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## Brazil

### Agricultural Situation

### Soybean Planting Update

### 2007

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**Report Highlights:**

While the first harvest of early variety soybeans was taking place last week in the Center-west, planting officially drew to a close in Brazil's south. Despite record soybean prices, Post revised its numbers down 1 MMT to respond to a shift in soy area to both corn and sugarcane; production is now forecast at 60.1 MMT tons and area estimated at 21.7 million hectares. Although the new area forecast indicates an increase of 4% over last year's area, it actually represents a recuperation in area that has been gradually diminishing over the past 3 years due to low soybean prices and overall indebtedness.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
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## Production

Post's new forecast of 60.1 MMT is still 1 MMT above last year's record harvest, but down 1 MMT from the estimate of 62.1 MMT made in the November Soybean Report (see BR7630). Although planting got off to a slow start due to late rains, the percentage of plants in vegetative development has nearly caught up with last year's numbers. Those plants in the flowering stage are also advancing, at about 20 percent. Although precipitation to date has been generally sufficient, rain this year is below average and concerns exist over possible La Nina weather effects in the New Year for the South and Center-West, which could quickly cause complications for Brazilian farmers.

According to Celeres, the Brazilian crop is 42% sold, the bulk of this amount originating from Mato Grosso and the Center-West, and this percentage is higher than the 5-year average as well as last year's levels. Strong domestic crush and export demand have spurred production and marketing for the commodity.

jan/08 <b>Post Forecast Soybean Area, Yield, and Production 07/08</b>				
(1000 ha; Tons/ha, Thousand tons)				
<b>Region</b>	<b>Area</b>	<b>Yield</b>	<b>Production</b>	
<b>Center West</b>	<b>9710</b>	<b>2,99</b>	<b>29050</b>	
MS	1850	2,66	4925	
MT	5600	3,08	17250	
GO	2200	3,04	6700	
DF	60	2,91	175	
<b>South</b>	<b>8400</b>	<b>2,51</b>	<b>21100</b>	
PR	4050	2,93	11900	
SC	350	2,71	950	
RS	4000	2,06	8250	
<b>Southeast</b>	<b>1515</b>	<b>2,73</b>	<b>4150</b>	
MG	975	2,71	2650	
SP	540	2,77	1500	
<b>Northeast</b>	<b>1575</b>	<b>2,78</b>	<b>4390</b>	
MA	420	2,85	1200	
PI	255	2,70	690	
BA	900	2,77	2500	
<b>North</b>	<b>523</b>	<b>2,79</b>	<b>1459</b>	
RO	100	3,05	305	
AM	3	3,00	9	
RR	25	3,00	75	
PA	85	3,05	260	
TO	310	2,61	810	
<b>Totals</b>	<b>21723</b>	<b>2,77</b>	<b>60149</b>	

## Area

This year, there is more in favor of planting soy than in the previous few years. The most positive stimulus was the high price of soy at planting time, which has since continued climbing to historical levels. This will not only help farmers out of the debt they still carry from the difficult 04/05 and 05/06 seasons, but will put them in a position to make a considerable profit.

Now that planting is completed, it is possible to get a more accurate picture of how much soybean acreage was planted. Although soybean prices were already high at planting time, they did not trigger the strong recuperation of area that Post expected. Soybean area had been gradually diminishing since 2004 due to low soybean prices, detrimental weather, Soybean Rust, and the unfavorable exchange rate vis-à-vis the dollar.

This year, however, the lower-than-expected soybean area is attributed to high corn prices, which are expected to make corn more profitable than soy in the areas that use higher levels of Agricultural technology and inputs. Farmers favored corn over soybeans due to the fact that corn prices are double what they were two years ago due to rising demand of ethanol in the United States. According to the Brazilian Agriculture Ministry, these prices encouraged a good number of soybean farmers to plant corn on part of their land, even farmers with limited experience planting corn. Some soybean area has also gone to sugarcane, due to Brazil's fervent demand for ethanol.

The greater availability of credit for the crop year also influenced farmers to plant as much as possible- whether soy or corn. Not only were debts from government loans rolled over yet another year, but multinationals, looking to fulfill their contracts, are once again making credit available more liberally. In the Center-West, this was a key element in farmers' planting intentions since unlike farmers in the south, who receive financing from co-ops, up-front financing is needed for their input costs.

The area increase would have been higher had it not been for the negative dynamics taking place in Brazilian farming that are bringing balance to the equation. Transportation costs are the highest in the world among soybean producers, and the high cost of fuel and other inputs continue to cut down on producers' profitability.

Other reasons for the modest area increase are at hand. The slow and steady rise of the Real's exchange rate with the dollar has cheapened Brazilian exports and also cut into farmers profits. Since last planting season, the exchange rate dropped 12% from 2.1 to the current 1.75 Reals to the dollar. In addition, as mentioned in the report, farmers still carry debt, which has constrained farmers from buying more land or planting on marginal pieces of land they already own. And finally, soybean rust continues to hinder farmers' efforts throughout Brazil.

## Yield

The increasing use of biotech (transgenic) seed will have a positive affect on production this year. According to industry estimates, the crop's biotech component is expected to increase another 10% this year, making 60% of total soybeans grown in Brazil biotech. The increase in certified seed use (versus pirated or brown bag seed) is also increasing, and as a result of the increase of transgenic and certified seed, yields in Brazil continue to rise.

Although high fertilizer costs mentioned would seem to have a negative impact on yields, overall fertilizer purchases this year are up 15% in Brazil. It is unclear how much of this increase is due to the boost in corn area, but sources indicate that not only fertilizer but also fungicide purchases are up. So, farmers are not cutting corners on inputs this year, which is probably a result of the abundant credit that is available. This will likely maintain yields in the 2.8 tons per hectare range.

### **Soybean Rust**

For the crop year to date, there have been only 55 cases of soybean rust registered. This is far behind the 140 cases that were registered last year at this time. According to the Brazilian Agricultural Research Service, Embrapa, this low number is due not only to the delay in planting this year but also individual states' bans on monocropping – obligating by law that the land be without soybeans for a certain period during the winter season. The fact that this season has been drier than usual also helps kept rust from spreading, since prolonged periods of humidity allow the rust spores to spread and grow on the leaves.

### **Biodiesel Program Update**

In 2008, the diesel fuel (called B2) sold at Brazil's 35,000 fuel stations is now required to contain at least 2% vegetable oil. It is the official start of President Lula's "Pro-Biodiesel" program, which will try to imitate the country's Pro-Alcool program for ethanol. The use of B2 is expected to save approximately \$410 million annually and will reduce Brazil's reliance of imported diesel from 7 to 5 percent.

The next step in the program will be a 3% mandate for diesel, which was not expected until next year but is now foreseen to occur in 2008. The government's plan was to instill a 5% blend (B5) by 2013, but at this point, their aim is to reach this goal by 2010. The vegetable oil used for diesel in Brazil is composed of about 85% soybean oil. The government's enthusiasm to advance in the area of biofuels, in tandem with Petrobras' proactivity to promote them, may cause a reduction in Brazil's soybean oil exports this year.

On the other hand, the H-bio project, initiated in May 2006 as a solution for reducing Brazil's dependency on imported diesel, has been put on hold this year due to the high price of soybean oil. In June of 2006, Petrobras estimated a savings of \$240 Million from the use of H-bio, which contains 10% vegetable oil. However, the program stopped in August 2007 as soybean oil prices no longer made H-bio feasible.

According to Petrobras, the reinstatement of the H-bio program will depend on future soybean oil prices. When the program was launched in May 2006, soybean oil was worth \$203.32 per ton (data: Cepea). Since then, it increased 90% to \$385.57 (November quote).