	290.87	208.02	236.87	-28.5	13.9
Mar	317.85	239.05	222.95	-24.8	-6.7
Apr	322.48	229.72	225.23	-28.8	-2.0
May	290.45	239.6	230.52	-17.5	-3.8
Jun	263.97	250.82	226.3	-5.0	-9.8
Jul	246.55	254.48	232.2	3.2	-8.8
Aug	236.82	245.53	228.02	3.7	-7.1
Sep	232.12	238.92	223.87	2.9	-6.3
Oct	216.59	237.1	239.55	9.5	1.0
Nov	224.42	234.55	255.36	4.5	8.9
Dec	219.09	226.04	263.28	3.2	16.5
Export Price FOB Paranagua					

Domestic Soybean Prices (R$/60 kg. bag)												
For Paraná (PR), Sao Paulo (SP), Rio Grande do Sul (RS), and Mato Grosso (MT)												
Month/Location	2004				2005				2006			
	PR 1/	SP 2/	RS 3/	MT 4/	PR 1/	SP 2/	RS 3/	MT 4/	PR 1/	SP 2/	RS 3/	MT 4/
Jan	45.81	45.85	46.1	41.21	33.04	33.75	33.25	28.9	29	27.63	27.38	24.95
Feb	44.48	44.35	45.56	37.79	28.3	29.25	29.25	24.43	27.5	27.6	26.3	22.1
Mar	50.18	49.76	50.71	43.53	33.43	35.5	34.25	30.13	25.3	24.6	23.5	20
Apr	51	49.75	52.13	47.75	32.35	31.95	32.73	27.88	24.83	23.13	23.23	19.23
May	45.5	44.32	44.01	43.75	30.9	30.45	31.08	26.48	26.25	24.45	24.63	20.75
Jun	43.88	43.63	43.13	41.5	33.03	32.15	31.78	28.25	27.6	25.3	25.3	22.78
Jul	40.1	40.5	39.5	36.06	32.8	31.15	29.78	27.13	26.87	25.67	25.83	23.57
Aug	38.13	38.28	38.51	34.5	31.42	32.32	30.3	26.76	26.9	25.9	25.9	23.1
Sep	37.3	38.75	36.63	32.83	29.33	29.28	27.95	25.23	27.33	25.5	26.17	22.77
Oct	34.3	35.5	34.6	31.64	29.6	27.7	27.3	24.9	29.33	28	27.5	25
Nov	33.88	33.25	33.13	30.05	29.3	26	26.7	25.1	32	31	31.17	28
Dec	32.5	33.75	32.5	29.93	28.2	25.5	27.6	24.8	32.5	31.43	31.5	29.33

Soymeal Prices				
	2005		2006	
Month	Paranaguá 1/	SP 2/	Paranaguá 1/	SP 2/
JAN	174.94	184.11	196.62	210.30
FEB	172.1	173.86	200.48	188.06
MAR	194.62	189.40	181.88	169.22
APR	191.91	180.60	183.48	164.07
MAY	198.28	176.21	184.74	172.62
JUN	208.64	196.04	188.44	174.62
JUL	217.18	198.78	184.34	180.58
AUG	212.28	202.15	184.03	179.93
SEP	202.22	198.74	190.23	188.56
OCT	198.18	194.88	207.01	197.67
NOV	193.81	194.00	214.84	209.99
DEC	210.14	206.32	206.11	201.53
Average	197.86	191.26	193.52	186.43
1/ FOB – Paranaguá Port (US$/ton) 2/ São Paulo –US$/ton – 12% ICMS tax				

Crude Soyoil Prices				
	2005		2006	
Month	Paranaguá 1/	SP 2/	Paranaguá 1/	SP 2/
JAN	445.55	565.82	434.47	503.30
FEB	440.42	513.86	458.83	530.09
MAR	497.36	577.08	469.89	563.72
APR	482.29	564.17	476.08	535.97
MAY	467.10	529.53	518.67	580.65
JUN	463.27	526.03	498.96	576.67
JUL	460.27	532.55	504.34	586.76
AUG	454.59	518.45	518.43	625.00
SEP	460.19	528.29	522.10	618.09
OCT	465.67	535.00	551.66	653.49
NOV	440.83	532.79	649.61	778.70
DEC	442.24	514.04	643.08	817.44
Average	459.98	536.47	520.51	614.16
1/ FOB – Paranaguá Port (US$/ton) 2/ São Paulo –US$/ton – 12% ICMS tax				

Monthly Exchange Rates: R$/US$						
Month/Year	**2004**	**2005**	**2006**	**2007**	**% Change 05/06**	**% Change 06/07**
Jan	2.85	2.69	2.27	2.14	-15.71	-5.73
Feb	2.93	2.60	2.16	2.09	-16.86	-16.86
Mar	2.91	2.71	2.15	2.09	-20.52	-20.52
Apr	2.91	2.58	2.12	2.03	-17.80	-17.80
May	3.10	2.46	2.17		-11.61	-
Jun	3.13	2.42	2.25		-7.02	-
Jul	3.04	2.37	2.19		-7.71	-
Aug	3.00	2.36	2.16		-8.40	-
Sep	2.89	2.30	2.17		-5.57	-
Oct	2.85	2.26	2.15		-4.74	-
Nov	2.79	2.21	2.16		-2.31	-
Dec	2.72	2.28	2.15		-5.70	-
Average	**2.93**	**2.44**	**2.18**		**-10.71**	-
Source: Banco Central do Brasil (www.bcb.gov.br)						

D. Policy Table

Official Minimum Prices				
Product (Unit) / Crop Year	2006/07		2005/06	
Area	R$	US$	R$	US$
Cotton (15 kg)				
Brazil	44.6	20.46	44.6	21.33
Cottonseed (15 kg)				
Brazil	13.4	6.15	13.4	6.15
Soybeans (60 kg)				
SOUTH, SOUTHEAST, CENTER-WEST & RORAIMA	14	6.42	14	6.70
NORTH (except RORAIMA) & NORTHEAST	13	5.96	13	6.22

Source: Ministry of Agriculture, CONAB

Exchange Rate: 2005/06-R$2.18; 2006/07-R$2.09

Production

2006/07 Crop Situation

This year's harvest was the antithesis of last year's situation. In dramatic comparison with previous years, yields in 2007 were boosted by a near-perfect combination of sun and precipitation. High international prices are expected to bail farmers out of much of the debt that they have accumulated over the past three seasons of drought and low prices. Post's current production estimate is 58.2 million metric tons (MMT). The area projection is 20.75 million hectares, a 6% decrease over last year's area. Production forecasts of some Brazilian sources are: 57.9 (Conab- see page 23 of report), 59.8 (Safras), and 58.5 MMT (Céleres). These entities' area numbers range from 20.6 (Conab) to 21.0 million hectares (Safras).

This season, if a spoiler of yields existed, it was humidity. This year's soybean crop was highly influenced by the El Niño weather pattern, which has brought regular and significant rains to Brazil's growing areas. Due to increasingly wet conditions, soybean rust posed more of a threat this year, especially in the Center-west region. Farmers continue to manage rust well due to the Embrapa alert system as well as their general familiarity with the disease. This year's soybean crop is positioned to come within reach of the 2002/03 record soybean yields, and are projected at 2.8 tons per hectare; far-surpassing the 5-year average yield of 2.53. Due to the liquidity crisis in Brazil, farmers did not in all cases use recommended applications of inputs, but heavy and evenly dispersed rains throughout crucial flowering and podfill development stages have assisted this year's crop a great deal. With more cash in hand next year, farmers can be expected to achieve better yields as they return to higher input usage.

On the negative side, the weakening exchange rate continued to cause discouragement for farmers, since it implicated buying inputs at a stronger dollar and selling their product at a weaker one. Soybean rust also carried a heavy cost for farmers, who applied fungicide up to five times during the season.

2006/07 Crop Estimates by State

Mato Grosso

Brazil's number one soybean state reduced its area by nearly 15 percent this year. For this reason, although this year's yields surpassed those of last year's crop, increasing from 2.7 to 3.0, production will not reach last year's levels.

The harvest is complete in Mato Grosso. Farmers continued to struggle with rust in the state, since the areas under production are so expansive, Embrapa's system of alerts is not as effective in the region as it is in other areas.

The one major problem in the state took place in the Northern part of the state, in a major production area. An estimated 30% of the crop in the region, including the major growing areas of Sinope and Sorriso, suffered losses due to incessant rain and excess water in the field, which kept farmers from harvesting. As the product sat in the field, the quality of the beans decreased. These beans were not harvested at maturity, and after 10 days began to rot, causing a number of farmers in the area to lose their entire crop. Of the 30% total production area in the region suffering losses, much of the product was discounted, and in some cases, rejected, due to the deterioration in quality of the beans. Overall yields for Mato Grosso were still highly satisfactory and above the national average. This is due to the fact that the rest of the state performed better than expected, and in spite of lower input use this year, other areas of the state made up the difference.

Other Center-West

Like Mato Grosso, Goiás and Mato Grosso do Sul states also had difficulty with Rust and excess humidity. Post brought down its number for Goiás due to the excess rain that occurred in January and February. At this time, a good percentage of the crop was in its final phase and was negatively impacted. Similarly, the end of the crop phase for soybeans in Mato Grosso do Sul was a disappointment due to the wet weather, and was also affected by rust and other diseases.

2006/07 Post Forecast Soybean Area, Yield, and Production			
(1000 ha; Tons/ha, Thousand tons)			
Region	**Area**	**Yield**	**Production**
Center West	**8,953**	**2.898**	**25,950**
MS	1,700	**2.765**	4,700
MT	5,050	**2.990**	15,100
GO	2,150	**2.791**	6,000
DF	53	**2.830**	150
South	**8,375**	**2.777**	**23,260**
PR	4,000	**3.000**	12,000
SC	375	**2.827**	1,060
RS	4,000	**2.550**	10,200
Southeast	**1,460**	**2.603**	**3,800**
MG	930	**2.581**	2,400
SP	530	**2.642**	1,400
Northeast	**1,443**	**2.661**	**3,840**
MA	378	**2.672**	1,010
PI	225	**2.800**	630
BA	840	**2.619**	2,200
North	**521**	**2.599**	**1,354**
RO	100	**2.700**	270
AM	3	**3.000**	9
RR	18	**3.333**	60
PA	90	**2.833**	255
TO	310	**2.452**	760
Totals	**20,752**	**2.805**	**58,204**

South

The three southern states have experienced a great production year, and will by far surpass 05/06 yields. In fact, the south may surpass the record previously set by the region during the 02/03 crop year. The overall yield for the region is forecast at nearly 2.8 tons per hectare.

Post recently made upward adjustments to the three states, but the biggest improvement in yields occurred in Rio Grande do Sul, Brazil's southernmost state. Rains that fell during the week before Easter were particularly beneficial, causing Post to increase its production estimate for the state to 10.2 million tons, which will be a new record. With the exception of the 2002/03 crop year, Rio Grande do Sul has typically brought down the nation's average soy yields. Due to the last several years of drought in the state, it was producing one-fourth to one-half of its potential. This year soybean production in the state is back on track, and typical low yielding areas of Missões, Santo Angelo, and São Lourenço (Northwest Rio Grande do Sul) are showing a surprising step up from previous years. The state of Santa Catarina is also set to experience a 25 percent boost in production over last year's harvest.

Southeast

The Southeast experienced the biggest shift in area to sugarcane, losing 13 percent. This caused production to decrease substantially in the region. São Paulo has now completed the harvest and Minas Gerais is halfway through, due to an excess of rain the fell during the latter part of March and beginning of April in the Northeast of the state. Minas has suffered in particular with rust and even drought during the development phase.

Northeast

Bordering Minas Gerais, Bahia also dealt with drought issues during the development phase of the crop. Rains during the second week of April helped to alleviate the problem, but also caused a hold-up in the harvest of beans that were further developed and ready to be harvested. Rust has been a continuing problem in Bahia.

Certain areas of Piauí and Maranhão went for extended periods in Febuary and March without rain, during the crucial podfill phase, which is expected to impact yields somewhat. Post visited the area in early February and received good reports of yields averaging 3.0 tons per hectare due to the good combination of sun and rain they were experiencing. Although expansion in the region is at a standstill this year, soybean area can be expected to continue rising due to the availability of land and the region's transportation advantage. A new grain terminal at Maranhão's Itaquí port is set to open early 2008.

North

The North also has a transportation advantage via Itaquí or by barge via the Madeira and Amazon rivers. The Cargill port in Santarém, Pará is now once again an option, as well as Maggi's Itacoatiara port in the state of Amazonas. Total area in the North decreased this year by 4 percent (20,000 HA), but can be expected to bounce back in 07/08. In addition, although area decreased in Tocantins, it increased 10-33 percent in Pará, Amazonas, and Roraima. Post have received reports of a brand-new area opening up in the state of Pará, called Santa Maria das Barreiras, located southeast of Redenção. Expansion continues.

Yields in the northern states were, like the Northeast, impacted by drought during the development phase. However, it is early to tell for the majority of the Northern crop, with much of it grown close to the equator and harvested later in the season. Total production for the North is forecast at 1.4 million metric ton.

Official Brazilian Soybean Area, Production, & Yield Estimates									
	AREA (1000 ha)			Production (1000 t)			Yield (kg/ha)		
State/CropYear	2006	2007	% Var.	2006	2007	% Var.	2006	2007	% Var.
North	**517.5**	**429.2**	**-17.1**	**1,283.20**	**1,207.00**	**-5.9**	**2,480**	**2,812**	**13.4**
Roraima	20.0	20.0	**0.0**	56	56	**0.0**	2,800	2,800	**0.0**
Rondônia	106.4	91.0	**-14.5**	283	279.4	**-1.3**	2,660	3,070	**15.4**
Amazonas	1.9	1.9	**0.0**	5.7	5.3	**-7.0**	3,000	2,786	**-7.1**
Pará	79.7	47.0	**-41.0**	238.1	140.5	**-41.0**	2,987	2,990	**0.1**
Tocantins	309.5	269.3	**-13.0**	700.4	725.8	**3.6**	2,263	2,695	**19.1**
Northeast	**1,487.1**	**1,457.9**	**-2.0**	**3,560.90**	**3,940.70**	**10.7**	**2,395**	**2,703**	**12.9**
Maranhão	382.5	384.4	**0.5**	1025.1	1030.2	**0.5**	2,680	2,680	**0.0**
Piauí	232.0	222.7	**-4.0**	544.5	600.6	**10.3**	2,347	2,697	**14.9**
Bahia	872.6	850.8	**-2.5**	1,991.30	2,309.90	**16.0**	2,282	2,715	**19.0**
Center-West	**10,353.6**	**9,105.0**	**-12.1**	**26,795.50**	**26,624.50**	**-0.6**	**2,588**	**2,924**	**13.0**
Mato Grosso	5,891.5	5,125.6	**-13.0**	15,877.60	15,274.30	**-3.8**	2,695	2,980	**10.6**
Mato Grosso do Sul	1,919.1	1,736.8	**-9.5**	4,375.50	5,010.70	**14.5**	2,280	2,885	**26.5**
Goiás	2,489.0	2,190.3	**-12.0**	6,396.70	6,176.60	**-3.4**	2,570	2,820	**9.7**
Distrito Federal	54.0	52.3	**-3.1**	145.7	162.9	**11.8**	2,699	3,115	**15.4**
Southeast	**1,717.5**	**1,455.7**	**-15.2**	**4,051.80**	**4,052.50**	**0.0**	**2,359**	**2,784**	**18.0**
Minas Gerais	1,060.9	930.4	**-12.3**	2,482.50	2,623.70	**5.7**	2,340	2,820	**20.5**
São Paulo	656.6	525.3	**-20.0**	1,569.30	1,428.80	**-9.0**	2,390	2,720	**13.8**
South	**8,153.6**	**8,238.0**	**1.0**	**17,722.50**	**22,135.60**	**24.9**	**2,174**	**2,687**	**23.6**
Paraná	3,928.5	3,967.8	**1.0**	9,389.10	12,101.80	**28.9**	2,390	3,050	**27.6**
Santa Catarina	339.5	376.8	**11.0**	814.8	1040	**27.6**	2,400	2,760	**15.0**
Rio Grande do Sul	3,885.6	3,893.4	**0.2**	7,518.60	8,993.80	**19.6**	1,935	2,310	**19.4**
North/Northeast	**2,004.6**	**1,887.1**	**-5.9**	**4,844.10**	**5,147.70**	**6.3**	**2,416**	**2,728**	**12.9**
Center-South	**20,224.7**	**18,798.7**	**-7.1**	**48,569.80**	**52,812.60**	**8.7**	**2,402**	**2,809**	**16.9**
Brazil	**22,229.3**	**20,685.8**	**-6.9**	**53,413.90**	**57,960.30**	**8.5**	**2,403**	**2,802**	**16.6**

2007/08 Crop Outlook

Area

This year's soybean area dropped about 6 percent due to the poor financial situation of the farmers. This was in good part due to the lack of financing available to farmers in conjunction with their compounding debt. Some shifting from soy to sugarcane occurred. In the South, area was basically maintained, while the Center-west lost area to sugarcane, cotton, and pasture. Soy expansion in most of the frontier areas came to a halt. This includes the entire Northeast (Bahia, Maranhão and Piauí), Tocantins, and Rondonia. However, the northern states of Pará, Roraima, and Amazonas experienced continued soy area expansion in 06/07.

For 2007/08, the expected decrease in U.S. soybean area to expand corn production has made a big impact on Brazilian farmers. Post expects it to encourage Brazilian soy area expansion next season, which will mean that the clearing of new land will resume in the expansion areas of Center-west and Northern Brazil. Post expects area to rebound 4 percent to 21.9 million hectares. Although incentives to plant soybeans next year abound, Post is not projecting a complete recuperation of the soy area lost in the 06/07 crop season due to the fast-paced increase in sugarcane area, which will compete with soy area in the coming year.

Production

Post forecasts 2007/08 production at 61 MMT, with average yields of 2.78 tons per hectare, assuming that La Niña conditions will return to cause dryness in some production areas. In spite of possible interference from La Niña, economic conditions will be more favorable for the ag sector than the past three years, allowing them to once again pursue more aggressive production strategies. Production continues to benefit from the changes to Brazilian biotechnology policy that took place in 2006. Prices are favorable, and the international market would be more bullish on soybeans if it weren't for high global stocks and continuing big production in the U.S. and Argentina. This could quickly change. Brazilian farmers are betting that the Food Vs. Fuel debate will cause soybeans to go into catch-up mode on the world market. If this indeed comes to pass, markets will scramble to locate more cropland to cope with surging demand. Brazilian farmers will greatly benefit when this happens, and are planting faithfully with confidence that it will.

Negative factors for the coming year include the strong Real, continuing to cheapen exports; and the rising costs of inputs and transportation, which continue to cut away at farmers' profit margins. If dry weather indeed returns, Rust will be less of a inconvenience.

Consumption

Installed Soybean Crush and Refining Capacity by State: 2003-2005								
State								
	2004	2005	2006	Var. %	2004	2005	2006	Var. %
Paraná	31,765	32,115	32,950	2.6	2,910	3,160	3,160	0.0
Rio Grande do Sul	19,700	21,200	23,600	11.3	1,650	1,650	1,950	18.2
Mato Grosso	20,600	21,000	21,400	1.9	1,250	1,250	2,450	96.0
São Paulo	14,950	15,600	18,800	20.5	6,230	6,010	2,770	-53.9
Goiás	16,920	18,150	16,400	-9.6	2,090	2,230	5,850	162.3
Mato Grosso do Sul	7,295	8,295	9,360	12.8	540	540	540	0.0
Minas Gerais	6,400	6,600	6,600	0.0	1,270	1,270	1,270	0.0
Bahia	5,344	5,344	5,500	2.9	880	880	970	10.2
Santa Catarina	4,034	4,034	4,034	0.0	530	530	450	-15.1
Piaui	2,360	2,360	2,460	4.2	120	120	120	0.0
Amazonas	2,000	2,000	2,000	0.0	450	450	-	-
Pernambuco	400	400	400	0.0	80	80	400	400.0
Ceara		-	-	-	-	-	80	-
Total	**131,768**	**137,098**	**143,504**	**4.7**	**18,000**	**18,170**	**20,010**	**10.1**

Input Tables

Relative Swap Value of Soybeans for Inputs (60kg bags per unit)			
Year	Fertilizer	Harvester	Tractor
1996	20.9	5,091	1,901
1997	18.5	5,044	1,745
1998	22.7	6,427	2,078
1999	26.9	7,355	2,163
2000	25.4	7,059	1,960
2001	23.4	6,543	1,783
2002	17.6	4,972	1,310
2003	19.8	6,177	1,636
2004	22.7	7,692	1,862
2005	19.6	10,531	2,681
2006	20.5	11,355	3,367
Source: Conab (www.conab.gov.br)			

Fertilizer Supply and Sales (Total Metric Tons)					
Item	2003	2004	2005	2006	Change %
Production	9,353,177	9,733,609	8,533,923	8,777,832	2.9
Imports	14,683,123	15,424,325	11,724,687	12,101,973	3.2
Sales	22,796,232	22,767,489	20,194,731	20,981,734	3.9
Source: National Fertilizer Association (ANDA)(www.anda.org.br)					

Total Fertilizer Sales & Relative Cost				
Year	Quantity 1/	Soybeans 2/	Corn 2/	Sugar Cane 3/
2002	19,114,268	15.6	30.8	18.2
2003	22,796,232	15.5	32.7	20.4
2004	22,767,489	17.4	41.7	26.7
2005	20,194,731	19.6	40.1	21.9
2006	20,981,734	20.5	39.9	16.2
1/ All Commodities (metric tons)				
2/ 60 kg bags of commodity needed to buy 1 metric ton of fertilizer.				
3/ Metric tons of cane needed to buy 1 metric ton of fertilizer.				
Source: National Fertilizer Association (ANDA)(www.anda.org.br)				

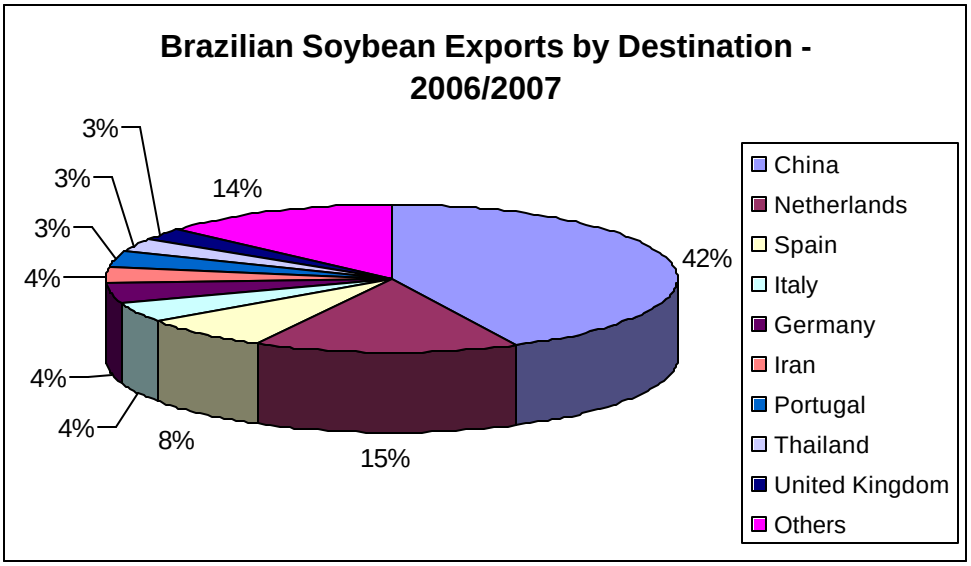
Stocks

The rise in international soybean prices that occurred last October triggered farmers to sell more quantities of soybeans earlier in the marketing season, which took some pressure off stocks. In spite of higher soybean production in 06/07, strong domestic consumption and strong exports have assisted in keeping stock levels adjusted. Post estimated this year's ending stock levels at 1.4 MMT.

Storage capacity is slowly increasing due to investment by multinationals. However, much product is still stored in the open on-farm, which leads to some unnecessary loss and also creates difficulty in tracking actual stock levels. The Brazilian government does not hold oilseed stocks. The majority of stocks are held by cooperatives, processors, or at the port. Domestic processors and cooperatives carry soybeans as "stocks" until the commodity is priced. Brazil's on-farm capacity is extremely small, and can currently accommodate only about 5 percent of the local crop. Although storage space is expanding at all levels, it is not keeping up with production growth. Over the past several years grain storage capacity has increased only 10 percent that of grain production. The grain storage deficit is about 30 percent. Although storage is increasing in frontier areas, many farmers have spent their profits buying more farmland instead of building on-farm storage and then end up depending on multinationals for storage, thus forced to take whatever the price happens to be at harvest.

Exports

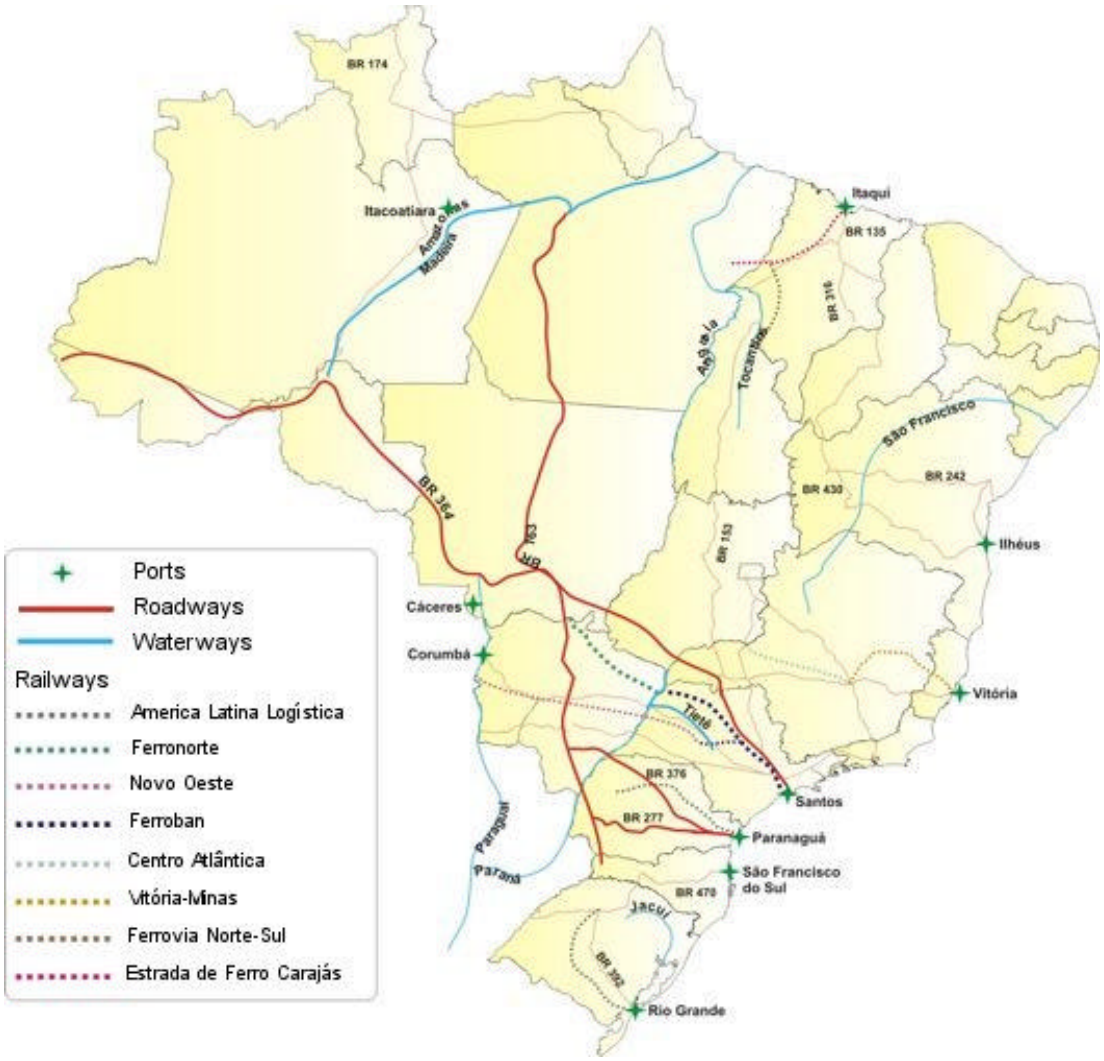
Soybean exports for marketing year 2006/07 concluded in January at 24,770 MMT, showing Brazil moved 2 MMT more soybeans than last year. Due to the mega soybean crop in the US, however, Brazil lost its position this year as leader of world soybean exports. China continues to import a larger and larger percentage of Brazil's exports. Exports to the Netherlands, Spain and Italy declined in 2006/07. Soy meal and oil exports declined, as Asia continues to develop their own soybean processing industry. In addition, the lack of profit earned by Brazil's processing sector is causing Brazilian companies to loose market share to other countries, in particular Argentina. Soymeal and soyoil exports both decreased 15% in 2006/07.



Exports to date for the 2007 calendar year are behind those of the previous year by 18%. According to SECEX, 2.05 MMT of soybeans were exported during the first quarter of 2007, versus 2.65 MMT in 2006. In spite of lower volume, Brazilians received 14% higher FOB prices than those of first quarter 2006, which averaged $270/ton. Soymeal and Soyoil prices were also higher than this time last year, in spite of lower export volumes. Of particular interest was China's decline in soybean imports this quarter, 50 percent lower than in 2006.

Transportation

Soybean farmers continue to pay a high price for transportation due to rising global energy prices. Farmers in the Center-West area of Brazil, the heart of Brazilian soybean country, have the most to be concerned about since they transport their product the furthest to port. In addition, the great majority of transportation is done by truck. Brazil's relative low production costs vis-à-vis the U.S. and Argentina would equal a tremendous advantage if not for the high cost of transporting their product to port. Most soybean farmers in Mato Grosso will receive just over half the price of their soybeans at port because the other half is spent transporting their soybeans by truck on poor roads to ports 1500 miles away at Paranaguá and Santos. New, although limited infrastructure created in the last few years has provided options for transport out of the Brazilian Midwest. The Madeira/Amazon river outlet where barges move soybeans out on the Madeira River to the Amazon is now being used as an alternative for farmers in Mato Grosso, Pará, and Amazonas. Both Cargill and the Maggi Group have port facilities along this route.

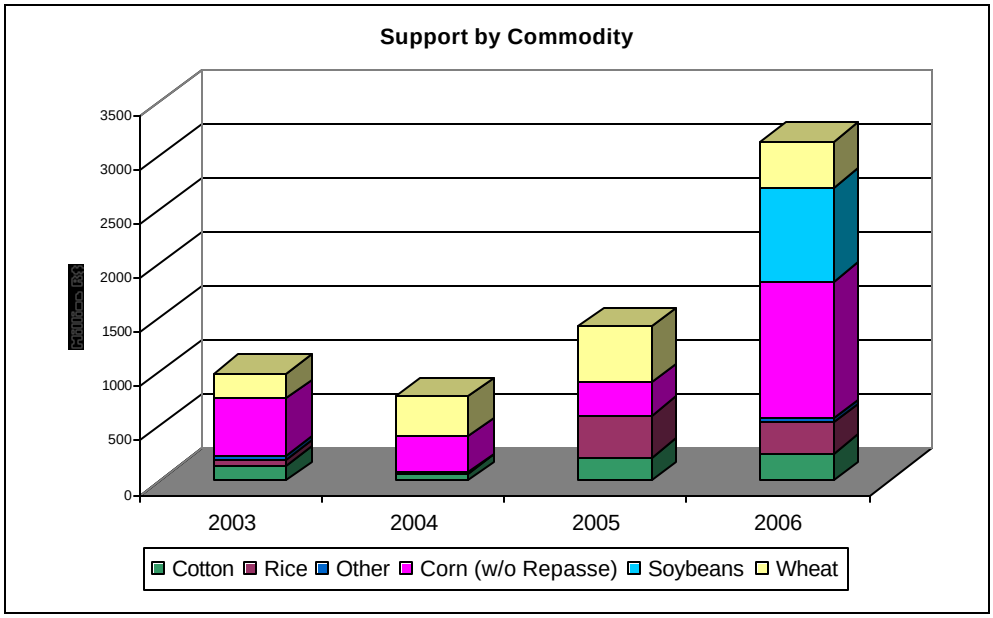


The Northeast Transportation corridor is becoming more strategic due to the growth of soybean production in the region. A rail line from the western border of the state of Maranhão connects with the port of Itaquí. This rail line also connects with the Carajás terminal, just north of Redenção, a major soy-producing area in the neighboring state of Pará. In addition, the North-South Railway is expanding, currently connects Itaquí port with Araguaina, Tocantins but will eventually go all the way to Goiania, Goiás. The most important development for the Northern Corridor is the completion of Tegram grain terminal at Itaquí which will provide the necessary infrastructure for grain shipments. A strong rate of growth in the past year indicates that this port will be a more widely used option for exporters in the future.

Examples of Freight Rates for Bulk Soybeans				
Truck (production area to port)				
Origin	**Destination**	**Distance (km)**	**US$/ton**	**US$/t.km**
Guiratinga, MT	Rondonópolis, MT	115	8.80	0.08
Luis Eduardo Magalhães, BA	Feira de Santana, BA	880	38.12	0.04
Pejuçara, RS	Cruz Alta, RS	42	3.42	0.08
Pensão Velha, GO	São Simão, GO	230	15.40	0.07
Quinta do Sol, PR	Paranaguá, PR*	509	29.33	0.06
Rio Verde, GO	Itumbiara, GO	189	10.75	0.06
Rail (rail head to port)				
Origin	**Destination**	**Distance (km)**	**US$/ton**	**US$/t.km**
Porto Franco, MA	São Luis, MA*	713	19.63	0.03
Water (river port to river port)				
Origin	**Destination**	**Distance (km)**	**US$/ton**	**US$/t.km**
Itacoatiara, AM	Porto Velho, RO	1100	21.01	0.02
Porto Velho, RO	Itacoatiara, AM*	1100	21.01	0.02
Source: Freight Information System - Sifreca (http://sifreca.esalq.usp.br/sifreca) "*" export point				

Policy

The use of government subsidies for soybeans has reached new levels (see bar graph below). The following government programs were used for soybeans for the first time in 2006:



Subsidy Auction Program (PEP):

This program is similar to the U.S. loan deficiency payment program. Through this program, the government pays the difference between the prevailing market price and the minimum price of the product. Only wheat, corn, and rubber were eligible for this program until 2006. The federal government via CONAB (Brazilian Food Company, equivalent to the Commodity Credit Corporation) conducts public auctions to set a premium for buyers of a given product. These buyers then contact producers interested in selling their production at the minimum support price in force. Buyers (normally processors or millers) must transport the product to the destination (a region) previously established by the program.

The Risk Premium for Private Option (PROP):

PROP (Private Option Risk Premium) is a price support program managed by CONAB, which is linked to the Ministry of Agriculture. This program is new and heavily used for soybeans. It signals an indicator of the future price to the market by looking at the difference relative to production costs and income of growers. PROP represents the maximum amount that CONAB will pay to cooperatives and processors in order to guarantee a certain price to producers, which is above the market price. The first weekly auction of PROP options for soybeans was conducted on May 23, 2006 to assist in the sale of $44.6 million in soybeans (see table below). The government paid producers between US$.70 and $2.80 per 60-kilo bag of soybeans, depending on how far the producer was located from port.

PROP Soybean Operations in 2006 and 2007				
State	2007		2006	
	Contracts Sold 1/	Total Premium Value (US$)	Contracts Sold 1/	Total Premium Value (US$)
Mato Grosso	38,931	44,508,389.41	38,126	43,585,480.58
Goiás	0	0	5,685	2,520,443.35
Mato Grosso do Sul	0	0	1,264	811,228.08
Minas Gerais	0	0	1,982	799,160.10
Pará	0	0	252	312,233.50
Bahia	0	0	307	209,121.43
Piauí	0	0	78	49,384.73
Maranhão	0	0	65	37,030.79
Federal District	0	0	0	0
Rondônia	0	0	0	0
Tocantins	0	0	0	0
Total	**38,931**	**44,508,389**	**47,759**	**48,324,083**
1/ 27 ton contract. Current exchange rate: 1US$=R$2.03				
Source: Conab				

The Equalization Premium Paid to the Producer (PEPRO):

This 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).

PEPRO Soybean Operations in 2006 and 2007				
State	2007		2006	
	Quantity Negotiated 1/	Total Premium Value (US$)	Quantity Negotiated 1/	Total Premium Value (US$)
Mato Grosso	2,195.0	83,362,250.92	3448.7	143,071,191.73
Goiás	23.2	194,034.48	237.1	3,566,611.19
Mato Grosso do Sul	13.9	288,000.00	699.0	20,190,951.66
Minas Gerais	20.0	167,487.68	132.5	2,288,345.75
Pará	0.2	6,502.46	15.6	545,629.56
Bahia	42.9	888,413.79	310.1	8,513,332.23
Piauí	12.5	254,679.80	70.7	2,027,076.85
Maranhão	10.0	206,896.55	49.5	1,317,367.49
Federal District	0.0	0.00	4.5	77,080.30
Rondônia	27.0	874,137.93	49.4	1,830,394.09
Tocantins	4.0	82,758.62	52.9	1,489,646.85
Total	**2,348**	42,524,710	**5,070**	184,917,628
1/ Thousand Metric Tons. Current exchange rate: 1US$=R$2.03				
Source: Conab				

Moratorium on Soybeans from the Amazon

In reaction to pressure from the European food industry, major soybean traders including Cargill, Bunge, ADM, Dreyfus and the Maggi group declared a two-year moratorium last July of purchasing soybeans from newly deforested areas in the Amazon. The Brazilian Vegetable Oil Industry Association (ABIOVE) and the National Grain Exporters Association (ANEC) both agreed upon the moratorium. The agreement also includes an element to ensure traceability of soybeans and to avoid sourcing from farms that are involved in deforestation. This measure does not affect production on areas previously cleared. Farmers owning land cleared after July 24, 2006 in the Amazon forest zone (which excludes the Cerrado and transitional forest zones) were prohibited to sell their soybeans to these companies.

Current Brazilian law states that farmers may clear 20 percent of their land in these areas, but the moratorium makes soybeans even from the 20 legal percent unmarketable. The moratorium is in effect until July 2008, after which the effectiveness of the measure will be evaluated. Without the appropriate enforcement measures in place, concern exists that a situation similar to that of illegal Amazon timber may be created with illegal soybeans, where legal transport and shipping documents are used to trade illegally sourced material. In addition, the ease of mixing and processing illegal soybeans is potentially greater than timber.

Repeated charges from Greenpeace and other environmental groups that their industry sponsored rainforest destruction motivated the groups to try and recover the image of the Brazilian soybean exporters in the European market. Although NGOs such as Greenpeace have declared their approval of the decision, the Brazilian Ministry of Agriculture is concerned that the measure may become another non-tariff barrier to Brazilian exports. However, so far the measures have not impacted grain production estimates.

Interstate Movement Tax (ICMS) Exemption (Lei Kandir)

In September 1996, through “Lei Complementar 95-A”, better known as the “Lei Kandir,” the GOB exempted exports of raw materials and semi-manufactured products from the interstate movement tax (ICMS - Imposto Sobre Circulação de Mercadorias e Serviços). In other words, it canceled this export tax on soybeans and derivative products. Prior to the change, interstate movement of soybeans going to export were taxed at 13 percent, while soybean meal and soybean oil were assessed lower rates: 11 and 8.5 percent respectively. While state governments are in desperate need of tax revenue and the domestic crushing sector continues to chafe under the exemption, elimination of the Lei Kandir does not appear likely in the foreseeable future. However tempting it may be for the Brazilian Government to consider an export tax because of the need for revenues in a taxation system that is in dire need of an overhaul, the prevailing sense is that such a tax will not be re-adopted.

Biodiesel

The world’s leader in ethanol (made from sugarcane in Brazil) production, Brazil is also advancing with biodiesel. Brazil launched its “Probiodiesel” program in 2002, with Portaria MCT Number 702, Directive #702 of the Ministry of Science and Technology. The program aims to develop technology for the production, industrialization, and use of biodiesel, and its use in mixtures with diesel using pure and residual vegetable oils. Brazil wants to reduce its dependence on diesel imports, as it has successfully done with petroleum. Although Brazilian consumption of petroleum has been increasing, imports have declined due to growing domestic production and the use of ethanol. While most vehicles in Brazil no longer operate on 100 percent alcohol fuel, all Brazilian gasoline requires 20-25 percent alcohol content,

which considerably reduces petroleum requirements. However, the situation with biodiesel is different. Consumption and imports have been rising rapidly with demand, and the Brazilian government is concerned with the growing dependence on diesel imports.

Brazil's soil and climate diversity presents various crop possibilities for biodiesel, such as soybean, palm, coconut, castor seed, cottonseed, and sunflower. As soybeans account for the vast majority of Brazilian oilseed production, it presents the most viable option for large-scale production. Furthermore, the processing sector is well developed and Brazilian soybean research is advanced and more easily mobilized. However, other commodities are better options for Brazil's remote North and Northeast interior. Small-scale self-sufficiency is the aspiration for these regions, which are remote and difficult to reach with imported fuels. The semi-arid Northeast is focusing on castor seed, while the Amazon region would likely adopt palm oil. However, the remoteness and isolation of these areas makes it highly unlikely that they could become significant producers or exporters.

Variability of agricultural commodity prices has been more dramatic than that of oil, thereby reducing its attractiveness as an economic alternative. However, many believe that it is only a matter of time before biodiesel becomes permanently profitable, as natural diesel sources dry up. Northeastern Brazil is encouraging the production of castor seed by small-scale producers for biodiesel production.

Biodiesel Production

Under current legislation, the potential market for biodiesel is estimated at 840 million liters per year for 2006 and 2007, 1 billion liters per year between 2008 and 2013; and 2.4 billion liters per year as of 2013 to comply with the current legislation.

Biodiesel production began with 6 production facilities in 2005, with estimated production of 40 million liters. Currently, there are 7 biodiesel refineries operating in Brazil in Minas Gerais, Pará, Piaui, Mato Grosso, Sao Paulo, Rio de Janeiro and Paraná. In order to produce biodiesel, investors are required to have authorization from National Petroleum Agency and to be registered at the Federal Treasury.

In spite of the modest level of current production, several new refineries are currently in development and should substantially increase biodiesel production in the near future. The Mines and Energy Ministry reported 22 new projects in progress and total investments over $ 286 million. Industrial capacity is expected to reach 1.7 billion liters in 2007, versus an estimated 730 million liters capacity at end 2006. Because of this rapid rise in capacity, the Brazilian Government has been studying the possibility of raising the mandated blend to five percent even before 2013. The following table shows the breakdown by state for the projected industrial capacity for biofuels production by end-2007.

The most commonly used process to produce biodiesel is transesterification. It is a chemical reaction between a vegetable oil or animal fat and ethanol or methanol in the presence of a catalyzer. The reaction produces biodiesel and some byproducts such as glycerin and meal and others, which add value to the biodiesel chain.

The MME reports that approximately two thirds of the Brazilian biodiesel production utilizes soybeans as the raw material, followed by castor (25 percent of total production), and animal lard. Biodiesel produced from soybeans in the Center-Western region of Brazil results in the cheapest cost (40 cents per liter) when considering only production cost of the raw material. When considering purchase cost of the raw material, the use of cottonseed in the Northeast resulted in a cost of production of 33 cents per liter.

Brazilian Industrial Capacity for Biodiesel Production		
State	# of Mills	Industrial Capacity
Para	1	8.0
Tocantins	1	100.0
Maranhao	1	100.0
Ceara	1	100.0
Bahia	1	100.0
Piaui	1	100.0
Goias	3	171.7
Mato Grosso	4	122.6
Sao Paulo	5	418.0
Minas Gerais	4	49.9
Rio de Janeiro	1	54.0
Parana	2	66.0
Rio Grande do Sul	4	316.0
Total	**29**	**1,706.2**
Source: Ministry of Agrarian Development		

Brazil's Biosafety Law & Biotech Soybeans

Under the current legal framework (Law #11,105 plus Presidential Decree #5,691), all imported or local commercially grown, processed, sold, and consumed biotech products, must be approved by the National Technical Commission on Biosafety (CTNBio), under the Ministry of Science and Technology. Because CTNBio is a board and is comprised of 27 members, including government and private sector representatives, approvals of commercial biotech events is difficult. Currently, there are only two events approved for commercial use in Brazil – soybeans and cotton.

Due to the passing of this legislation in 2005, more and more Brazilian soybean farmers have planted biotech seed this crop year. Some impediments, such as lack of sufficient seed and farmers' hesitancy to plant relatively untested varieties new to their climates, have kept biotech soybeans from expanding more rapidly.

However, fast-paced growth in the next few years of biotech area is expected. Corn is responsible for part of the growth. As corn prices began to rise in 2006, Brazilian farmers developed a new strategy in order to plant more corn. It consisted of planting and harvesting GMO early variety soybeans, then planting winter corn as soon as possible in order to harvest it before the arrival of freezing temperatures in July. This has contributed to the largest percentage of Biotech soybeans ever planted in Brazil. Twenty-five to thirty percent of Mato Grosso's soybeans are biotech, compared to 5 percent last season. The International Service for Application of Agro-biotechnology states that Brazil's overall soybean area is 54% GMO. The same group expects Brazil's soybean area to reach 80% in the next ten years.

The increase in biotech beans also created problems for some grain terminals, because now a challenge exists to segregate conventional and biotech soybeans. However, premiums for those who grow conventional beans are increasing in value, as much as $10 per ton. The more difficult to source, the higher the premium, such as in the South, where biotech has

become the majority of the crop. In the center-west, where conventional beans are still prevalent, the premium offered for transgenic soybeans was reportedly in the neighborhood of $6 per ton this year.

ABIOVE (Brazil's vegetable oil association) claims that Brazil should exploit its non-GMO market niche, granted that the U.S. and Argentina have gone nearly 100 percent biotech in soybeans. The main barrier to managing this opportunity, however, is Brazil's difficulty in segregating GMO beans from conventional ones. ABIOVE has expressed concern that Brazil should improve the management and control of separate transport and storage for, as well as traceablity of, conventional soybeans.

Import Tariffs

The Brazilian Government's import tariffs on oilseeds and products were recently lowered 1.5 percent and are contained in the MERCOSUL Common External Tariff schedule (TEC). Brazil, Argentina, Paraguay and Uruguay are members of the MERCOSUL trade pact. Venezuela was also given member status last year. Bolivia and Chile are associate members.

MERCOSUL Common External Tariffs			
Tariff Code		Description	%
1201		Soybeans	
	.00.10	Seed for planting	0
	.00.90	Other	8
1207		Cotton	
	.20.10	Seed for planting	0
	.20.90	Cottonseed	8
1507		Soybean oil, not chemically modified	
	.10.00	Crude	10
	0.9	Other	
	.90.10	Refined	12
	.90.90	Other	10
1512		Cottonseed oil	
	.21.00	Crude	10
	0.29	Other	
	.29.10	Refined	10
	.29.90	Other	10
1208		Oilseed flour	
	.10.00	Soybean	10
	.90.00	Other	10
2304		Meals resulted from extraction of soybean oil	
	.00.10	Meals & pellets	6
	.00.90	Other	6
2306		Meals resulted from extraction of vegetable oil	
	.10.00	Cotoonseed meal	6
Source: Brazilian Government - Aduaneiras Tarifa Externa Comum (TEC)			