



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

**Date:** 5/27/2008

**GAIN Report Number:** BR8612

## Brazil

### Oilseeds and Products

### Annual Soybean Report

### 2008

**Approved by:**

Alan D. Hrapsky, Agricultural Counselor  
U.S. Embassy

**Prepared by:**

Elizabeth Mello, Agricultural Attaché

---

**Report Highlights:**

Thanks to high international prices and good overall climatic conditions, Brazil's Oilseed sector is experiencing a moment of relative prosperity. Farmers produced a record soybean crop of an estimated 60.1 MMT on 21.7 million hectares, 1 million tons more of soybeans on 4% more area than last year. Brazil's overall soybean yield, nearly identical to last year's, is expected to reach 2.8 tons per hectare. Less occurrences of Soybean Rust contributed to this year's positive outcome. Production and area are in 2008/09 projected to increase by 7%, increasing production to 64.3 MMT.

---

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

## Table of Contents

|   |                                     |
|---|-------------------------------------|
| <b>Executive Summary</b> .....                              | <b>3</b>                            |
| <b>Economic Overview</b> .....                              | <b>4</b>                            |
| <b>Economic Indicators</b> .....                            | <b>4</b>                            |
| <b>Statistical Tables</b> .....                             | <b>5</b>                            |
| A. Production, Supply, & Demand Tables .....                | 5                                   |
| B. Trade Matrices .....                                     | 11                                  |
| Soybeans .....  | 11                                  |
| Soybean Meal .....  | 12                                  |
| Soybean Oil .....   | 13                                  |
| Cottonseed Meal .....                                       | 14                                  |
| Cottonseed Oil .....  | 15                                  |
| C. Prices .....   | 16                                  |
| D. Policy Table .....                                       | 19                                  |
| <b>Production</b> .....                                     | <b>19</b>                           |
| 2006/07 Crop Situation .....                                | 19                                  |
| 2006/07 Crop Estimates by State .....                       | <b>Error! Bookmark not defined.</b> |
| Mato Grosso .....   | 21                                  |
| Other Center-West .....                                     | <b>Error! Bookmark not defined.</b> |
| South .....   | <b>Error! Bookmark not defined.</b> |
| Southeast .....   | <b>Error! Bookmark not defined.</b> |
| Northeast .....   | <b>Error! Bookmark not defined.</b> |
| North .....   | <b>Error! Bookmark not defined.</b> |
| 2007/08 Crop Outlook .....                                  | 24                                  |
| Area .....  | 24                                  |
| Production .....  | 25                                  |
| Consumption .....   | 25                                  |
| Input Tables .....  | 26                                  |
| <b>Stocks</b> .....   | <b>25</b>                           |
| <b>Exports</b> .....  | <b>27</b>                           |
| <b>Transportation</b> .....                                 | <b>30</b>                           |
| <b>Policy</b> .....   | <b>36</b>                           |
| Moratorium on Soybeans from the Amazon .....                | 38                                  |
| Interstate Movement Tax (ICMS) Exemption (Lei Kandir) ..... | 39                                  |
| Biodiesel .....   | 39                                  |
| Brazil's Biosafety Law & Biotech Soybeans .....             | 41                                  |
| Import Tariffs .....  | 42                                  |

## Executive Summary

Brazil ranks as the world's second-largest producer and exporter of soybeans behind the United States. The status of being a "new agricultural frontier" gives Brazil an edge in the soybean business, since 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 ethanol production.

In 2007/08, soybeans will make up nearly 50 percent of Brazil's total grains. Post projects that farmers produced a record 60.1 MMT of soybeans on an area equivalent to the 2003/04 season, with yields of nearly 2.8 tons per hectare. The Brazilian government's projections are for 59.5 MMT with a yield of 2.8. However, several factors contribute to the continued lukewarm financial state of farmers. Although CBOT prices were at historic highs during the growing season, timing was everything for producers this year. Up to 70% of Mato Grosso farmers sold their crop before the CBOT price rally when prices hit \$16 per bushel; and sold at or below \$12. Only 20% of farmers sold their crop with \$16 per bushel prices.

The other major negative factor for farmers in Brazil and elsewhere is the rising cost of inputs. As the price of soybeans rises, input costs concurrently rise. Fertilizers and herbicides have increased about 75% over the course of the season. So, in spite of the season's high international soybean prices, earnings were not what they could have been, and farmers continue to carry debt.

High international prices and a good 2007/08 harvest are expected to stimulate a considerable area increase next year. Although farmers are still carrying debts, the extension and rollover of debt, which was announced by the Brazilian government in April, will be an important factor in the 7% Post projected increase in area to 23,200 hectares. This would equal a complete recuperation in area lost during the 2006/07 season (surpassing the area in 2004/05 by 400,000 hectares). The North and Center-west should experience the majority of the area growth, and our estimate is that Mato Grosso, Maranhão, Piauí, Tocantins, and Western Bahia will experience highest growth relative to this year's area. Corn prices will also affect soybean area, and summer corn planting in Brazil should continue to rise modestly. A return to more soy and less corn planting in the US this year is expected to impact what are already historically high Brazilian corn prices. In addition, some shifting from soy to sugarcane should continue to occur.

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. Nevertheless, farmer groups in Brazil complain that agricultural policy must change in order for Brazil to take the lead in soybean production.

## Economic Overview

President Lula and his economic team have implemented orthodox fiscal and monetary policies and pursued many necessary reforms. Brazil's external accounts have improved substantially over the last four years. GDP growth was strong in 2007 at 5.4 percent, its strongest since 2004. Market expectations are for 4.7% growth in 2008. Brazil has experienced booming exports, healthy external accounts, low inflation, 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 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 42%. Real interest rates also are declining, but remain high. Analysts believe that 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 36 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

|                                     | 2001 | 2002 | 2003 | 2004 | 2005  | 2006  | 2007  | 2008* |
|-------------------------------------|------|------|------|------|-------|-------|-------|-------|
| GDP Growth (%)                      | 1.3  | 2.7  | 1.1  | 5.7  | 3.2   | 3.8   | 5.4   | 4.7   |
| Inflation (%)<br>(IPCA/IBGE)        | 7.7  | 12.5 | 9.3  | 7.6  | 5.7   | 3.1   | 4.5   | 4.7   |
| Average Exchange<br>Rate (R\$/US\$) | 2.35 | 2.93 | 3.07 | 2.92 | 2.43  | 2.18  | 1.95  | 1.74  |
| Total Exports (US\$<br>billion)     | 58.3 | 60.4 | 73.2 | 96.7 | 118.5 | 137.8 | 160.6 | 175   |
| Total Imports (US\$<br>billion)     | 55.6 | 47.2 | 48.3 | 62.8 | 73.6  | 91.4  | 126   | 150   |

\*Projected, Central Bank

## Statistical Tables

## Production, Supply, &amp; Demand Tables

| PSD Table<br>Country: Brazil<br>Oilseed, Soybean (Local)<br>(1000 HA)(1000 MT) |                           |                           |                           |                           |                           |                           |           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------|
|  | 2006                      | Revised                   | 2007                      | Estimate                  | 2008                      | Forecast                  | UOM       |
|  | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] |           |
| Market Year Begin  |                           | 02/2007                   |                           | 02/2008                   |                           | 02/2009                   | MM/YYYY   |
| Area Planted   | 21100                     | 21100                     | 21700                     | 21700                     |                           | 23200                     | (1000 HA) |
| Area Harvested   | 20700                     | 20700                     | 21300                     | 21700                     |                           | 23200                     | (1000 HA) |
| Beginning Stocks   | 2252                      | 2252                      | 3321                      | 3171                      | 1800                      | 3667                      | (1000 MT) |
| Production   | 59000                     | 58850                     | 61000                     | 60100                     |                           | 64300                     | (1000 MT) |
| MY Imports   | 108                       | 108                       | 130                       | 40                        |                           | 35                        | (1000 MT) |
| MY Imp. from U.S.  | 0                         | 0                         | 0                         | 0                         |                           | 0                         | (1000 MT) |
| MY Imp. from the EC  | 0                         | 0                         | 0                         | 0                         |                           | 0                         | (1000 MT) |
| TOTAL SUPPLY   | 61360                     | 61210                     | 64451                     | 63311                     |                           | 68002                     | (1000 MT) |
| MY Exports   | 23805                     | 23805                     | 27900                     | 23794                     |                           | 28000                     | (1000 MT) |
| MY Exp. to the EC  | 11000                     | 11000                     | 10200                     | 10200                     |                           | 0                         | (1000 MT) |
| Crush Dom.<br>Consumption  | 31300                     | 31300                     | 31800                     | 32500                     |                           | 34000                     | (1000 MT) |
| Food Use Dom.<br>Consumption.  | 0                         | 0                         | 0                         | 50                        |                           | 60                        | (1000 MT) |
| Feed,Seed,Waste<br>Dm.Cn.  | 2934                      | 2934                      | 2951                      | 3300                      |                           | 3350                      | (1000 MT) |
| TOTAL Dom.<br>Consumption  | 34234                     | 34234                     | 34751                     | 35850                     |                           | 37410                     | (1000 MT) |
| Ending Stocks  | 3321                      | 3171                      | 1800                      | 3667                      |                           | 2592                      | (1000 MT) |
| TOTAL DISTRIBUTION   | 61360                     | 61210                     | 64451                     | 63311                     |                           | 68002                     | (1000 MT) |
| Calendar Year Imports  | 98                        | 98                        | 130                       | 0                         |                           | 0                         | (1000 MT) |
| Calendar Yr Imp. U.S.  | 0                         | 0                         | 0                         | 0                         |                           | 0                         | (1000 MT) |
| Calendar Year Exports  | 23734                     | 23734                     | 27300                     | 0                         |                           | 0                         | (1000 MT) |
| Calndr Yr Exp. to U.S.   | 0                         | 0                         | 0                         | 0                         |                           | 0                         | (1000 MT) |

| PSD Table<br>Country: Brazil<br>Meal, Soybean (Local)<br>(1000 MT) |                           |                           |                        |                           |                           |                           |           |
|--|---------------------------|---------------------------|------------------------|---------------------------|---------------------------|---------------------------|-----------|
|  | 2005                      | Revised                   | 2006                   | Estimate                  | 2007                      | Forecast                  | UOM       |
|  | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] | USDA Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] |           |
| Market Year<br>Begin   |                           | 02/2007                   |                        | 02/2008                   |                           | 02/2009                   | MM/YYYY   |
| Crush  | 31300                     | 31300                     | 31800                  | 32500                     | 0                         | 33300                     | (1000 MT) |
| Extr. Rate,<br>999.9999  | 0,77476                   | 0,77476                   | 0,774057               | 0,769231                  | 0                         | 0,768769                  | (PERCENT) |
| Beginning<br>Stocks  | 863                       | 863                       | 1313                   | 1313                      | 1115                      | 723                       | (1000 MT) |
| Production   | 24250                     | 24250                     | 24615                  | 25000                     | 0                         | 25600                     | (1000 MT) |
| MY Imports   | 146                       | 146                       | 210                    | 110                       | 0                         | 130                       | (1000 MT) |
| MY Imp. from<br>U.S.   | 0                         | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| MY Imp. from<br>the EC   | 0                         | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| TOTAL SUPPLY   | 25259                     | 25259                     | 26138                  | 26423                     | 1115                      | 26453                     | (1000 MT) |
| MY Exports   | 12346                     | 12346                     | 12923                  | 14300                     | 0                         | 14500                     | (1000 MT) |
| MY Exp. to the<br>EC   | 0                         | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| Industrial<br>Dom. Consum  | 0                         | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| Food Use Dom.<br>Consump.  | 0                         | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| Feed Waste<br>Dom. Consum  | 11600                     | 11600                     | 12100                  | 11400                     | 0                         | 11500                     | (1000 MT) |
| TOTAL Dom.<br>Consumption  | 11600                     | 11600                     | 12100                  | 11400                     | 0                         | 11500                     | (1000 MT) |
| Ending Stocks  | 1313                      | 1313                      | 1115                   | 723                       | 0                         | 453                       | (1000 MT) |
| TOTAL<br>DISTRIBUTION  | 25259                     | 25259                     | 26138                  | 26423                     | 0                         | 26453                     | (1000 MT) |
| Calendar Year<br>Imports   | 149                       | 149                       | 220                    | 220                       | 0                         | 0                         | (1000 MT) |
| Calendar Yr<br>Imp. U.S.   | 0                         | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| Calendar Year<br>Exports   | 12477                     | 12477                     | 13500                  | 13500                     | 0                         | 0                         | (1000 MT) |
| Calndr Yr Exp.<br>to U.S.  | 0                         | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
|  | 11600                     | 11600                     | 12100                  | 11400                     | 0                         | 11500                     |           |

| PSD Table<br>Country: Brazil<br>Oil, Soybean (Local)<br>(1000 MT) |                        |                           |                        |                           |      |                           |           |
|---|------------------------|---------------------------|------------------------|---------------------------|------|---------------------------|-----------|
|   | 2005                   | Revised                   | 2006                   | Estimate                  | 2007 | Forecast                  | UOM       |
|   | USDA Official<br>[Old] | Post<br>Estimate<br>[New] | USDA Official<br>[Old] | Post<br>Estimate<br>[New] |      | Post<br>Estimate<br>[New] |           |
| Market Year<br>Begin  |                        | 02/2007                   |                        | 02/2008                   |      | 02/2009                   | MM/YYYY   |
| Crush   | 31300                  | 31300                     | 31800                  | 32500                     | 0    | 34000                     | (1000 MT) |
| Extr. Rate,<br>999.9999   | 0,191693               | 0,191693                  | 0,191981               | 0,190154                  | 0    | 0,191176                  | (PERCENT) |
| Beginning<br>Stocks   | 300                    | 300                       | 341                    | 341                       | 306  | 351                       | (1000 MT) |
| Production  | 6000                   | 6000                      | 6105                   | 6180                      | 0    | 6500                      | (1000 MT) |
| MY Imports  | 62                     | 62                        | 125                    | 30                        | 0    | 50                        | (1000 MT) |
| MY Imp. from<br>U.S.  | 0                      | 0                         | 0                      | 0                         | 0    | 0                         | (1000 MT) |
| MY Imp. from<br>the EC  | 0                      | 0                         | 0                      | 0                         | 0    | 0                         | (1000 MT) |
| TOTAL SUPPLY  | 6362                   | 6362                      | 6571                   | 6551                      | 306  | 6901                      | (1000 MT) |
| MY Exports  | 2521                   | 2521                      | 2575                   | 2100                      | 0    | 2300                      | (1000 MT) |
| MY Exp. to the<br>EC  | 0                      | 0                         | 0                      | 0                         | 0    | 0                         | (1000 MT) |
| Industrial Dom.<br>Consum   | 500                    | 500                       | 650                    | 850                       | 0    | 900                       | (1000 MT) |
| Food Use Dom.<br>Consump.   | 3000                   | 3000                      | 3040                   | 3250                      | 0    | 3300                      | (1000 MT) |
| Feed Waste<br>Dom. Consum   | 0                      | 0                         | 0                      | 0                         | 0    | 0                         | (1000 MT) |
| TOTAL Dom.<br>Consumption   | 3500                   | 3500                      | 3690                   | 4100                      | 0    | 4200                      | (1000 MT) |
| Ending Stocks   | 341                    | 341                       | 306                    | 351                       | 0    | 401                       | (1000 MT) |
| TOTAL<br>DISTRIBUTION   | 6362                   | 6362                      | 6571                   | 6551                      | 0    | 6901                      | (1000 MT) |
| Calendar Year<br>Imports  | 44                     | 44                        | 120                    | 0                         | 0    | 0                         | (1000 MT) |
| Calendar Yr<br>Imp. U.S.  | 0                      | 0                         | 0                      | 0                         | 0    | 0                         | (1000 MT) |
| Calendar Year<br>Exports  | 2343                   | 2343                      | 2550                   | 2550                      | 0    | 0                         | (1000 MT) |
| Calndr Yr Exp.<br>to U.S.   | 0                      | 0                         | 0                      | 0                         | 0    | 0                         | (1000 MT) |

| PSD Table<br>Country: Brazil<br>Oilseed, Cottonseed<br>(1000 HA)(1000 MT) |                           |                           |                           |                           |                           |                           |           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------|
|   | 2005                      | Revised                   | 2006                      | Estimate                  | 2007                      | Forecast                  | UOM       |
|   | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] |           |
| Market Year Begin   |                           | 01/2006                   |                           | 01/2007                   |                           | 01/2008                   | MM/YYYY   |
| Area Planted (COTTON)   | 1110                      | 1110                      | 1030                      | 1030                      | 0                         | 1150                      | (1000 MT) |
| Area Harvested(COTTON)  | 1094                      | 1094                      | 1150                      | 1000                      | 0                         | 1100                      | (1000 MT) |
| Seed to Lint Ratio  | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Beginning Stocks  | 0                         | 0                         | 95                        | 95                        | 130                       | 130                       | (1000 MT) |
| Production  | 2606                      | 2606                      | 2681                      | 2681                      | 0                         | 2700                      | (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  | 2606                      | 2606                      | 2776                      | 2776                      | 0                         | 2830                      | (1000 MT) |
| MY Exports  | 120                       | 120                       | 135                       | 135                       | 0                         | 130                       | (1000 MT) |
| MY Exp. to the EC   | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Crush Dom. Consumption  | 2106                      | 2106                      | 2205                      | 2205                      | 0                         | 2200                      | (1000 MT) |
| Food Use Dom. Consump.  | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Feed,Seed,Waste Dm.Cm.  | 285                       | 285                       | 306                       | 306                       | 0                         | 300                       | (1000 MT) |
| TOTAL Dom. Consumption  | 2391                      | 2391                      | 2511                      | 2511                      | 0                         | 2630                      | (1000 MT) |
| Ending Stocks   | 95                        | 95                        | 130                       | 130                       | 0                         | 200                       | (1000 MT) |
| TOTAL DISTRIBUTION  | 2606                      | 2606                      | 2776                      | 2776                      | 0                         | 2830                      | (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   | 100                       | 100                       | 100                       | 100                       | 0                         | 100                       | (1000 MT) |
| Calndr Yr Exp. to U.S.  | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |

| PSD Table<br>Country: Brazil<br>Meal, Cottonseed<br>(1000 MT) |                        |                           |                        |                           |                           |                           |           |
|---|------------------------|---------------------------|------------------------|---------------------------|---------------------------|---------------------------|-----------|
|   | 2005                   | Revised                   | 2006                   | Estimate                  | 2007                      | Forecast                  | UOM       |
|   | USDA Official<br>[Old] | Post<br>Estimate<br>[New] | USDA Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] |           |
| Market Year Begin   |                        | 01/2006                   |                        | 01/2007                   |                           | 01/2008                   | MM/YYYY   |
| Crush   | 2106                   | 2106                      | 2205                   | 2205                      | 0                         | 2205                      | (1000 MT) |
| Extr. Rate,<br>999.9999                                       | 0,496201               | 0,496201                  | 0,490703               | 0,490703                  | 0                         | 0,490703                  | (PERCENT) |
| Beginning Stocks  | 11                     | 11                        | 15                     | 15                        | 10                        | 10                        | (1000 MT) |
| Production  | 1045                   | 1045                      | 1082                   | 1082                      | 0                         | 1080                      | (1000 MT) |
| MY Imports  | 5                      | 5                         | 5                      | 5                         | 0                         | 5                         | (1000 MT) |
| MY Imp. from U.S.   | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| MY Imp. from the<br>EC  | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| TOTAL SUPPLY  | 1061                   | 1061                      | 1102                   | 1102                      | 0                         | 1100                      | (1000 MT) |
| MY Exports  | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| MY Exp. to the EC   | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| Industrial Dom.<br>Consum                                     | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| Food Use Dom.<br>Consump.                                     | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| Feed Waste Dom.<br>Consum                                     | 1046                   | 1046                      | 1092                   | 1092                      | 0                         | 1090                      | (1000 MT) |
| TOTAL Dom.<br>Consumption                                     | 1046                   | 1046                      | 1092                   | 1092                      | 0                         | 1090                      | (1000 MT) |
| Ending Stocks   | 15                     | 15                        | 10                     | 10                        | 0                         | 10                        | (1000 MT) |
| TOTAL<br>DISTRIBUTION   | 1061                   | 1061                      | 1102                   | 1102                      | 0                         | 1100                      | (1000 MT) |
| Calendar Year<br>Imports                                      | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| Calendar Yr Imp.<br>U.S.                                      | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| Calendar Year<br>Exports                                      | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| Calndr Yr Exp. to<br>U.S.                                     | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
|   |                        |                           |                        |                           |                           |                           |           |

| PSD Table<br>Country: Brazil<br>Oil, Cottonseed<br>(1000 MT) |                        |                           |                        |                           |                           |                           |           |
|--|------------------------|---------------------------|------------------------|---------------------------|---------------------------|---------------------------|-----------|
|  | 2005                   | Revised                   | 2006                   | Estimate                  | 2007                      | Forecast                  | UOM       |
|  | USDA Official<br>[Old] | Post<br>Estimate<br>[New] | USDA Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] |           |
| Market Year Begin  |                        | 01/2006                   |                        | 01/2007                   |                           | 01/2008                   | MM/YYYY   |
| Crush  | 2106                   | 2106                      | 2205                   | 2205                      | 0                         | 2205                      | (1000 MT) |
| Extr. Rate,<br>999.9999                                      | 0,162393               | 0,162393                  | 0,163265               | 0,163265                  | 0                         | 0,163265                  | (PERCENT) |
| Beginning Stocks   | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| Production   | 342                    | 342                       | 360                    | 360                       | 0                         | 360                       | (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<br>EC                                       | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| TOTAL SUPPLY   | 342                    | 342                       | 360                    | 360                       | 0                         | 360                       | (1000 MT) |
| MY Exports   | 50                     | 50                        | 54                     | 54                        | 0                         | 50                        | (1000 MT) |
| MY Exp. to the EC  | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| Industrial Dom.<br>Consum                                    | 100                    | 100                       | 105                    | 105                       | 0                         | 120                       | (1000 MT) |
| Food Use Dom.<br>Consump.                                    | 192                    | 192                       | 201                    | 201                       | 0                         | 200                       | (1000 MT) |
| Feed Waste Dom.<br>Consum                                    | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| TOTAL Dom.<br>Consumption                                    | 292                    | 292                       | 306                    | 306                       | 0                         | 320                       | (1000 MT) |
| Ending Stocks  | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| TOTAL<br>DISTRIBUTION  | 342                    | 342                       | 360                    | 360                       | 0                         | 370                       | (1000 MT) |
| Calendar Year<br>Imports                                     | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| Calendar Yr Imp.<br>U.S.                                     | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |
| Calendar Year<br>Exports                                     | 45                     | 45                        | 45                     | 45                        | 0                         | 0                         | (1000 MT) |
| Calndr Yr Exp. to<br>U.S.                                    | 0                      | 0                         | 0                      | 0                         | 0                         | 0                         | (1000 MT) |

## B. Trade Matrices

## Soybeans

| <b>Brazil Soybean Exports</b> |          |        |        |
|-------------------------------|----------|--------|--------|
| In 1000 Metric Tons           |          |        |        |
| Feb-Jan Marketing Year        |          |        |        |
| Country                       | Quantity |        |        |
|                               | 2006     | 2007   | 2008   |
| World                         | 22,799   | 24,770 | 23,780 |
| United States                 | 0        | 6      | .08    |
| China                         | 7,302    | 10,624 | 10,071 |
| Netherlands                   | 5,223    | 3,673  | 3,381  |
| Spain                         | 2,118    | 1,873  | 2,355  |
| Italy                         | 1322     | 1097   | 1,176  |
| Germany                       | 895      | 1049   | 407    |
| Iran                          | 914      | 900    | 336    |
| Portugal                      | 367      | 790    | 872    |
| Thailand                      | 632      | 767    | 963    |
| United Kingdom                | 636      | 639    | 643    |
| Others                        | 3,390    | 3,358  | 7,708  |

| <b>Brazil Soybean Imports</b> |          |      |      |
|-------------------------------|----------|------|------|
| In 1000 Metric Tons           |          |      |      |
| Feb-Jan Marketing Year        |          |      |      |
| Country                       | Quantity |      |      |
|                               | 2006     | 2007 | 2008 |
| World                         | 353      | 40   | 108  |
| Paraguay                      | 352      | 40   | 108  |
| United States                 | 0        | 0    | 0    |
| Others                        | 0        | 0    | 0    |

## Soybean Meal

| <b>Brazil Soybean Meal Exports</b> |          |        |        |
|------------------------------------|----------|--------|--------|
| In 1000 Metric Tons                |          |        |        |
| Feb-Jan Marketing Year             |          |        |        |
| Country                            | Quantity |        |        |
|                                    | 2006     | 2007   | 2008   |
| World                              | 14,225   | 12,275 | 12,343 |
| Netherlands                        | 3,477    | 2,491  | 2,539  |
| France                             | 2,943    | 2,434  | 2,621  |
| Thailand                           | 1,041    | 1,199  | 831    |
| Germany                            | 1,093    | 875    | 1,096  |
| Iran                               | 197      | 560    | 833    |
| Indonesia                          | 460      | 504    | 432    |
| Korea South                        | 947      | 443    | 664    |
| Australia                          | 300      | 407    | 304    |
| United Kingdom                     | 440      | 400    | 493    |
| Italy                              | 502      | 391    | 414    |
| Saudi Arabia                       | 290      | 353    | 122    |
| Spain                              | 315      | 266    | 394    |
| Norway                             | 249      | 208    | 11     |
| United States                      | 41       | 0      | 0      |
| Others                             | 1,787    | 1,402  | 1,589  |

| <b>Brazil Soybean Meal Imports</b> |          |         |        |
|------------------------------------|----------|---------|--------|
| In Metric Tons                     |          |         |        |
| Feb-Jan Marketing Year             |          |         |        |
| Country                            | Quantity |         |        |
|                                    | 2006     | 2007    | 2008   |
| World                              | 186,178  | 164,844 | 98,338 |
| Paraguay                           | 186,167  | 164,826 | 98,316 |
| China                              | 0        | 12      | 12     |
| United States                      | 11       | 6       | 10     |

## Soybean Oil

| <b>Brazil Soybean Oil Exports</b> |          |      |      |
|-----------------------------------|----------|------|------|
| In 1000 Metric Tons               |          |      |      |
| Feb-Jan Marketing Year            |          |      |      |
| Country                           | Quantity |      |      |
|                                   | 2006     | 2007 | 2008 |
| World                             | 2697     | 2315 | 2521 |
| Iran                              | 699      | 712  | 450  |
| Netherlands                       | 174      | 528  | 303  |
| India                             | 431      | 201  | 280  |
| China                             | 386      | 200  | 471  |
| Italy                             | 37       | 165  | 52   |
| France                            | 9        | 104  | 176  |
| Turkey                            | 38       | 50   | 5    |
| South Africa                      | 144      | 36   | 122  |
| Bangladesh                        | 31       | 36   | 133  |
| Tunisia                           | 26       | 28   | 2    |
| United States                     | 0        | 2    | 0.3  |
| Others                            | 722      | 255  | 527  |

| <b>Brazil Soybean Oil Imports</b> |          |      |      |
|-----------------------------------|----------|------|------|
| In 1000 Metric Tons               |          |      |      |
| Feb-Jan Marketing Year            |          |      |      |
| Country                           | Quantity |      |      |
|                                   | 2006     | 2007 | 2008 |
| World                             | 3        | 26   | 62   |
| Argentina                         | 0        | 25   | 53   |
| Paraguay                          | 0        | 0    | 1    |
| Bolivia                           | 1        | 0    | 2    |
| United States                     | 2        | 1    | 5    |

## Cottonseed Meal

| <b>Brazil Cottonseed Meal Exports</b> |          |      |      |
|---------------------------------------|----------|------|------|
| In Metric Tons                        |          |      |      |
| Country                               | Quantity |      |      |
|                                       | 2006     | 2007 | 2008 |
| World                                 | 0        | 0    | 0    |
| United Kingdom                        | 0        | 0    | 0    |
| Belgium                               | 0        | 0    | 0    |
| Germany                               | 0        | 0    | 0    |
| Angola                                | 0        | 0    | 0    |

| <b>Brazil Cottonseed Meal Imports</b> |          |       |      |
|---------------------------------------|----------|-------|------|
| In Metric Tons                        |          |       |      |
| Country                               | Quantity |       |      |
|                                       | 2006     | 2007  | 2008 |
| World                                 | 5,661    | 2,218 | 112  |
| Paraguay                              | 5,590    | 2,063 | 0    |
| United States                         | 71       | 155   | 112  |
| Uruguay                               | 0        | 0     | 0    |
| Argentina                             | 0        | 0     | 0    |

## Cottonseed Oil

| <b>Brazil Cottonseed Oil Exports</b> |          |        |        |
|--------------------------------------|----------|--------|--------|
| In Metric Tons                       |          |        |        |
| Country                              | Quantity |        |        |
|                                      | 2006     | 2007   | 2008   |
| World                                | 45,250   | 25,932 | 21,004 |
| Greece                               | 0        | 6,300  | 1,000  |
| South Africa                         | 6,750    | 5,630  | 8,093  |
| Netherlands                          | 0        | 5,500  | 0      |
| Korea North                          | 1,700    | 3,000  | 0      |
| Korea South                          | 3,000    | 2,500  | 5,060  |
| Turkey                               | 5,346    | 1,500  | 1,523  |
| Malaysia                             | 1,700    | 1,000  | 4,250  |
| Japan                                | 433      | 333    | 238    |
| Bolivia                              | 171      | 143    | 28     |
| Trinidad & Tobago                    | 64       | 13     | 0      |
| United States                        | 1        | 13     | 0      |

| <b>Brazil Cottonseed Oil Imports</b> |          |      |      |
|--------------------------------------|----------|------|------|
| In Metric Tons                       |          |      |      |
| Country                              | Quantity |      |      |
|                                      | 2006     | 2007 | 2008 |
| World                                | 0        | 100  | 0.5  |
| Paraguay                             | 0        | 100  | 0    |
| United States                        | 0        | 0    | 0    |
| Argentina                            | 0        | 0    | 0    |

## C. Prices

| Soybean Price Table |          |        |        |
|---------------------|----------|--------|--------|
| Country             | Brazil   |        |        |
| Commodity           | Soybeans |        |        |
| Prices in           | US\$/ton |        |        |
| Year                | 2005     | 2006   | 2007   |
| Jan                 | 206.28   | 229.25 | 293.78 |
| Feb                 | 208.02   | 236.87 | 281.01 |
| Mar                 | 239.05   | 222.95 | 278.90 |
| Apr                 | 229.72   | 225.23 | 268.04 |
| May                 | 239.6    | 230.52 | 276.69 |
| Jun                 | 250.82   | 226.3  | 295.43 |
| Jul                 | 254.48   | 232.2  | 302.05 |
| Aug                 | 245.53   | 228.02 | 319.98 |
| Sep                 | 238.92   | 223.87 | 368.28 |
| Oct                 | 237.1    | 239.55 | 382.34 |
| Nov                 | 234.55   | 255.36 | 390.44 |
| Dec                 | 226.04   | 263.28 | 432.25 |

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  | 2005  |       |       |       | 2006  |       |       |       | 2007  |       |       |       |
|   | 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   | 33.04 | 33.75 | 33.25 | 28.9  | 29    | 27.63 | 27.38 | 24.95 | 30.83 | 30.57 | 30.43 | 25.33 |
| Feb   | 28.3  | 29.25 | 29.25 | 24.43 | 27.5  | 27.6  | 26.3  | 22.1  | 30.85 | 32.17 | 31.17 | 26.93 |
| Mar   | 33.43 | 35.5  | 34.25 | 30.13 | 25.3  | 24.6  | 23.5  | 20    | 31.00 | 32.28 | 30.48 | 26.25 |
| Apr   | 32.35 | 31.95 | 32.73 | 27.88 | 24.83 | 23.13 | 23.23 | 19.23 | 29.83 | 29.50 | 28.77 | 24.67 |
| May   | 30.9  | 30.45 | 31.08 | 26.48 | 26.25 | 24.45 | 24.63 | 20.75 | 29.45 | 29.20 | 28.73 | 25.60 |
| Jun   | 33.03 | 32.15 | 31.78 | 28.25 | 27.6  | 25.3  | 25.3  | 22.78 | 31.00 | 30.05 | 29.30 | 26.35 |
| Jul   | 32.8  | 31.15 | 29.78 | 27.13 | 26.87 | 25.67 | 25.83 | 23.57 | 27.50 | 27.78 | 27.00 | 25.15 |
| Aug   | 31.42 | 32.32 | 30.3  | 26.76 | 26.9  | 25.9  | 25.9  | 23.1  | 33.67 | 33.13 | 33.58 | 31.67 |
| Sep   | 29.33 | 29.28 | 27.95 | 25.23 | 27.33 | 25.5  | 26.17 | 22.77 | 38.33 | 38.33 | 37.17 | 36.00 |
| Oct   | 29.6  | 27.7  | 27.3  | 24.9  | 29.33 | 28    | 27.5  | 25    | 39.83 | 40.17 | 38.33 | 36.50 |
| Nov   | 29.3  | 26    | 26.7  | 25.1  | 32    | 31    | 31.17 | 28    | 42.50 | 42.70 | 40.24 | 38.36 |
| Dec   | 28.2  | 25.5  | 27.6  | 24.8  | 32.5  | 31.43 | 31.5  | 29.33 | 44.07 | 44.50 | 42.67 | 39.67 |

| Soymeal Prices |              |        |              |        |
|----------------|--------------|--------|--------------|--------|
| Month          | 2006         |        | 2007         |        |
|                | Paranaguá 1/ | SP 2/  | Paranaguá 1/ | SP 2/  |
| JAN            | 196.62       | 210.30 | 237.41       | 438.75 |
| FEB            | 200.48       | 188.06 | 228.25       | 455.15 |
| MAR            | 181.88       | 169.22 | 220.64       | 443.87 |
| APR            | 183.48       | 164.07 | 208.51       | 384.90 |
| MAY            | 184.74       | 172.62 | 210.53       | 378.66 |
| JUN            | 188.44       | 174.62 | 219.96       | 396.09 |
| JUL            | 184.34       | 180.58 | 231.24       | 231.24 |
| AUG            | 184.03       | 179.93 | 239.36       | 239.36 |
| SEP            | 190.23       | 188.56 | 283.62       | 283.62 |
| OCT            | 207.01       | 197.67 | 307.87       | 307.87 |
| NOV            | 214.84       | 209.99 | 319.53       | 319.53 |
| DEC            | 206.11       | 201.53 | n/a          | n/a    |
| Average        | 193.52       | 186.43 |              |        |

1/ FOB – Paranaguá Port (US\$/ton)  
2/ São Paulo –US\$/ton – 12% ICMS tax

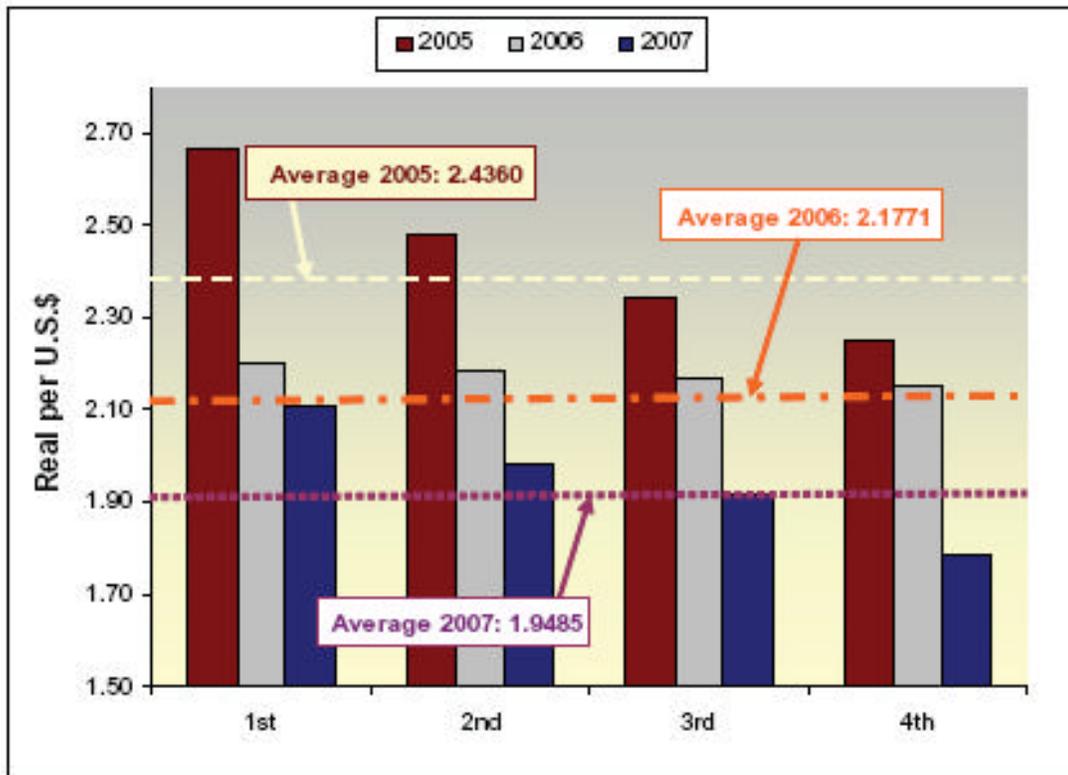
| Crude Soyoil Prices |              |        |              |         |
|---------------------|--------------|--------|--------------|---------|
| Month               | 2006         |        | 2007         |         |
|                     | Paranaguá 1/ | SP 2/  | Paranaguá 1/ | SP 2/   |
| JAN                 | 434.47       | 503.30 | 695.28       | 1667.50 |
| FEB                 | 458.83       | 530.09 | 609.42       | 1510.00 |
| MAR                 | 469.89       | 563.72 | 609.79       | 1487.50 |
| APR                 | 476.08       | 535.97 | 645.24       | 1537.00 |
| MAY                 | 518.67       | 580.65 | 702.39       | 1622.00 |
| JUN                 | 498.96       | 576.67 | 764.11       | 1740.00 |
| JUL                 | 504.34       | 586.76 | 789.91       | 1757.50 |
| AUG                 | 518.43       | 625.00 | 803.96       | 1930.00 |
| SEP                 | 522.10       | 618.09 | 844.47       | 1935.00 |
| OCT                 | 551.66       | 653.49 | 885.09       | 2010.00 |
| NOV                 | 649.61       | 778.70 | 1037.26      | 2307.50 |
| DEC                 | 643.08       | 817.44 | 1045.64      | 2306.67 |

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        |
| Jan                              | 2.85        | 2.69        | 2.27        | 2.14        |
| Feb                              | 2.93        | 2.60        | 2.16        | 2.09        |
| Mar                              | 2.91        | 2.71        | 2.15        | 2.09        |
| Apr                              | 2.91        | 2.58        | 2.12        | 2.03        |
| May                              | 3.10        | 2.46        | 2.17        | 1.94        |
| Jun                              | 3.13        | 2.42        | 2.25        | 1.92        |
| Jul                              | 3.04        | 2.37        | 2.19        | 1.88        |
| Aug                              | 3.00        | 2.36        | 2.16        | 1.96        |
| Sep                              | 2.89        | 2.30        | 2.17        | 1.88        |
| Oct                              | 2.85        | 2.26        | 2.15        | 1.75        |
| Nov                              | 2.79        | 2.21        | 2.16        | 1.78        |
| Dec                              | 2.72        | 2.28        | 2.15        | 1.76        |
| <b>Average</b>                   | <b>2.93</b> | <b>2.44</b> | <b>2.18</b> | <b>1.94</b> |

Source: Banco Central do Brasil (www.bcb.gov.br)

Average quarterly exchange rate, real per U.S. dollar



Source: Banco Central do Brasil

**D. Policy Table**

| Official Minimum Prices                 |         |       |         |       |
|---|---------|-------|---------|-------|
| Product (Unit) / Crop Year              | 2006/07 |       | 2007/08 |       |
| 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: 2006/07-R\$2.09          |         |       |         |       |

**Production****2006/07 Crop Situation**

Crop conditions in Brazil were very good with the exception of the extreme South of Brazil in the states of Rio Grande do Sul and Santa Catarina. La Nina did not have the negative impact on Brazil that was expected before the season started. However, it made enough of an impact in Rio Grande do Sul, Santa Catarina, and Mato Grosso do Sul for Conab to decrease its total production estimate by several hundred thousand tons in early May.

Post's forecast remains at 60.1 MMT on 21.7 Million Hectares. Lower yields in the South were balanced out by better-than-expected results in Mato Grosso. Soybeans were planted anywhere from 8 days to one month late, which brought two major consequences. The positive effect was significantly less soybean rust, and the negative has been a very wet harvest, especially in the state of Mato Grosso. Although there was some concern in the press about losses in Northern Mato Grosso, actual losses are minimal and the result of the high humidity in the region is a compromise in bean quality.

**Record Prices but Marginal Profit**

With respect to Southern Brazil and other areas closer to ports, although losses were greater, margins will certainly be higher due to lower transportation costs. Transportation costs in Mato Grosso are estimated to total up to half of farmers' total costs in this state, especially in the central producing area of Sorriso/Lucas do Rio Verde/Nova Mutum. These are notably the largest soy-producing counties in Brazil.

| <b>2007/08 Post Forecast Soybean Area, Yield, and Production</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>2,992</b> | <b>29050</b>      |
| MS   | 1850         | <b>2,662</b> | 4925              |
| MT   | 5600         | <b>3,080</b> | 17250             |
| GO   | 2200         | <b>3,045</b> | 6700              |
| DF   | 60           | <b>2,917</b> | 175               |
| <b>South</b>   | <b>8400</b>  | <b>2,512</b> | <b>21100</b>      |
| PR   | 4050         | <b>2,938</b> | 11900             |
| SC   | 350          | <b>2,714</b> | 950               |
| RS   | 4000         | <b>2,063</b> | 8250              |
| <b>Southeast</b>   | <b>1515</b>  | <b>2,739</b> | <b>4150</b>       |
| MG   | 975          | <b>2,718</b> | 2650              |
| SP   | 540          | <b>2,778</b> | 1500              |
| <b>Northeast</b>   | <b>1575</b>  | <b>2,787</b> | <b>4390</b>       |
| MA   | 420          | <b>2,857</b> | 1200              |
| PI   | 255          | <b>2,706</b> | 690               |
| BA   | 900          | <b>2,778</b> | 2500              |
| <b>North</b>   | <b>523</b>   | <b>2,790</b> | <b>1459</b>       |
| RO   | 100          | <b>3,050</b> | 305               |
| AM   | 3            | <b>3,000</b> | 9                 |
| RR   | 25           | <b>3,000</b> | 75                |
| PA   | 85           | <b>3,059</b> | 260               |
| TO   | 310          | <b>2,613</b> | 810               |
| <b>Totals</b>  | <b>21723</b> | <b>2,769</b> | <b>60149</b>      |

## Rust

It is now without question that losses this year due to soybean rust are much less than in previous years. Soybean Rust, which was responsible for more than \$10 billion in damage over past crop years, has shown continual signs of reduction in Brazil, and this year's production losses are estimated at 25% less than last year's. According to Embrapa, the number of breakouts through April 2008 was at near-lowest levels lowest since 2002 at 2,200 cases. At the same time last year, there were 2,900 cases registered. This year, no cases at all were registered in November. January was the month when the most number of rust breakouts occurred.

There are two main reasons for the diminishing number of breakouts. State laws prohibiting farmers from planting soybeans for a 90 day fallow period (vazio sanitário), to keep soybean rust from spreading in the off-season, have helped tremendously with the control of rust. The laws also require spraying soybean plants that grow wild in the off-season, in addition to the prohibition of second-crop soy.

The La Niña weather phenomenon has also helped moderate the rust situation. Due to less overall rainfall, which also arrived later than normal, the disease has not been able to spread as easily. In Bahia, which was the state with the most cases in 2006/07, due to the drought situation, has had no cases registered this year. In Mato Grosso there are more registered cases this year than last year, but rainfall has also picked up in the state and technology there to detect the disease is improving. Soy fields in Mato Grosso do Sul state suffered the most with Rust this year, with 550 registered cases. Paraná registered more cases than Mato Grosso do Sul, but suffered fewer losses due to better management.

According to Brazil's leading rust expert, José Tadashi Torinori, rust prevention this year has been more efficient, due to the fact that growers are avoiding losses at all costs due to the high value of their soybeans. He believes that the increased use of generic fungicides has lowered spraying costs for farmers by 10-15 percent.

On the other hand, other fungus-based diseases have been on the uprise, including Rhizoctonia solani (mela da soja) in Mato Grosso, and Sclerotinia sclerotiorum (white mold or mofo branco). These fungi are costing producers in affected regions about 2-3 60 kilo bags of soy in fungicide (or up to 5% of total production value).

**Rust-resistant Soy Ready for 2008/09 Crop Season**

The Mato Grosso Foundation Agricultural research center recently announced that their new rust-resistant soybean variety will be ready for farmers to plant next season (2008/09). Named "Inox", it has been under development since 2002, and is adapted for use in the Center-west states of Mato Grosso, Mato Grosso do Sul, and Goiás; but can also be used in Tocantins (North), Minas Gerais (Southeast), Maranhão, and Bahia (Northeast). The research will continue for a variety adapted to the growth conditions of the South, but it is unclear if it will be ready by planting time next year.

Although there is no price yet set for the new seed, the Mato Grosso Foundation states that its use will lower the cost of production, because it will require one spray application, instead of the traditional three or more for current varieties. This variety has become particularly interesting for farmers as the leading chemical used to combat rust lost its effectiveness this year.

| Year | Production (1000 tons) | Export (1000 tons) |
|------|------------------------|--------------------|
| 2000 | 13,243                 | 849                |
| 2001 | 11,831                 | 834                |
| 2002 | 20,558                 | 906                |
| 2003 | 23,595                 | 822                |
| 2004 | 28,428                 | 403                |
| 2005 | 28,502                 | 615                |
| 2006 | 24,992                 | 451                |

**Mato Grosso**

In the past 10 years, Mato Grosso has become recognized as a global source of meat and grains. Numerous government incentives, combined with the entrepreneurial spirit of the Brazilian farmer, created a revolution in the Center-west. The result of this revolution exploded in this region at the beginning of the decade, and the word "agribusiness" became part of the Brazilian vocabulary.

Technology developed by research institutions Mato Grosso Foundation and Embrapa spurred on the revolution, helping agriculture to make large gains in areas that were previously small-scale traditional activities. In 2004, Mato Grosso became Brazil's leading soy-producing state, which now accounts for over 30% of total production. This growth greatly benefitted the state's economy and today, the highest quality of life is found in areas with the highest concentration of soybean production, such as Lucas do Rio Verde and Sorriso, the state's (and nation's) greatest soybean-producing region. Between 2000-2004, the state doubled its GNP as soy production skyrocketed. Soy exports in Mato Grosso make up 72% of the state's total exports, valuing \$3.1 billion.

However, all these positives don't necessarily reflect farmers' reality. Infrastructure deficiencies, including shockingly deficient roads, insufficient rail and underutilized waterways, continue to annul the competitiveness of producers in Mato Grosso. The cost of production is by far the highest of any Brazilian state, due to the cost of bringing in fertilizers and other inputs. Diesel prices in Mato Grosso are higher than the rest of Brazil by about 20%. Fuel prices are also higher in Mato Grosso than any other commercial soybean producing region, and more than twice the cost of Argentina. Local research shows that diesel makes up 53% of the total value of product exported to Europe.

In 2007 things got desperate in Mato Grosso as the state began to lose its relative competitiveness in the world market. This was due to the fact that Mato Grosso's logistical and production costs increased in greater proportion than that of its competitors. The weight of billions of dollars of unpaid debt, which had been managed by farmers up to the 2003/04 crop season, got out of control due to producers' lack of operating capital. Farmers began to question if they would be able to keep producing, as factors lined up against them. A political decision made by the Brazilian Government last year to extend rural debt terms, the adoption of a Conab price equalization program, helped producers to stay in the game until prices began to pick up late last year. While farmers in Mato Grosso still complain about the government's inconsistent Ag Policy, government support and high international soybean prices have bailed farmers out of what looked to be a major financial crisis in 2007.

### **Mato Grosso Infrastructure Update**

The BR 163 highway is the prime transport artery of Mato Grosso, running 1100 miles from the state capital to Cargill's deep water port in Santarem PA. The paving of BR 163 in MT is finished except for a 50 km portion in Garantã do Norte (200 mi North of Cuiabá). In Pará, 600 miles of the BR 163 are still unpaved. Brazil's military dictatorship built the BR 163 in the early 1970s to integrate the Amazon with the rest of Brazil. Lula recently announced (some 30 years later) a commitment of \$350 million to pave the remaining 500 miles in PA. The Cargill port was built on the bet that the road would be finished, and if it is, Cargill estimates that they will move an at least additional 3 MMT per year.

On the other hand, many farmers in Mato Grosso see the Amazon river as their best option for transportation of soybeans. It is a highly underutilized transport corridor, since oceangoing cargo vessels can navigate it as far inland (1800 km) as Itacoatiara, where the Maggi port is located. From Manaus to the outlet it is up to 20 miles wide and at least 360 feet deep.

The Ferronorte rail line hauled 7.5 MMT of soybeans and soybean meal out of Mato Grosso to Santos in 2007, but has the potential to move much more. America Latina Logistica's (ALL) current plan is to extend the line 260 kilometers further into the state to the city of Rondonopolis, but environmental issues are yet to be resolved and the rights have not been finalized. Bunge, Cargill, Maggi, and ADM are all present in Rondonopolis, and are waiting for this decision to be made.

This project would help to lower the cost of transporting commodities in and out of MT, but progress has been extremely slow. Only 50 miles of a single track have been laid in MT with only two grain terminals along these 50 miles: Alto Taquari and Alto Araguaia. Between 250-300 trucks deliver product daily to these two terminals (mostly soybeans), and between 6 and 7 60-unit trains carry product daily to Santos, which is a 4-day trip to reach this port due to older sections of the track in the state of Sao Paulo. When the product reaches Santos, there are reports of further delays due to bottlenecks.

## Brazilian Government Official Numbers

| Region/State  | Production*:<br>2006-2007<br>(1,000 mt) | Production*:<br>2007-2008**<br>(1,000 mt) | % Change           |
|---|---|---|--------------------|
| <b>North</b>  |   |   |                    |
| Amazonas (AM)                                       | 0.0                                     | 0.0                                       | 0.0                |
| Pará (PA)   | 140.5                                   | 165.0                                     | 17.4               |
| Rondônia (RO)                                       | 277.5                                   | 318.5                                     | 14.8               |
| Roraima (RR)  | 0.0                                     | 45.0                                      | 192.2              |
| Tocantins (TO)                                      | 646.5                                   | 886.9                                     | 37.2               |
|   | <b>Total: 1,064.5</b>                   | <b>Total: 1,415.4</b>                     | <b>Total: 31.1</b> |
| <b>Northeast</b>                                    |   |   |                    |
| Bahia (BA)  | 2,297.2                                 | 2,433.8                                   | 5.9                |
| Maranhão (MA)                                       | 1,084.0                                 | 1,221.3                                   | 12.7               |
| Piauí (PI)  | 486.0                                   | 742.8                                     | 52.8               |
|   | <b>Total: 3,867.2</b>                   | <b>Total: 4,397.9</b>                     | <b>Total: 13.7</b> |
| <b>Center West</b>                                  |   |   |                    |
| Distrito Federal (DF)                               | 140.5                                   | 153.4                                     | 9.2                |
| Goiás (GO)  | 6,114.0                                 | 6,571.9                                   | 7.5                |
| Mato Grosso (MT)                                    | 15,359.0                                | 17,737.9                                  | 15.5               |
| Mato Grosso do Sul (MS)                             | 4,881.3                                 | 5,609.2                                   | -5.6               |
|   | <b>Total: 26,494.8</b>                  | <b>Total: 29,072.5</b>                    | <b>Total: 9.7</b>  |
| <b>Southeast</b>                                    |   |   |                    |
| Minas Gerais (MG)                                   | 2,567.9                                 | 2,500.8                                   | -2.6               |
| São Paulo (SP)                                      | 1,437.5                                 | 1,446.5                                   | 0.6                |
|   | <b>Total: 4,005.4</b>                   | <b>Total: 4,005.4</b>                     | <b>Total: -1.5</b> |
| <b>South</b>  |   |   |                    |
| Paraná (PR)   | 11,915.6                                | 11,829.6                                  | -0.7               |
| Rio Grande do Sul (RS)                              | 9,924.6                                 | 7,815.6                                   | -21.3              |
| Santa Catarina (SC)                                 | 1,104.3                                 | 1,024.4                                   | -7.2               |
|   | <b>Total: 22,944.5</b>                  | <b>Total: 20,669.6</b>                    | <b>Total: -9.9</b> |
| <b>Total Production:</b>                            | <b>58,376.4</b>                         | <b>59,502.6</b>                           | <b>1.9</b>         |
| *Data based on calendar year, January-December      |   |   |                    |
| **Forecast, May 2008                                |   |   |                    |
| Source: Companhia Nacional de Abastecimento (CONAB) |   |   |                    |

## 2008/09 Crop Outlook

## Area

High international prices and a good 2007/08 harvest are expected to stimulate a considerable area increase next year. Although farmers are still carrying debt, the extension and rollover of debt, which was announced by the Brazilian government in April, will be an important factor in the 7% Post projected increase in area to 23,200 hectares. This would

equal a complete recuperation in area lost during the 2006/07 season (surpassing the area in 2004/05 by 400,000 hectares). The North and Center-west should experience the majority of the area growth, and our estimate is that Mato Grosso, Maranhão (especially Chapadinha area), Piauí, Tocantins, and Western Bahia will experience highest growth relative to this year's area. Corn prices will also have a small impact, as summer corn planting in Brazil should continue to rise modestly. A return to more soy and less corn planting in the US this year is expected to impact what are already historically high Brazilian corn prices. In addition, some shifting from soy to sugarcane should continue to occur.

In addition, rising input costs should keep soybean expansion in check. An increase in production costs is expected to coincide with area growth in 2008/09. According to CONAB, the cost of production per hectare in Brazil will increase 16.2%. Costs in Sorriso, Mato Grosso, are estimated to increase from R\$1405 to R\$1442 next season, and in Passo Fundo, Rio Grande do Sul, the estimated increase is R\$1095 to R\$1327 (May exchange rate: 1.65 Reals = US\$1.00). These estimates are considered conservative, as the Brazilian producer association is estimating larger increases.

### **Production**

Post forecasts 2008/09 production at 64,300 MMT, with average yields of 2.77 tons per hectare. Economic conditions will continue to be more favorable for the ag sector, 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. Favorable prices, due to lower global stocks, growing global demand for soybeans, export policy in Argentina and continuing demand and interest in corn for ethanol in the US have created a market bullish on soybeans. Brazilian farmers benefitted considerably from much higher prices during the 2007/08 season, and are expecting with a degree of confidence that the trend will continue.

Repeat negative factors for the coming year are the strong Real and the rising costs of inputs and transportation, which continue to cut away at farmers' profit margins. Rust is expected to be less of a hindrance in the future, although weather will play a role in this.

### **Stocks**

In spite of higher soybean production in 07/08, strong domestic consumption, accelerated crushing, and strong exports have caused Brazil's stocks to decrease to their lowest levels in 6 years. Oil and Meals stocks are also following this trend.

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 5-7 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.

## Consumption

| Installed Soybean Crush and Refining Capacity by State: 2005-2007 |                |                |                |            |               |               |               |            |
|---|----------------|----------------|----------------|------------|---------------|---------------|---------------|------------|
| State   | Processing     |                |                |            | Refining      |               |               |            |
|   | 2005           | 2006           | 2007           | %          | 2005          | 2006          | 2007          | %          |
| Paraná  | 32,115         | 32,950         | 33,850         | 22.6       | 3,160         | 3,160         | 3,460         | 16.3       |
| Rio Grande do Sul   | 21,200         | 23,600         | 24,800         | 16.6       | 1,650         | 1,950         | 2,000         | 9.4        |
| Mato Grosso   | 21,000         | 21,400         | 22,000         | 14.7       | 1,250         | 2,450         | 2,700         | 12.7       |
| São Paulo   | 15,600         | 18,800         | 19,650         | 13.1       | 6,010         | 2,770         | 6,220         | 14.4       |
| Goiás   | 18,150         | 16,400         | 16,650         | 11.1       | 2,230         | 5,850         | 3,070         | 29.2       |
| Mato Grosso do Sul  | 8,295          | 9,360          | 9,560          | 6.4        | 540           | 540           | 540           | 2.5        |
| Minas Gerais  | 6,600          | 6,600          | 6,600          | 4.4        | 1,270         | 1,270         | 1,270         | 6.0        |
| Bahia   | 5,344          | 5,500          | 5,500          | 3.7        | 880           | 970           | 970           | 4.6        |
| Santa Catarina  | 4,034          | 4,034          | 4,034          | 2.7        | 530           | 450           | 450           | 2.1        |
| Piauí   | 2,360          | 2,460          | 2,460          | 1.6        | 120           | 120           | 120           | 0.6        |
| Amazonas  | 2,000          | 2,000          | 2,000          | 1.3        | 450           | -             | -             | -          |
| Pernambuco  | 400            | 400            | 400            | .03        | 80            | 400           | 400           | 1.9        |
| Maranhão  | -              | -              | 2,000          | 1.3        | -             | 80            | -             | -          |
| <b>Total</b>  | <b>131,768</b> | <b>137,098</b> | <b>143,504</b> | <b>100</b> | <b>18,000</b> | <b>18,170</b> | <b>21,280</b> | <b>100</b> |

## Input Tables

| Fertilizer Supply and Sales (Total Metric Tons) |            |            |            |            |            |
|---|------------|------------|------------|------------|------------|
| Item  | 2003       | 2004       | 2005       | 2006       | 2007       |
| Production                                      | 9,353,177  | 9,733,609  | 8,533,923  | 8,777,832  | 9,815,709  |
| Imports   | 14,683,123 | 15,424,325 | 11,724,687 | 12,101,973 | 17,529,854 |
| Sales   | 22,796,232 | 22,767,489 | 20,194,731 | 20,981,734 | 24,608,993 |

Source: National Fertilizer Association (ANDA)(www.anda.org.br)

| Total Fertilizer Sales & Relative Cost |             |             |         |               |
|--|-------------|-------------|---------|---------------|
| Year                                   | Quantity 1/ | Soybeans 2/ | Corn 2/ | Sugar Cane 3/ |
| 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          |
| 2007                                   | 24,608,993  | 20.6        | 37.9    | 19.8          |

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)

## Exports

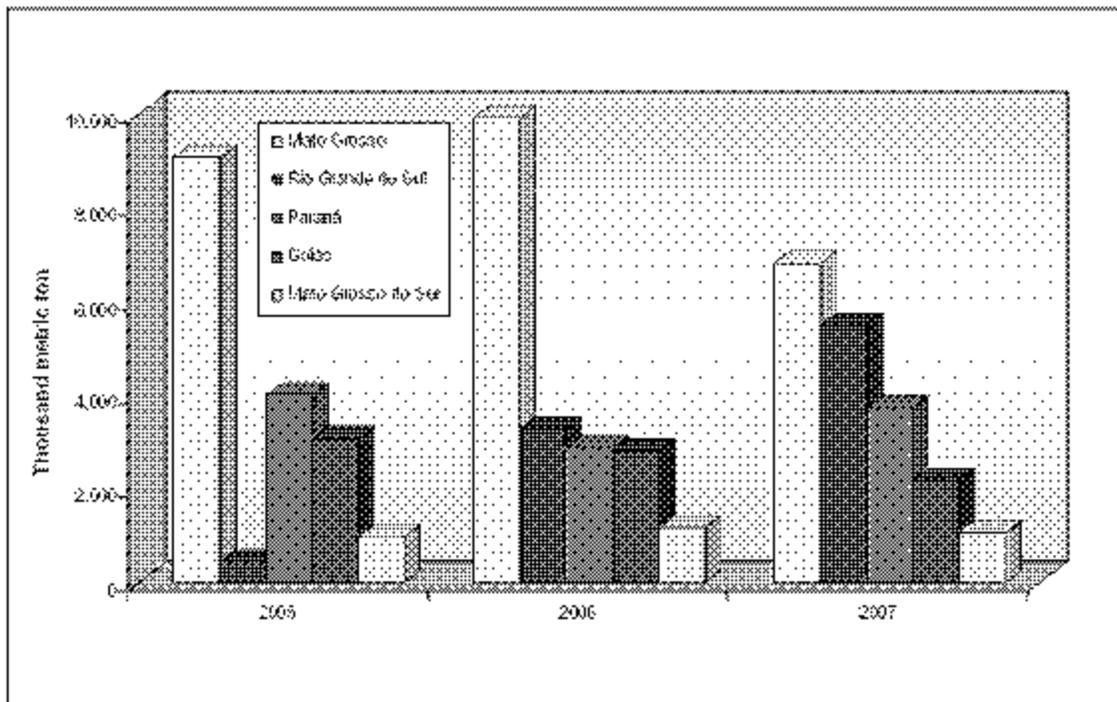
Soybean exports for marketing year 2007/08 concluded in January at 23.7 MMT, below the 24.7 MMT that were moved last year. Due to this reason, Brazil will stay in its position this year as the second-largest world soybean exporter behind the US. China continues to import a larger and larger percentage of Brazil's exports. Exports to Europe declined in 2007/08. Soy meal and oil exports picked up slightly as the world demand of food grade oil and animal feed continues to increase. Soy meal and soyoil exports both increased about 5% in 2007/08.

### Top 15 Brazilian Soybean Exporting States

| Estado             | 2003                 | 2004              | 2005              | 2006              | 2007              | Rank |
|--------------------|----------------------|-------------------|-------------------|-------------------|-------------------|------|
|                    | -----Metric ton----- |                   |                   |                   |                   |      |
| Mato Grosso        | 4,848,502            | 5,041,915         | 9,030,389         | 9,920,049         | 6,822,137         | 1    |
| Rio Grande do Sul  | 3,792,297            | 2,290,352         | 439,739           | 3,281,005         | 5,503,371         | 2    |
| Paraná             | 5,111,064            | 4,513,005         | 4,066,891         | 2,891,525         | 3,729,772         | 3    |
| Goiás              | 2,183,320            | 1,843,556         | 3,066,616         | 2,800,224         | 2,192,407         | 4    |
| Mato Grosso do Sul | 233,830              | 345,325           | 978,248           | 1,182,096         | 1,065,860         | 5    |
| Santa Catarina     | 41,712               | 79,622            | 132,873           | 208,735           | 1,057,247         | 6    |
| Maranhão           | 576,581              | 576,922           | 896,838           | 1,021,543         | 841,944           | 7    |
| Bahia              | 52,590               | 378,147           | 663,849           | 448,706           | 708,876           | 8    |
| São Paulo          | 369,799              | 977,322           | 547,148           | 939,202           | 630,970           | 9    |
| Tocantins          | 185,232              | 362,612           | 569,865           | 653,230           | 435,226           | 10   |
| Minas Gerais       | 850,481              | 762,478           | 1,417,669         | 1,179,169         | 379,804           | 11   |
| Pernambuco         | -                    | -                 | 160,882           | 250,120           | 229,107           | 12   |
| Pará               | 67,279               | 15,000            | 77,876            | 81,853            | 67,484            | 13   |
| Distrito Federal   | 37,573               | 28,601            | 62,450            | 57,873            | 30,115            | 14   |
| Roraima            | -                    | 35                | 11,212            | 18,592            | 50,323            | 15   |
| Others             | 1,540,206            | 2,022,795         | 270,428           | 27,491            | 9,132             |      |
| <b>Total</b>       | <b>19,091,465</b>    | <b>19,241,608</b> | <b>21,435,071</b> | <b>21,941,873</b> | <b>23,733,175</b> |      |

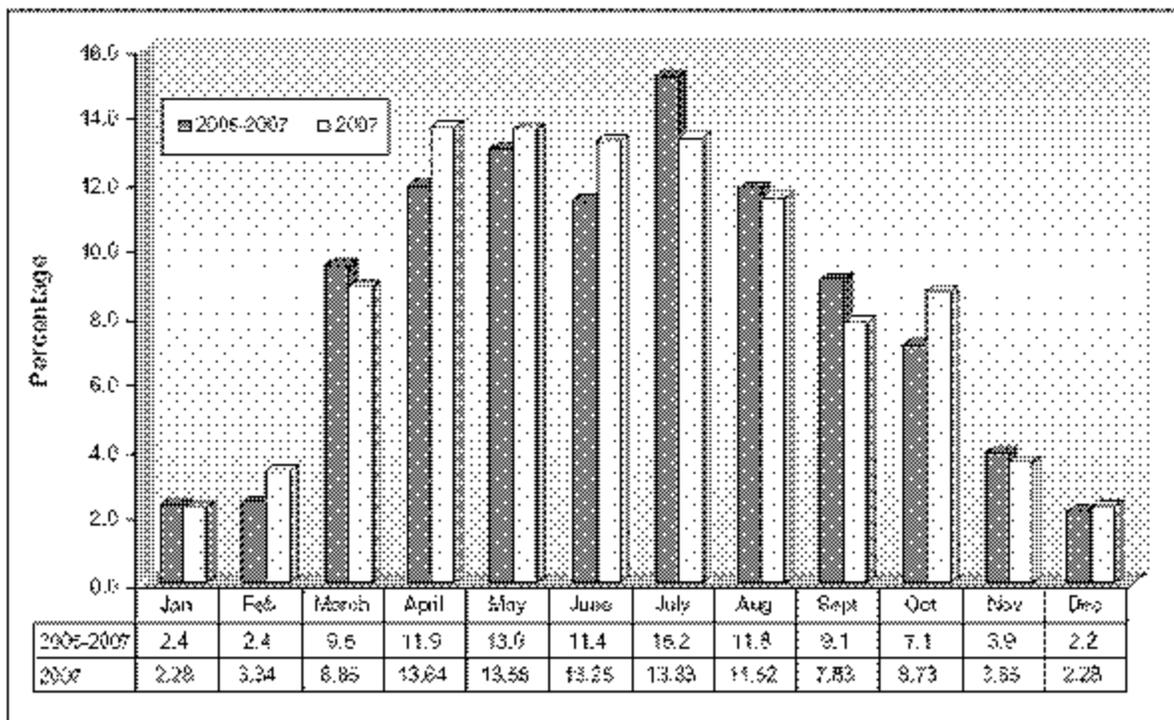
Sources: Secretaria de Comércio Exterior (SECEX) and Companhia Nacional de Abastecimento (CONAB)/Dger/Suin/Geint

Top 5 Brazil soybean exporting states



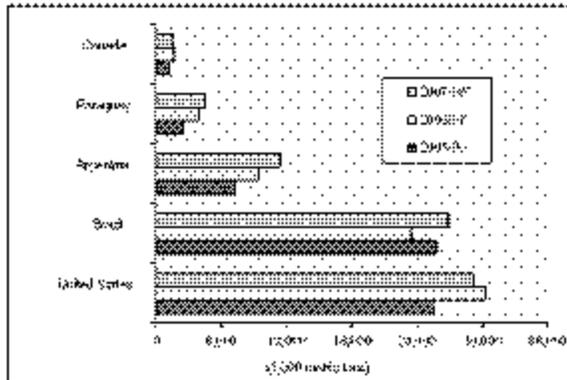
Sources: Secretaria de Comércio Exterior (SECEX) and Companhia Nacional de Abastecimento (CONAB)

Brazil soybean average monthly exports



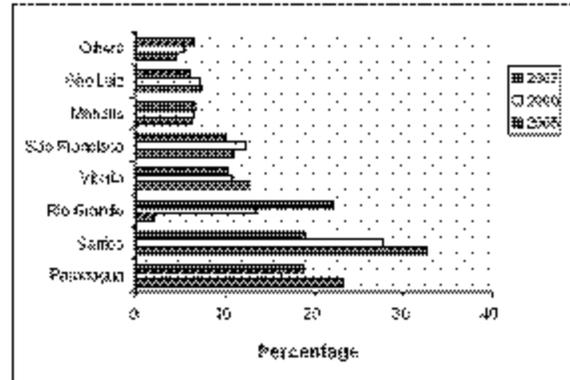
Sources: Secretaria de Comércio Exterior (SECEX) and Companhia Nacional de Abastecimento (CONAB)

Top 5 world soybean exporting countries



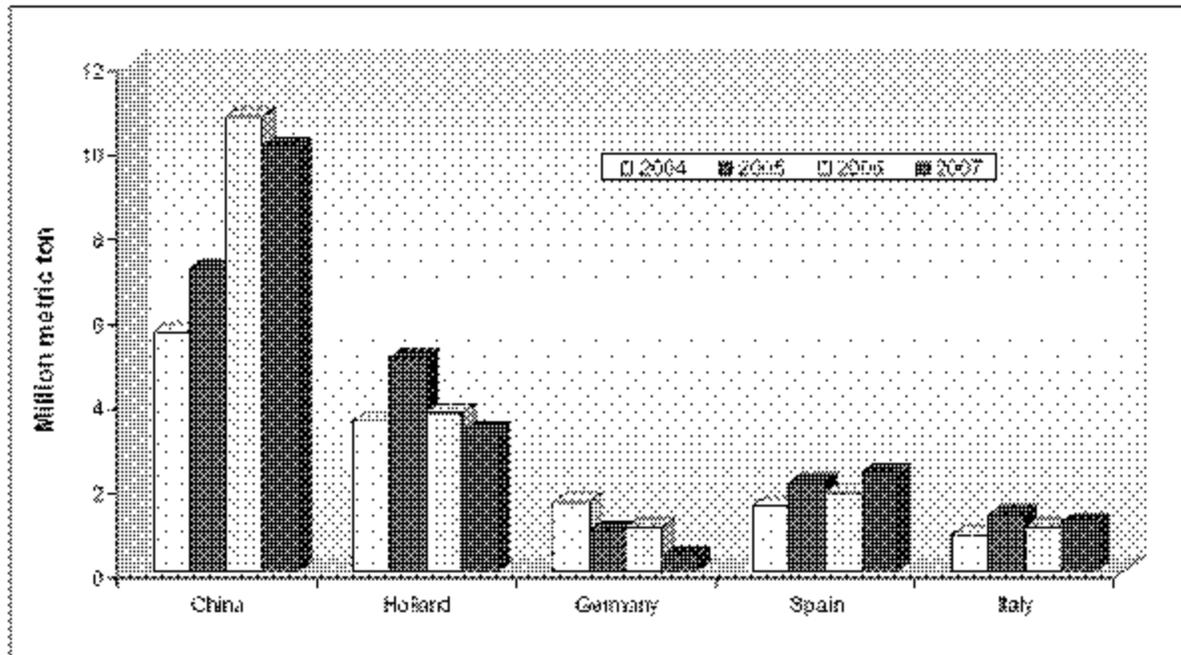
Forecast: April 9, 2008  
Source: USDA/FAS

Brazil soybean exports by port



Sources: Secretaria de Comércio Exterior (SECEX) and Companhia Nacional de Abastecimento (CONAB)

Brazil soybeans: top 5 export destinations



Sources: Secretaria de Comércio Exterior (SECEX) and Companhia Nacional de Abastecimento (CONAB)

| Soybean imports: world supply and distribution<br>(1,000 metric tons) |               |               |               |               |               |
|---|---------------|---------------|---------------|---------------|---------------|
| Country   | 2003/04       | 2004/05       | 2005/06       | 2006/07       | 2007/08*      |
| China   | 16,933        | 25,802        | 28,317        | 28,726        | 34,000        |
| EU-27   | 14,675        | 14,540        | 13,943        | 15,289        | 14,950        |
| Japan   | 4,688         | 4,295         | 3,962         | 4,094         | 4,100         |
| Mexico  | 3,797         | 3,640         | 3,667         | 3,940         | 3,950         |
| Taiwan  | 2,217         | 2,256         | 2,498         | 2,436         | 2,475         |
| Argentina   | 537           | 692           | 584           | 1,986         | 2,400         |
| Thailand  | 1,407         | 1,517         | 1,473         | 1,532         | 1,650         |
| Indonesia   | 1,059         | 1,112         | 1,187         | 1,309         | 1,400         |
| Korea   | 1,368         | 1,240         | 1,190         | 1,231         | 1,225         |
| Turkey  | 603           | 858           | 986           | 1,172         | 1,200         |
| Other   | 6,716         | 7,571         | 6,232         | 7,225         | 7,984         |
| <b>Total</b>  | <b>54,000</b> | <b>63,523</b> | <b>64,039</b> | <b>68,940</b> | <b>75,334</b> |

\*Most countries are on an October/September Marketing Year (MY). The United States, Mexico, and Thailand are on a September/August MY. Canada is on an August/July MY. Paraguay is on a March/February MY and Turkey is on an March/February MY.

\*\*Forecast: April 9, 2008

Source: USDA/ Foreign Agricultural Service/Circular Series

| Soybean exports: world supply and distribution<br>(1,000 metric tons) |               |               |               |               |               |
|---|---------------|---------------|---------------|---------------|---------------|
| Country   | 2003/04       | 2004/05       | 2005/06       | 2006/07       | 2007/08*      |
| United States   | 24,128        | 29,860        | 25,579        | 30,428        | 29,257        |
| Brazil  | 20,417        | 20,137        | 25,911        | 23,485        | 27,000        |
| Argentina   | 6,741         | 9,568         | 7,249         | 9,538         | 11,500        |
| Paraguay  | 2,776         | 2,888         | 2,465         | 4,000         | 4,600         |
| Canada  | 897           | 1,093         | 1,326         | 1,683         | 1,520         |
| Other   | 1,228         | 1,197         | 1,411         | 1,788         | 1,568         |
| <b>Total</b>  | <b>56,187</b> | <b>64,743</b> | <b>63,941</b> | <b>70,922</b> | <b>75,445</b> |

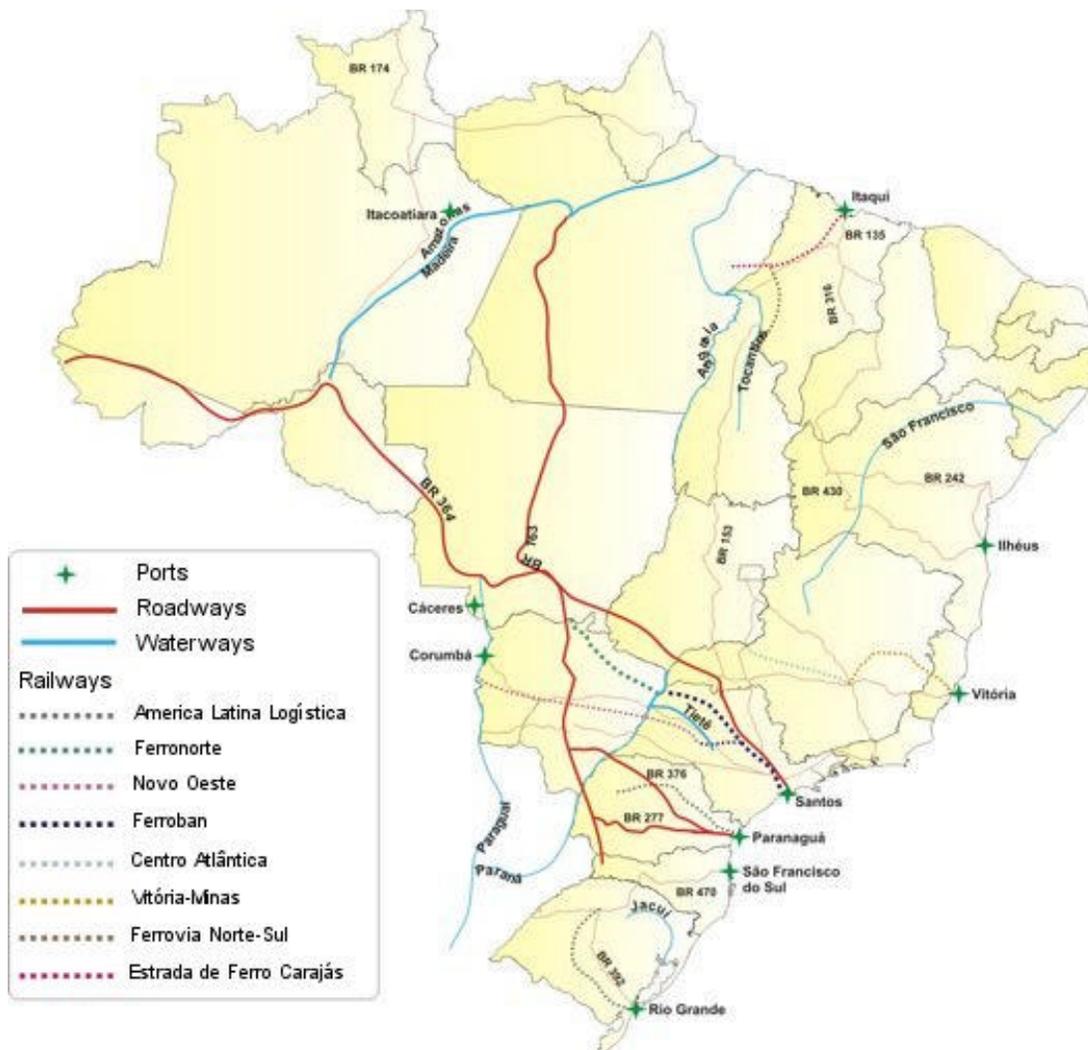
\*Most countries are on an October/September Marketing Year (MY). The United States, Mexico, and Thailand are on a September/August MY. Canada is on an August/July MY. Paraguay is on a March/February MY and Turkey is on an March/February MY.

\*\*Forecast: April 9, 2008

Source: USDA/ Foreign Agricultural Service/Circular Series

### 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 be 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 Western Mato Grosso whose soybeans travel by barge from Porto Velho, Rondonia. This route is used primarily by Maggi group soybeans, which move through their port at Itacoatiara (State of Amazonas). Beans from Pará and Northern Mato Grosso are frequently shipped further upriver via the Cargill port in Santarém, Pará.



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 is planned to expand southward to Goiania, Goiás by 2012. The most important development for the Northern Corridor will be the completion of Tegram grain terminal at Itaquí which will provide the necessary infrastructure for grain shipments. A strong rate of growth in the region over the past 2-3 years of both production and processing of soybeans indicates that this port will be a more widely used option for exporters in the future. Itaquí not only has room to expand, but is the deepest natural port in Brazil.

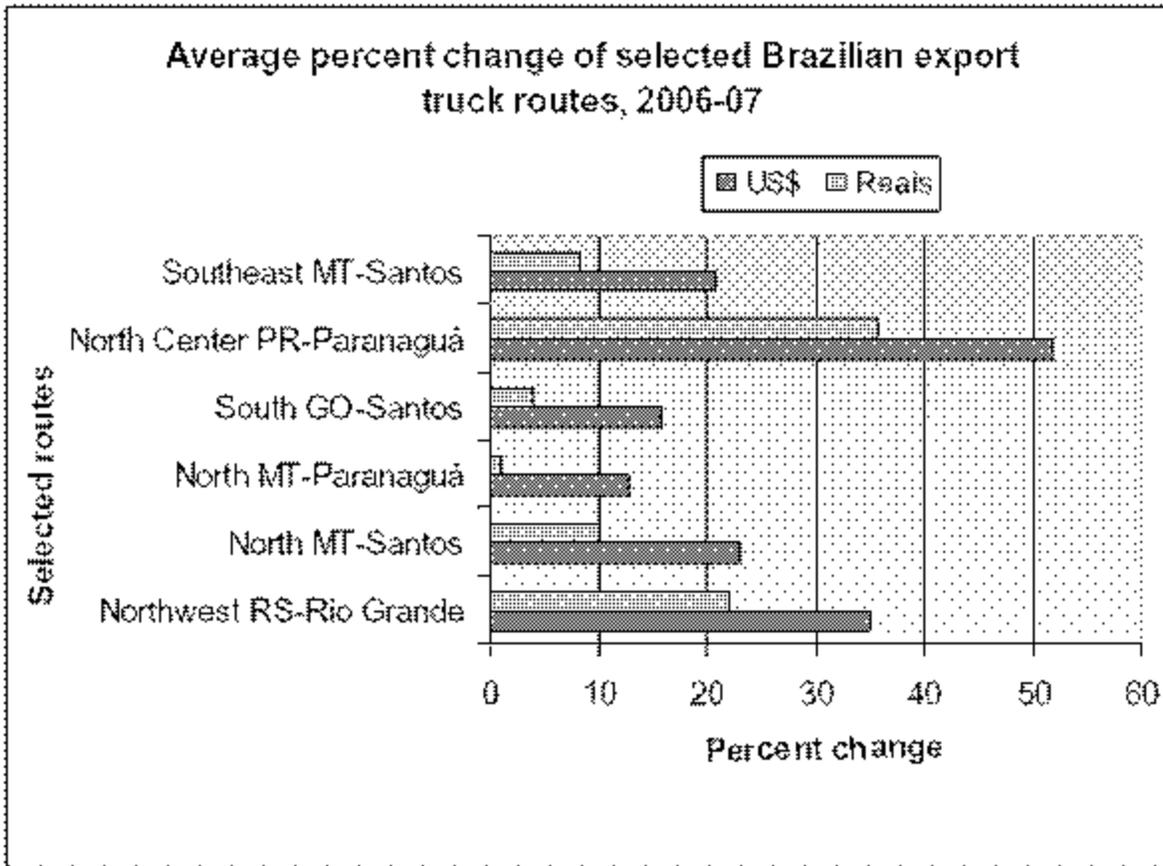
| Truck rates for selected Brazilian soybean export routes, 2005-2007 |   |             |                                  |                  |       |       |                            |
|---|---|-------------|----------------------------------|------------------|-------|-------|----------------------------|
| Route #   | Origin <sup>1</sup><br>(reference city) | Destination | Distance<br>(miles) <sup>2</sup> | 2005             | 2006  | 2007  | Percent<br>Change<br>06-07 |
|   |   |             |                                  | Reais/metric ton |       |       |                            |
| 1   | Northwest RS <sup>3</sup> (Cruz Alta)   | Rio Grande  | 288                              | 10.85            | 12.19 | 14.87 | 22.05                      |
| 2   | North MT (Sorriso)                      | Santos      | 1190                             | 16.12            | 14.53 | 16.00 | 10.11                      |
| 3   | North MT (Sorriso)                      | Paranaguá   | 1262                             | 14.93            | 13.46 | 13.60 | 1.03                       |
| 4   | South GO (Rio Verde)                    | Santos      | 587                              | 15.43            | 16.14 | 16.77 | 3.92                       |
| 6   | North Center PR (Londrina)              | Paranaguá   | 268                              | 19.50            | 17.29 | 23.47 | 35.69                      |
| 11  | Southeast MT (Primavera do Leste)       | Santos      | 901                              | 15.89            | 13.91 | 15.06 | 8.31                       |

<sup>1</sup>Although each origin region comprises several cities, the main city is considered as a reference to establish the freight price

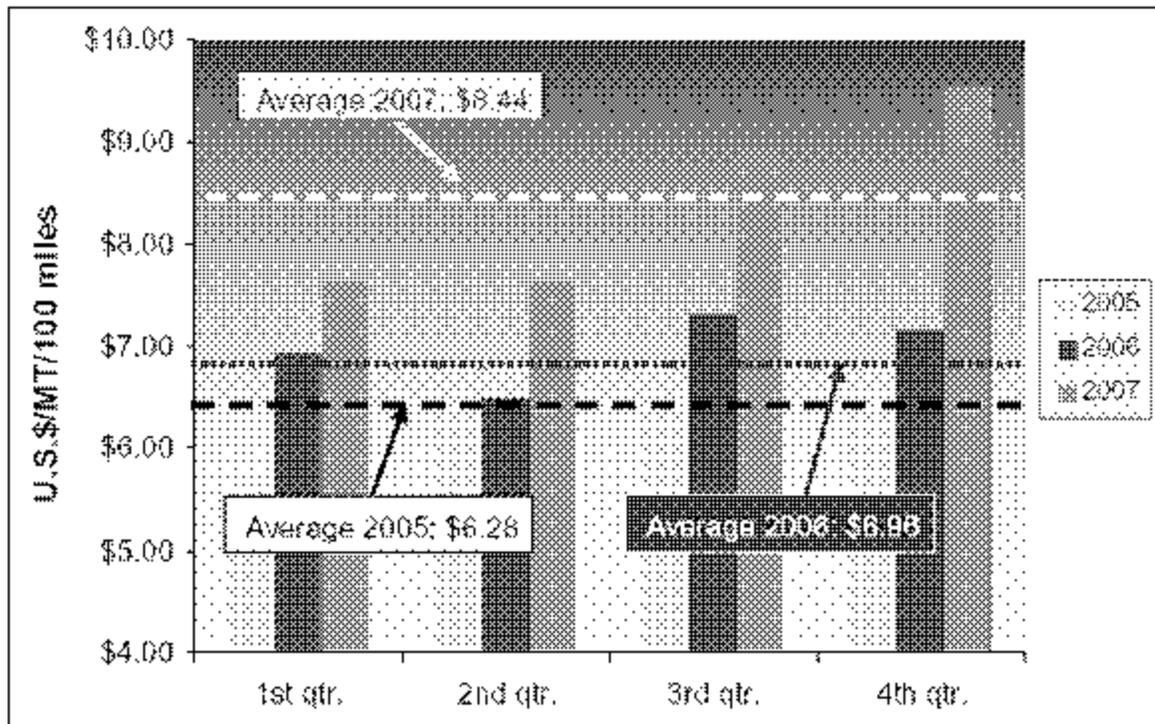
<sup>2</sup>Distance from the main city of the considered region to the mentioned ports

<sup>3</sup>RS = Rio Grande do Sul, MT= Mato Grosso, GO = Goiás, PR = Paraná, MG = Minas Gerais, BA = Bahia, MS = Mato Grosso do Sul, SP = São Paulo

Source: ESALQ/USP (University of São Paulo, Brazil) and USDA/AMS



Brazilian soybean export truck cost index



Source: ESALQ/ USP (University of São Paulo, Brazil) and USDA/AMIS

| Quantity costs of transporting soybeans from Brazil to Shanghai, China |                                     |        |        |        |        |  |        |        |        |        |
|--|-------------------------------------|--------|--------|--------|--------|--|--------|--------|--------|--------|
|  | 2017                                |        |        |        |        | 2018   |        |        |        |        |
|  | RS                                  | MT     | GO     | PR     | Other  | RS   | MT     | GO     | PR     | Other  |
|  | North MT - Santos*<br>-US\$/mt-     |        |        |        |        | North MT - Paranaguá*<br>-US\$/mt-                               |        |        |        |        |
| Truck  | 87.98                               | 90.67  | 101.26 | 110.36 | 82.87  | 78.19  | 83.59  | 87.09  | 102.38 | 94.85  |
| Ocean  | 73.32                               | 191.28 | 72.00  | 74.81  | 82.93  | 72.32  | 110.20 | 85.50  | 75.22  | 90.81  |
| Total transportation   | 161.30                              | 281.95 | 173.26 | 185.17 | 165.80 | 150.51   | 168.59 | 172.59 | 177.59 | 185.66 |
| Farm Value <sup>1</sup>  | 196.22                              | 196.01 | 284.10 | 306.30 | 233.92 | 190.22   | 186.31 | 234.16 | 306.30 | 261.82 |
| Landed Cost  | 357.52                              | 477.96 | 457.36 | 491.47 | 414.33 | 340.72   | 354.90 | 406.75 | 483.89 | 447.48 |
| Transport % of landed cost   | 35.3                                | 30.2   | 42.0   | 37.7   | 33.8   | 43.6   | 43.4   | 39.5   | 36.7   | 42.3   |
|  | Southeast MT - Santos*<br>-US\$/mt- |        |        |        |        | North Center PR - Paranaguá<br>-US\$/mt-                         |        |        |        |        |
| Truck  | 83.73                               | 53.14  | 75.36  | 70.10  | 89.69  | 84.72  | 85.51  | 88.84  | 83.90  | 82.36  |
| Ocean  | 73.32                               | 191.28 | 72.00  | 74.81  | 82.93  | 72.32  | 110.20 | 85.50  | 75.22  | 90.81  |
| Total transportation   | 157.05                              | 244.42 | 147.36 | 144.91 | 172.62 | 157.04   | 195.71 | 174.34 | 159.12 | 173.17 |
| Farm Value <sup>1</sup>  | 196.22                              | 196.01 | 284.10 | 306.30 | 233.92 | 190.22   | 230.45 | 272.70 | 306.30 | 281.74 |
| Landed Cost  | 353.27                              | 440.43 | 381.50 | 451.21 | 386.23 | 347.27   | 386.16 | 377.04 | 421.28 | 354.32 |
| Transport % of landed cost   | 41.1                                | 46.7   | 39.0   | 33.0   | 38.0   | 45.8   | 39.0   | 27.6   | 22.3   | 28.9   |
|  | South GO - Santos*<br>-US\$/mt-     |        |        |        |        | Northwest RS <sup>2</sup> - Rio Grande <sup>2</sup><br>-US\$/mt- |        |        |        |        |
| Truck  | 44.88                               | 35.98  | 52.24  | 45.95  | 50.47  | 18.68  | 25.23  | 21.89  | 20.24  | 21.52  |
| Ocean  | 73.32                               | 191.28 | 72.00  | 74.81  | 82.93  | 71.82  | 109.70 | 74.50  | 74.23  | 81.35  |
| Total transportation   | 118.20                              | 227.26 | 124.24 | 120.77 | 133.40 | 90.50  | 134.93 | 96.39  | 94.47  | 102.87 |
| Farm Value <sup>1</sup>  | 231.96                              | 228.49 | 367.53 | 346.22 | 309.55 | 248.73   | 228.00 | 254.59 | 333.86 | 297.16 |
| Landed Cost  | 350.16                              | 455.75 | 391.77 | 467.00 | 401.95 | 341.53   | 362.93 | 348.98 | 428.33 | 370.03 |
| Transport % of landed cost   | 33.8                                | 43.5   | 31.7   | 27.2   | 33.5   | 26.9   | 37.2   | 26.3   | 22.0   | 25.1   |

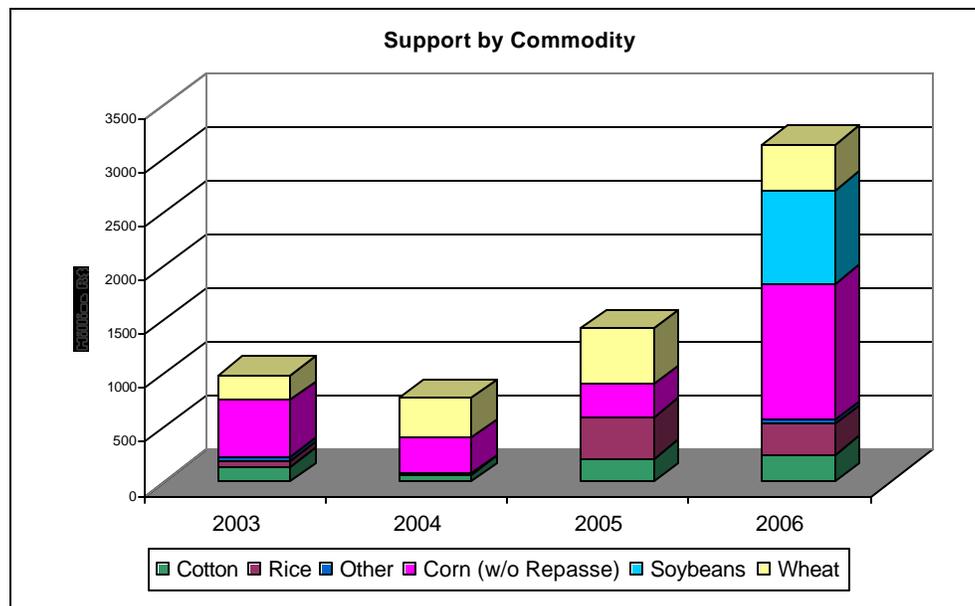
Producing regions: RS = Rio Grande do Sul; MT = Mato Grosso; GO = Goiás; PR = Paraná  
<sup>1</sup>Export price  
<sup>2</sup>Source: Companhia Nacional de Abastecimento (CONAB)  
 Source: ESALG/USP (University of São Paulo), Brazil and USDA/AMIS

| Table 1: Average soybean export prices by region, destination, and month, 2007 |  |            |                                   |           |       |       |       |       |       |
|--|--|------------|-----------------------------------|-----------|-------|-------|-------|-------|-------|
| Region   | City                                   | State      | Production (thousand metric tons) | Share (%) | Month |       |       |       |       |
|  |  |            |                                   |           | Jan   | Feb   | Mar   | Apr   | May   |
| 1  | Northwest RS (Cruz Alta)               | Rio Grande | 288                               | 16.6      | 6.92  | 6.76  | 7.60  | 7.05  | 7.58  |
| 2  | Northwest (Goiás)                      | Santos     | 1190                              | 10.1      | 7.26  | 7.51  | 8.64  | 9.27  | 9.27  |
| 3  | Northwest (Goiás)                      | Paranaíba  | 1252                              | 9.5       | 6.27  | 6.62  | 6.90  | 8.11  | 8.98  |
| 4  | South GO (Rio Verde)                   | Santos     | 567                               | 7.9       | 7.06  | 6.31  | 8.90  | 8.83  | 8.63  |
| 5  | South GO (Rio Verde)                   | Paranaíba  | 705                               | 6.6       | 6.81  | 6.87  | 6.95  | 7.39  | 6.73  |
| 6  | North Center PR (Londrina)             | Paranaíba  | 268                               | 4.4       | 7.36  | 13.62 | 14.34 | 12.59 | 12.78 |
| 7  | Western Center PR (Marabá)             | Paranaíba  | 911                               | 3.3       | 6.91  | 7.16  | 10.08 | 10.32 | 9.62  |
| 8  | Triangle MG (Uberlândia)               | Santos     | 338                               | 3.8       | 12.02 | 11.67 | 12.10 | 13.13 | 12.20 |
| 9  | West PR (Assis Chateaubriant)          | Paranaíba  | 377                               | 5.7       | 6.20  | 6.37  | 8.48  | 9.14  | 7.65  |
| 10   | West Extreme BA (Sítio Dendêiro)       | Niterói    | 544                               | 3.9       | 6.83  | 10.21 | 10.22 | 10.76 | 9.78  |
| 11   | Southeast MT (Primeira de Maio)        | Santos     | 961                               | 3.6       | 7.07  | 7.01  | 6.60  | 8.48  | 7.72  |
| 12   | Southeast MT (Primeira de Maio)        | Paranaíba  | 476                               | 3.3       | 7.37  | 6.32  | 7.32  | 7.84  | 7.16  |
| 13   | Southwest MS (Maracaju)                | Paranaíba  | 611                               | 3.1       | 7.53  | 7.82  | 6.36  | 8.49  | 8.06  |
| 14   | Southwest MS (Maracaju)                | Santos     | 452                               | 2.5       | 7.83  | 7.27  | 6.95  | 8.86  | 7.73  |
| 15   | West PR (Assis Chateaubriant)          | Santos     | 561                               | 2.5       | 7.65  | 7.56  | 8.47  | 9.26  | 8.32  |
| 16   | Western Center RS (Tupaciretá)         | Rio Grande | 273                               | 2.4       | 7.59  | 8.93  | 8.62  | 10.67 | 9.26  |
| 17   | Southeast PR (Chopinzinho)             | Paranaíba  | 251                               | 2.3       | 9.38  | 7.83  | 8.32  | 8.85  | 8.61  |
| 18   | Eastern Center PR (Castro)             | Paranaíba  | 130                               | 2.3       | 15.52 | 16.07 | 17.58 | 16.79 | 16.24 |
| 19   | South Center PR (Guaraciama)           | Paranaíba  | 201                               | 2.1       | 9.02  | 10.49 | 11.51 | 12.25 | 10.32 |
| 20   | North Center MS (São Gabriel do Oeste) | Santos     | 720                               | 2.6       | 6.49  | 6.73  | 7.15  | 7.70  | 7.02  |
| 21   | Ribeirão Preto SP (Guiricê)            | Santos     | 314                               | 1.6       | 10.02 | 10.57 | 10.81 | 11.95 | 10.62 |
| 22   | Northeast MT (Canarana)                | Santos     | 564                               | 1.4       | 7.87  | 8.16  | 9.06  | 10.82 | 8.93  |
| 23   | Assis SP (Palmital)                    | Santos     | 262                               | 1.2       | 7.62  | 8.27  | 6.77  | 8.28  | 8.21  |
| 24   | Northeast MT (Canarana)                | Paranaíba  | 1073                              | 1.2       | 6.97  | 7.23  | 8.10  | 9.24  | 7.89  |
|  | Average                                |            | 626                               | 3.0       | 7.63  | 7.63  | 8.55  | 9.54  | 8.44  |

<sup>1</sup>Although each origin region comprises several cities, the main city is considered as a reference to establish the freight price, as not available.  
<sup>2</sup>Distance from the main city of the considered region to the mentioned ports.  
<sup>3</sup>Share is measured as a percentage of total production.  
<sup>4</sup>US\$ per metric ton (average monthly exchange rate from "Banco Central do Brasil" was used to convert Brazilian reais to the U.S. dollar).  
 RS = Rio Grande do Sul, MT = Mato Grosso, GO = Goiás, PR = Paraná, MG = Minas Gerais, BA = Bahia, MS = Mato Grosso do Sul, SP = São Paulo.  
 Source: E-SALC/USP (University of São Paulo, Brazil) and USDA/AMS.

## 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 following table).

| 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                          |
| <b>Total</b>                             | <b>38,931</b>     | <b>44,508,389</b>          | <b>47,759</b>     | <b>48,324,083</b>          |

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).

#### Government Support for the Commercialization of Soybeans (thousand metric tons)

| Program         | 2005/06  | 2006/07  |
|-----------------|----------|----------|
| PEP             |          |          |
| offered         | 17,011.0 | -        |
| sold            | 5,194.6  | -        |
| PROP            |          |          |
| offered         | 2,000.0  | 14,099.1 |
| sold            | 587.0    | 2,313.7  |
| PEPRO           |          |          |
| Offered         | 17,061.0 | 19,900.0 |
| Sold            | 3,485.4  | 5,725.0  |
| Total Support   | 9,267.0  | 8,039.2  |
| Production      | 55,027.4 | 58,391.8 |
| Participation % | 16.8%    | 13.8%    |

Source: Brazilian Ministry of Agriculture/SPA/DEAGRO

## Environmental Issues in the Forefront

During the past year, the environmental repercussions of agricultural production and expansion have come to the forefront. In January Brazil's space agency (INPE) announced their findings of accelerated deforestation of the Amazon, which triggered a wave of concern that put Brazil's producers once again in the focus of the Brazilian and international press. Then in early April, the Environment Minister, along with Brazil's environmental protection agency (IBAMA), decided to cut off the federal financing of municipalities in 8 states that were found with illegally cleared land (without the appropriate reserve left intact). In addition, those farms found with illegally cleared land would be prohibited from growing or selling, and the deforested areas would have to be restored. This hit the state of Mato Grosso particularly hard, and the state is now discussing with Brazil's executive office the fairness of the assessment (ie if the lands were cleared before formal forest legislation was in place), and how realistic the measures are considering that suspending such a large area of production in Mato Grosso would have a severe impact on its economy.

Not only is there a question regarding how long ago these areas were deforested, but also which areas are under which forest code. Under current legislation, areas in the Cerrado (Savannah) Biome must leave 35% in reserve, while in the Amazon Biome, the amount is 80%. Farmers find it impractical to farm only 20% of their land while leaving 80% in reserve, and there have been problems with the issuance of illegal permits and land titles in order to avoid complying with the code. To further complicate the situation, there is disagreement about what areas actually come under the Amazon biome classification, and this is a highly sensitive issue, since some of the major producing areas of Mato Grosso are either in transition areas or very close to being in the biome itself.

## Study Contends that Agricultural Expansion Diminishes Rainfall

Brazil's space agency (INPE) climatology center recently published research in *Geophysical Research Letters* on the correlation between agricultural expansion and decreased and altered rainfall patterns in Brazil and Internationally. The findings infer that the fewer the trees, the less rainfall due to less evapo-transpiration. This effect is said to be aggravated during the dry season when soybean area is even more exposed, causing more solar radiation to be absorbed by the soil, heating the atmosphere more and causing rains to take longer to develop.

There has been much speculation that the cause of recent droughts in Southern Brazil and heavier rains during the Center-west's rainy season is due to deforestation of the Amazon. The INPE study suggests this exact idea, that as deforested areas create more heat, rainfall patterns are being altered, creating more rain around the Amazon, and less in Southern Brazil.

This is the first study to show a consequential relationship between land clearing and climate change, and translates to more bad news for Brazil's Ag sector, as public opinion is moved against agricultural expansion. As long as the Minister of Environment continues to be a strong and influential figure in Brazil, and as environmental concerns continue to increase, farmers will likely face resistance to area expansion in Brazil.

## **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 on purchasing soybeans from newly deforested areas in the Amazon and will complete two years of the agreement in July 2008. The Brazilian Vegetable Oil Industry Association (ABIOVE) and the National Grain Exporters Association (ANEC) both signed 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 effectiveness of the measure was evaluated July 2007 and it was found that the enforcement with satellites was working to a reasonable extent. However, land title confusion in the Amazon has made it difficult to determine exactly who owns deforested land and who is producing the soybeans.

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 and animal fat. 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 increased domestic production of this fossil fuel and the growing domestic production and the use of ethanol. 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 was estimated at 840 million liters per year for 2006 and 2007, and the projection is for 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. The main deterrent to the development of Brazilian biodiesel is high international soybean prices, making production unviable.

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, Piauí, Mato Grosso, São 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.

| <b>Brazilian Industrial Capacity for Biodiesel Production</b> |            |                     |
|---|------------|---------------------|
| 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          |
| <b>Total</b>                             | <b>29</b> | <b>1,706.2</b> |
| 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 traceability 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)