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Brazil

Grain and Feed

Annual Report

2006

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Report Highlights:
Post forecasts corn production in 2005/06 at 41.0 million tons, imports at 500,000 tons and exports at 1.1 million tons for the marketing year. Corn production for 06/07 is forecast up 500,000 tons to 41.5 million tons on 12.5 million hectares. Imports for 06/07 are forecast at 750,000 tons and exports at 1.0 million tons.

Rice production for 05/06 is forecast at 11.5 million tons. Imports for the marketing year to begin next month are forecast at 700,000 tons with exports at 175,000 tons. Production for next year is forecast to recover to 13.0 million tons on 3.6 million hectares while imports and exports are forecast to fall to 600,000 tons and 150,000 tons respectively.

Wheat production in 2005 was 4.8 million tons with marketing year imports forecast at 6.1 million tons and exports at 550,000 tons. Post forecasts planted area in 2006 at 2.4 million tons, virtually unchanged from 2005 though production is forecast up slightly to 5.0 million tons. Marketing year imports are forecast at 6.0 million tons.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Unscheduled Report
Brasilia [BR1]
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Executive Summary

Post forecasts corn production in 2005/06 at 41.0 million tons, which is six million tons greater than last year's drought devastated crop. Corn imports are forecast at 500,000 tons and exports at 1.1 million tons for the marketing year. Corn production for 06/07 is forecast up 500,000 tons to 41.5 million tons on 12.5 million hectares, down slightly from the current crop area estimate. Imports for 06/07 are forecast at 750,000 tons and exports at 1.0 million tons

Rice production for 05/06 is forecast at just 11.5 million tons, which is 1.7 million tons less than last year due to reduced acreage. Imports for the marketing year to begin next month are forecast at 700,000 tons with exports at 175,000 tons. Production for next year is forecast to recover to 13.0 million tons on 3.6 million hectares while imports and exports are forecast to fall to 600,000 tons and 150,000 tons respectively.

Wheat production in 2005 was 4.8 million tons with marketing year imports forecast at 6.1 million tons. With the support of government incentives, exports are forecast at 550,000 tons. Post forecasts planted area in 2006 at 2.4 million hectares, virtually unchanged from 2005 though production is forecast up slightly to 5.0 million tons. Marketing year imports are forecast at 6.0 million tons.

Economic Situation

Economic indicators suggest that the economy fared well in 2005 despite the effects of the political crisis Brazil is experiencing in Congress, directly involving President Lula. Inflation (IPCA) in 2005 was estimated at 5,31%, while the annual interest rate (Selic) closed 2005 at 18%. Economic growth in 2005 was 3.31% and the exchange rate closed 2005 at around R$2.30/US$.

The outlook for 2006 calls for more favorable market conditions. Market analysts and government institutions project economic growth between 3.5 and 4.0%. Inflation is expected to decrease, finishing the year at 4.6%. Lower interest rates are forecast in 2006 between 15.8% and 16.0% and a higher average exchange rate at R$2.50/US$ is likely to have a positive impact on the performance of the agriculture sector.

Although forecasts are optimistic, the Brazilian economy may experience some instability in 2006 due to the upcoming presidential elections in October. The current political crisis has strengthened the competition for the presidential campaign and the opposition poses a major threat to Lula's reelection

Corn

Brazil							
Corn							
	2004	**Revised**	**2005**	**Estimate**	**2006**	**Forecast**	**UOM**
	USDA Official [Old]	**Post Estimate [New]**	**USDA Official [Old]**	**Post Estimate [New]**	**USDA Official [Old]**	**Post Estimate [New]**	
Market Year Begin		03/2005		03/2006		03/2007	MM/YYYY
Area Harvested	11470	11750	12800	12600	0	12500	(1000 HA)
Beginning Stocks	8118	7800	4618	4300	6018	4700	(1000 MT)
Production	35000	35000	42500	41000	0	41500	(1000 MT)
TOTAL Mkt. Yr. Imports	700	600	600	500	0	750	(1000 MT)
Oct-Sep Imports	481	542	700	600	0	850	(1000 MT)
Oct-Sep Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	43818	43400	47718	45800	6018	46950	(1000 MT)
TOTAL Mkt. Yr. Exports	700	600	1700	1100	0	1000	(1000 MT)
Oct-Sep Exports	1431	1430	1500	800	0	1500	(1000 MT)
Feed Dom. Consumption	32100	32100	33500	33500	0	34500	(1000 MT)
TOTAL Dom. Consumption	38500	38500	40000	40000	0	41500	(1000 MT)
Ending Stocks	4618	4300	6018	4700	0	4450	(1000 MT)
TOTAL DISTRIBUTION	43818	43400	47718	45800	0	46950	(1000 MT)

Production

Post forecasts 2005/06 area at 12.6 million hectares and production at 41.0 million tons with 31.9 million tons from the summer crop and 9.1 million tons from the winter crop, which is now in the initial stage of planting. Production in 2004/05 was just 35 million tons, seven million tons less than the previous year. As a result of this diminished crop, Post expected prices to react strongly in the second half of 2005 and stimulate increased corn area. Though area planted for the 2005/06 summer crop did increase, due partially to producers moving away from soybeans, the price of corn was low at planting and has continued weak since then. The reasons for the low prices include that last year's winter corn crop ended up a bit larger than most expectations, an unusually large amount of low quality wheat entered feed rations, there are plentiful supplies of sorghum, and corn exports have virtually ceased due to a strong currency and relatively low international prices. All these factors lead to dismal producer returns for last year's summer and winter corn crops.

Post Forecast 2006 Summer Corn Production			
	Area (1000 Hectares)	Yield (Tons/Hectare)	Production (1000 Tons)
Goias	450	5.50	2,475
Bahia	400	2.40	960
Minas Gerais	1,350	4.60	6,210
Sao Paulo	800	4.82	3,856
Rio Grande do Sul	1,400	3.00	4,200
Santa Catarina	830	3.90	3,237
Parana	1,488	4.92	7,321
Others	*3,000*	*1.20*	*3,600*
Total	**9,718**	**3.27**	**31,859**

Post Forecast 2006 Winter Corn Production			
	Area (1000 Hectares)	Yield (Tons/Hectare)	Production (1000 Tons)
Parana	950	3.3	3,400
Mato Grosso	600	3.4	2,040
Mato Grosso do Sul	450	3.0	1,350
Sao Paulo	350	3.2	1,120
Goias	200	4.8	960
Bahia	300	0.75	225
Others	50	1.0	50
Total	**2,900**	**3.15**	**9,145**

Post estimates the 2006 summer crop, 70 percent harvested to date, at 31.9 million tons (see chart above), which is 4.5 million tons greater than the 2005 summer crop. The larger crop is due to greater planted area, more favorable growing conditions, slightly lower costs of production (see chart below) and sufficient input use. It has been widely reported that fertilizer applications for the summer crops were down from last year due to high prices and the precarious financial situation of producers. Analysts use figures from the national fertilizer industry to support this idea citing that in 2004, 29.7 million tons of fertilizer were sold while in 2005 the figure was nearly nine million tons less. However, it is important to note that fertilizer use for the summer crop changed little from year to year. The great reduction in applications was to the winter crop, which was planted in early 2005 and is considered part of 2004/05 production. Despite adequate input use, summer crop yields were impacted by a drought in southern Brazil that reduced yields in RGDS, Santa Catarina, and Parana. However, these losses are partially offset by good productivity in Goias and Sao Paulo State. Minas Gerais, the second largest summer corn crop state, also experienced beneficial weather with production estimated at 6.2 million tons.

Corn Cost of Production Costs R$ Per Hectare				
	2002	2003	2004	2005
State				
Goias	984	1,327	1,633	1,555
Parana	1,010	1,344	1,506	1,411
Minas Gerais	1,024	1,304	1,602	1,503
Bahia	1,056	1,402	1,561	1,329
Mato Grosso do Sul (Winter)	514	738	962	893
Average Cost	**917**	**1,223**	**1,452**	**1,338**

Data source: FNP
* As of June of each year

Winter corn production, which is about 20 percent planted to date, is forecast by Post at 9.1 million tons, 1.4 million tons more than last year's crop. The winter crop is typically more variable than the summer crop due to lower input use and less favorable growing conditions. For example, in a normal crop year the yield for the winter crop in Parana is only 60 percent that of the summer crop. Nevertheless, Post forecasts a recovery in the national winter corn yield compared to last year's drought-impacted crop. Planted area is expected to increase in most states due to strengthening prices, with area in Parana, Sao Paulo, Goias, and Bahia all forecast up from last year. However, winter corn area in Mato Grosso is expected to fall, as

prices remain dismal due in part to high freight costs to Southern Brazil, where most of the corn from the state is consumed. Nearly all corn from Mato Grosso is transported over 2,000 km to the south at a cost of U.S. $80 per ton, which is nearly double the farm-gate price in northern growing areas of the state, such as Sinop and Sorriso. Producers in the state recently informed Post that at least R$12 per sack is needed to cover production costs and with the current price at R$8 per sack, most growers will opt for a winter cover crop such as millet or oats instead of corn.

Post forecasts 2006/07 production at 41.5 million tons as planted area is expected to fall slightly but yields should improve from this year's summer crop that was impacted somewhat by drought in the south. Restrained prices as a result of a relatively large expected winter harvest this year will be a disincentive for producers. In addition, the impact of foot and mouth disease on demand for corn in feed rations should pressure down prices. Post believes there will be a recovery in the winter crop of 2006 and these supplies will enter the market just prior to planting of the 2006/07 summer crop. Though summer crop planting is still several months away, producers are already making planting decisions. The current soybean/corn price spread is similar to last year at this time and is currently R$13 per sack compared to R$14 per sack last year. This suggests there is not a strong price incentive to move area to or away from corn. Plentiful global supplies and a continued strong currency should discourage Brazilian exports as a major outlet for this year's large harvest. Therefore, unless the safrinha crop suffers a major loss, weak prices should lead to lower planted area for 2006/07. In addition, if prices for petroleum and nitrogen-based fertilizers remain high, producers may look to move away from corn to lower input-intensive crops.

Trade

With one month of data remaining, Post estimates 2005/06 (March/Feb.) imports at 600,000 tons. The feed industry in Northeastern Brazil purchased 400,000 tons of corn early in the marketing year when Argentine corn was priced more than $30 below Brazilian supplies. Since that time the price spread between Brazilian and Argentine supplies has narrowed and remained below $20 per ton notwithstanding a stronger Brazilian currency, which raises the price in dollars for domestic supplies. Rising prices in Argentina due to strong export demand and prospects for a smaller crop in 2005/06 are the primary reasons for the smaller current spread. This spread, along with very restrictive import regulations for Argentine biotech corn, has slowed imports to a trickle. Post forecasts the import pace to remain low over the next several moths as the current price spread range is maintained due to low Brazilian prices resulting from a large summer crop.

Post forecasts 2006/07 (March/Feb.) imports to decrease slightly to 500,000 tons due to greater domestic supply, strong Argentine prices, and continued restrictions on biotech corn imports. Meanwhile, imports for 2007/08 (March/Feb.) are forecast to increase to 750,000 tons as domestic demand strengthens, stocks fall slightly, Argentine production rebounds, and clearer import regulations for biotech corn imports are established by CTNbio.

The Post forecast for 2005/06 (March/Feb.) exports is unchanged from the previous Grain and Feed Report at 600,000 tons, with just one month of data remaining and 506,000 tons exported to date. Exports in 2005/06 (Oct/Sept) are forecast by Post at just 800,000 tons due to uncompetitive prices and a very strong currency (see chart on page 12). Domestic corn users should pay more for supplies than exporters thus preventing large-scale shipments. Domestic feed millers are concerned over the impact of drought on corn supplies in Southern Brazil as well as with the uncertainty regarding expected winter corn planted area.

As the table below illustrates, U.S. and Argentine supplies are more competitive than Brazilian corn. Though the spread has fallen to just a U.S. $18 per ton premium for Brazilian corn and Iran has recently purchased from Brazil, the strong Brazilian currency should prevent large-scale shipments over the next several months. However, in the event of a large winter corn crop this year, several hundred thousand tons could be exported in the final months of the marketing year and thus marketing year (ending in Feb. 2007) shipments are forecast at 1.1 million tons. Post forecasts 2006/07 trade year exports to recover to 1.5 million tons due to the probability of more favorable export conditions.

2005/06 Corn Export Prices
FOB U.S. $/Ton

	Mar 05	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan 06	Feb
U.S.A.	101	96	93	100	105	106	106	106	97	96	104	109
Argentina	84	84	84	93	99	101	98	97	91	90	99	108
Brazil	114	116	123	122	123	120	116	112	116	116	122	125
Brazil/Arg Spread	**30**	**32**	**39**	**29**	**24**	**19**	**18**	**15**	**25**	**26**	**23**	**18**

Source: IGC, Safras, Post

Consumption

Consumption in 2006/07 (March/Feb.) is forecast at 40.0 million tons, which is a four percent increase over the previous year while use is forecast at 41.5 million tons in 2007/08. The largest user of corn in Brazil is industrialized feed rations and rations from all grain sources is estimated at 46.9 million tons in 2005 up from 43.5 million tons in 2004. Corn comprises roughly 63 percent of industrialized rations for all of uses but poultry and swine rations contain the highest concentrations of corn at 66 percent and 65 percent respectively. Meanwhile, feed formulations for the beef and dairy industries rely more on soybean, cotton, and wheat meal with corn only accounting for 20 percent of these rations.

Post forecasts pork production to increase 3.3 percent in 2006 while poultry increases 4.9 percent and cattle rises 2.2 percent. Given these increases in livestock and poultry production and assuming near even use by the pet food industry and by other animal operations, Post forecasts total corn in ration feeding in 2006 at 29.1 million and 4.4 million tons in on-farm feeding for total feed use of 33.5 million tons. Therefore, total consumption is expected to rise to 1.5 million tons from last year. Post forecasts continued strong on-farm feeding as commodity prices are expected to remain low which traditionally leads to significant feeding by small-scale producers. The impact of the global avian influenza on demand for Brazilian poultry could result in less demand than currently forecast with some in the poultry industry suggesting a reduction in poultry production could occur in 2006. Furthermore, international bans on Brazilian pork due to FMD could result in less corn demand. The chart below breaks down consumption by user. It should be noted that the category “Other” varies greatly from year to year as on-farm human consumption is very price-dependent. In addition, post-harvest and transportation losses are highly variable.

Brazilian Corn Consumption (1,000,000 tons)				
Consumption base	**2004**	**2005***	**2006***	**2007***
Industrialized Rations	26.0	27.9	29.1	30.2
Broilers	13.8	14.6	15.3	16.0
Hens	2.2	2.3	2.4	2.5
Hogs	7.6	8.3	8.6	8.9
Cattle (beef & dairy)	1.1	1.2	1.3	1.3
Other Animals & Pets	1.4	1.5	1.5	1.5
On Farm Rations	4.5	4.2	4.4	4.3
Human Consumption	4.4	4.7	4.9	5.1
Dry Milling	1.6	1.8	1.9	2.0
Wet Milling	1.4	1.5	1.6	1.7
Small Mills	1.4	1.4	1.4	1.4
Other (fresh, on-farm use, loses & seeds)	1.4	0.7	1.6	1.9
Total	**36.3**	**38.5**	**40.0**	**41.5**

Sources: SindiRacoes, Abimilho, and Post

* Post Forecasts

- Based on a Calendar year.
- Note: the 2007 table year corresponds to the March 2007 to Feb. 2008 year in the PS&D table, since the majority of the year falls in 2007.

Human consumption in 2006 is expected to increase slightly due to "Zero Hunger" programs, though rice should be the main beneficiary of the program. Use of corn in pet foods is also increasing and driving consumption. Private and government forecasts likely underestimate human consumption of corn because they focus solely on processed corn use data and fail to include corn that is consumed by farm households and fresh corn consumption.

Stocks

Post revised upward the ending stocks estimates for 2003/04, 2004/05, and the forecast for 2005/06 based on updated consumption information and figures released by Conab. Producers and market analysts have been very critical of Conab for the early estimate of stocks for the year beginning in March 2005, which were estimated at 4.0 million tons as of January 2005 (compared to the Post estimate at the time of 5.5 million tons) but were later raised by the government to 7.9 million tons. This drastic underestimate of stocks left producers incorrectly expecting higher prices that never materialized. Given that the crop in 2005 fell dramatically by 7 million tons to just 35 million tons and based on the stocks estimate of only 4 million tons, government and private analysts forecasted imports at 4 to 6 million tons and strong domestic prices. The Minister of Agriculture was particularly forceful in stating that imports during the year would reach a minimum of 4 million tons. Despite these official estimates, in the March and July 2005 Grain and Feed Reports, Post maintained imports low at just 500,000 tons and stocks high at 5.5 million tons. Additionally, a few other analysts, such as Celeres, maintained that government stocks were underestimated.

As the year progressed and prices remained dismal with very little imports occurring, it became evident that stocks were much higher than originally estimated by the government. Conab has explained that the error was due to overestimating domestic feed consumption,

particularly from the poultry sector as the production period for broilers dropped from 65 to 42 days, which reduced feed consumption.

Forecasting stocks in Brazil is a great challenge due to the large number of livestock and poultry operations as well as the difficulty in assessing stocks held by small producers. The situation in 2005 is exemplary as it demonstrates the difficulty in consumption and stock forecasting in Brazil and thus the variability in import and export forecasts

Rice

Brazil							
Rice, Milled							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		04/2005		04/2006		04/2007	MM/YYYY
Area Harvested	3905	3916	3400	3133	0	3600	(1000 HA)
Beginning Stocks	1342	1300	1567	1543	732	738	(1000 MT)
Milled Production	8976	8994	7800	7820	0	8840	(1000 MT)
Rough Production	13200	13227	11471	11500	0	13000	(1000 MT)
MILLING RATE (.9999)	6800	6800	6800	6800	0	6800	(1000 MT)
TOTAL Imports	550	550	700	700	0	600	(1000 MT)
Jan-Dec Imports	545	532	750	750	0	650	(1000 MT)
Jan-Dec Import U.S.	0	25	0	75	0	50	(1000 MT)
TOTAL SUPPLY	10868	10844	10067	10063	732	10178	(1000 MT)
TOTAL Exports	300	300	125	175	0	150	(1000 MT)
Jan-Dec Exports	272	272	125	175	0	150	(1000 MT)
TOTAL Dom. Consumption	9001	9001	9210	9150	0	9250	(1000 MT)
Ending Stocks	1567	1543	732	738	0	778	(1000 MT)
TOTAL DISTRIBUTION	10868	10844	10067	10063	0	10178	(1000 MT)

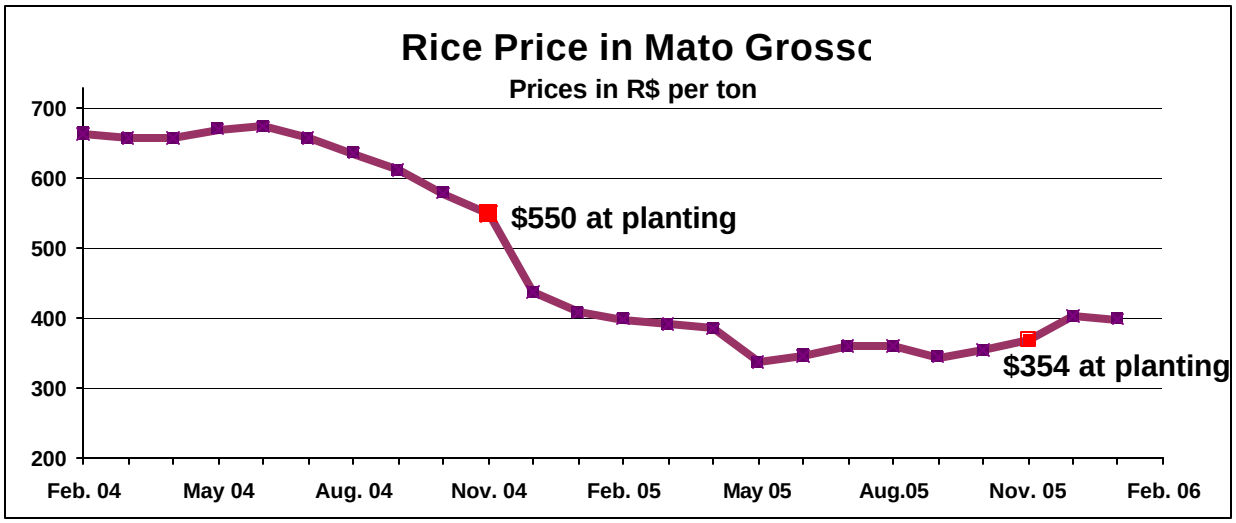
Production

Post estimates harvested area for the current crop (2005/06) down seven percent from last year to 3.1 million hectares. This dramatic fall is due to the following four factors:

1) Dismal prices at planting that were just over half the level of the previous year.
2) Lack of public and private production credit.
3) Declassification of the Cirad variety as "long-fine." The Cirad variety was the highest yielding, lowest cost, and most planted variety in Mato Grosso last year.
4) The suspension of licenses from the Environmental Agency for the opening of new lands. New lands are typically put into rice production for two years before transitioning to soybeans and cotton.

As a result of the drop in planted area, Post forecasts 2005/06 production at 11.5 million tons, which is 1.7 million tons less than last year's crop. The largest drop in production will be seen in the second largest (in 2005) production state of Mato Grosso where planted area and production are expected to fall 60 percent from last year. This unprecedented fall in production is due principally to very poor prices received for last year's crop along with

continued weak prices at planting (see price chart below). These prices led many producers to opt to plant rice only one year, instead of two, on newly cleared cropland before soybeans are planted. During a recent trip to Mato Grosso, Post observed some fields that were planted directly to soybeans without even one preparatory rice crop to correct the soil PH. Rice in Mato Grosso is not unirrigated and production costs less than for soybeans though rice yields are greater than for soybeans on new cleared soils with poor fertility.



Area planted to rice held generally steady in most other production states though Goias and Tocantins also planted less area. Prices in these Center-West states, along with Mato Grosso, were the lowest in Brazil as the distance to consumption centers in the Southeast is the greatest. Post forecasts the national average yield at 3.7 tons per hectare, which is up nine percent over last year. The yield in the largest production state of RGDS, where over half the crop is produced, is expected to be better than last year's crop, which experienced a serious drought with a slight reduction in irrigation supplies and high salinity in reservoirs.

Post forecasts 2006/07 production at 13.0 million tons as area is expected to recover somewhat to 3.6 million hectares. Slightly higher yields are expected due to continued improved seed varieties and greater adoption of the Clearfield system used to control red rice and other weeds. Cooperatives in Southern Brazil reported to Post during visits last month, that growers are very discouraged with the expected returns this year. Most producers expect a net loss, as current poor prices do not cover rising input costs. However, Post questions the calculations used to compute production costs as irrigation expenses are reported to be overstated and producer organizations often include land rent costs though the majority of producers in the state own the land they farm. Nevertheless, there is little question that producer margins have tightened the past few years. Growers in the state generally have no alternative crop options given the very high cost invested in irrigation systems. It has become apparent over the past few years that despite weak producer prices, these restrictions on alternative crops and high investment costs associated with rice production have prevented a reduction in acreage. As a result of the relatively small 2005/06 crop, Post expects prices to recover in the second half of 2006. This price recovery, combined with an exchange rate slightly less favorable to rice imports, should stimulate producers to return planted area to rice in many regions. However, Post's area forecast is 300,000 tons below that of 2004/05 because a full recovery in area in Mato Grosso is not expected (see chart below).

The financial situation of producers in Santa Catarina is better than in RGDS and Mato Grosso since yields in the state are the highest in Brazil and pressure from Argentine imports is less intense. The reasons for the exceptional yields in the state include:

1) The average size farm is just 15 hectares with superior management practices
2) Pre-germinated system of planting dominates the state
3) Adequate pre-plant soil preparation – PH is perfect by planting
4) Adequate control of weeds though the Clearfield system with a high adoption rate
5) Idea growing temperatures with hot days and cool nights

Along with impressive yields, producers in Santa Catarina generally have higher net returns as irrigation expenses are much less than in RGDS since over 80 percent of irrigation water comes from natural streams. The future also looks promising for producers in the state as new varieties under development by the State Department of Agriculture are due to be released in 2008. Current varieties in the state average 130 grains per spikelet while new varieties have between 180 and 250. However, cooking quality is reported lower on these high-yielding varieties and thus more research is needed before commercialization.

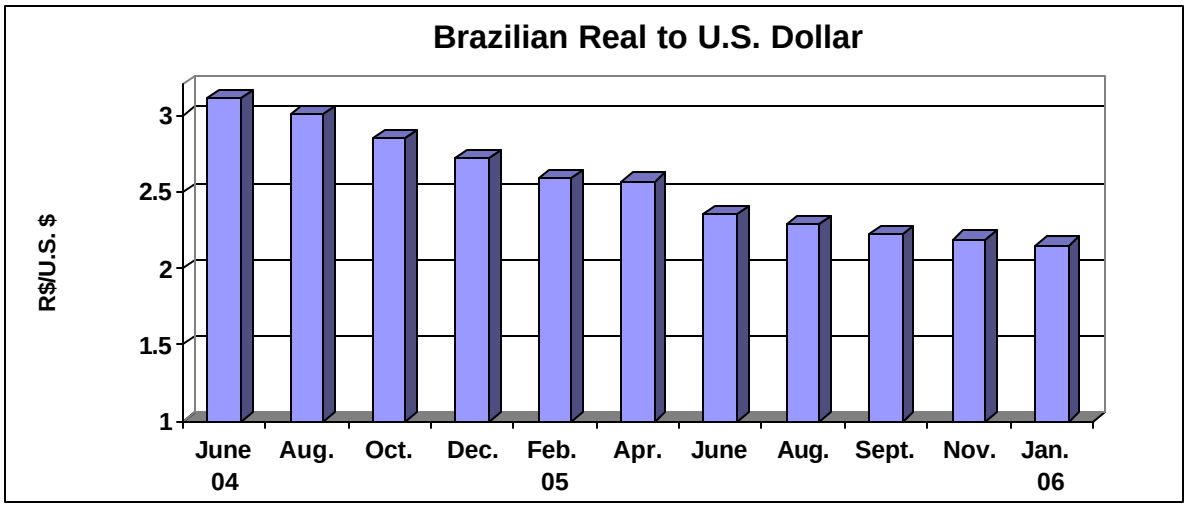
Rice Planted Area
(1,000 hectares)

	2004/05*	2005/06*	2006/07 (Post Forecast)
Rio Grande do Sul	1,049	1,018	1010
Maranhao	535	525	530
Mato Grosso	776	310	515
Para	298	268	300
Santa Catarina	154	156	160
Tocantins	199	120	200
Piaui	179	154	175
Minas Gerais	114	92	110
Others	612	490	600
Total	**3,916**	**3,134**	**3,600**

* Based on Conab estimates

Trade

Exports in calendar year 2005 reached a record 272,000 tons, compared to just 37,000 tons in 2004. Shipments were significant for the first three quarters of the year despite a very strong domestic currency and intense competition from other Mercosul suppliers. Traders in RGDS that were hit hard by the lack of soybean exports, due to the drought, sought to make a profit in rice and were successful with large-scale exports to Africa. Dramatically low domestic prices made Brazilian rice competitive. Besides significant exports of broken rice to Senegal, which is mixed with high quality Asian rice, Brazil is also exporting whole rice to Japan. In 2005, small amounts were shipped by Rio Grande do Sul based Josapar, but the company seeks to further increase market share in Japan where nearly 300,000 Brazilians live and demand “long-fine” rice.



Post forecasts exports in 2006 to fall to 175,000 tons as exportable supplies shrink with a smaller harvest and somewhat stronger prices are expected. Nevertheless, large carryin stocks and an expected slightly more favorable exchange rate should continue to support some broken rice shipments to Africa.

Consumption

Currently, per capita rice consumption in Brazil is estimated at about 38 kilograms per year compared to more than 42 kilograms in 1987. Changes in eating habits due to less cooking preparation time and more out-of-home meal consumption have lead to the fall in consumption. As a result, producers last year pressed the government to dedicate resources from the "forced contribution" of R$0.30 per sack to a marketing campaign. All producers must pay the fee when rice is commercialized and originally these funds were to be used to benefit the rice industry. Nevertheless, over the years it simply became incorporated in the state budget for other purposes. However, with the difficult plight of producers the past few years, state officials conceded in dedicating the funds to the program, which is administered by the Riograndense Institute of Rice along with the government of the state of Rio Grande do Sul. Approximately R$4.0 million will be used to boost consumption of rice through magazine and television commercials. The objective of the marketing campaign is to raise consumption by one kilogram per person per year until 2010, which would result in an extra 2.5 million tons of rice demanded.

Post forecasts consumption in 2006/07 at 9.25 million tons, which is 100,000 tons above the 2005/06 estimate. 2006 is an election year and typically the government seeks to please the electorate by pursing policies favorable to low priced commodities. Therefore, price support mechanisms for rice are somewhat unlikely in 2006, thus stimulating use.

Policy

Brazil and Argentina recently signed an agreement known as the Mechanism of Competitive Adaptability (MAC, in Portuguese). The measure allows for each country to impose safeguards against imports that significantly impact domestic industries. Argentina has long complained about the flood of Brazilian manufactured goods and this agreement was in response to strong pressure from Argentine industries. However, Brazilian rice and wheat producers have made known their intention to use the mechanism as a way to limit imports that depress domestic prices. The Brazilian rice industry expects to request a measure

against Argentine imports within the next 30 days. The industry argues that Argentine taxes on rice production amount to only 20 percent while taxes in Brazil are greater than 40 percent. The Federation of Rice Producers of Rio Grande do Sul (Federarroz) suggests that the cost of production in the state is R$28 per sack while Argentine rice is imported at R$17 per sack. It is not yet clear the form of the safeguards if they are adopted, but wheat producers are also interested in requesting protection.

Wheat growers in Parana and RGDS are urgently studying a measure against wheat as well as pre-mix flour imports, which receive a preferential export tax benefit in Argentina and compete with the domestic milling industry. Both the rice and wheat measures, if adopted, could increase the competitiveness of U.S. exports to Brazil this year. Though Post expects that within the next two months both the rice and wheat industries will file for protection under the MAC agreement, it is somewhat doubtful that the Brazilian government would approve protection, especially for wheat, since it would raise prices for the commodities (both part of the basic food basket) in an election year.

With producers in RGDS frustrated over their inability to block imports from Argentina and Uruguay, they have turned to confronting non-Mercosul rice suppliers. The state's governor is proposing an increase in the Common External Tariff applied to non-Mercosul supplies from 12 percent to 35 percent. However, this appears to be more a political move, as imports from Asia and the U.S. have been very small in comparison to exports from Argentina and Uruguay. Meanwhile, a second proposed action is to bring a case before the WTO on U.S. rice domestic support. However, this proposal has been rumored for several years now and appears to lack strong support from the Brazilian and Uruguayan governments.

Wheat

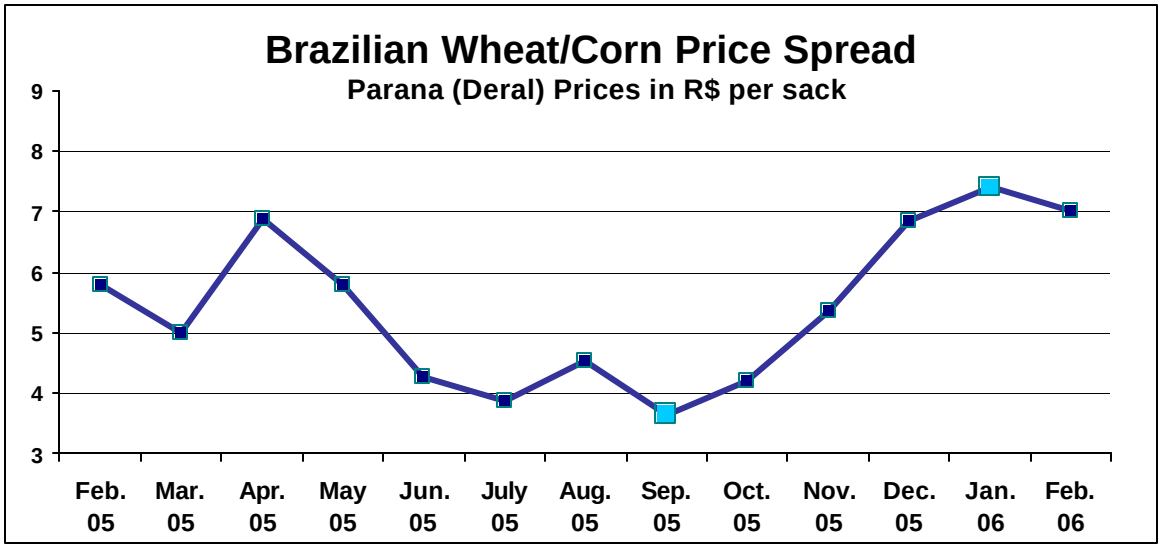
PS&D

Brazil							
Wheat							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2004		10/2005		10/2006	MM/YYYY
Area Harvested	2756	2756	2400	2361	0	2400	(1000 HA)
Beginning Stocks	508	701	1349	1246	449	669	(1000 MT)
Production	5845	5845	4600	4873	0	5000	(1000 MT)
TOTAL Mkt. Yr. Imports	5211	5219	5700	6100	0	6000	(1000 MT)
Jul-Jun Imports	5309	5398	6000	6000	0	5900	(1000 MT)
Jul-Jun Import U.S.	55	55	0	150	0	100	(1000 MT)
TOTAL SUPPLY	11564	11765	11649	12219	449	11669	(1000 MT)
TOTAL Mkt. Yr. Exports	15	19	400	550	0	25	(1000 MT)
Jul-Jun Exports	14	15	400	550	0	25	(1000 MT)
Feed Dom. Consumption	300	200	800	600	0	200	(1000 MT)
TOTAL Dom. Consumption	10200	10500	10800	11000	0	10800	(1000 MT)
Ending Stocks	1349	1246	449	669	0	844	(1000 MT)
TOTAL DISTRIBUTION	11564	11765	11649	12219	0	11669	(1000 MT)

Production

Post forecasts 2006 wheat production at 5.0 million tons on 2.4 million hectares compared to the 2005 crop of 4.87 million tons on 2.36 million hectares. Post observed in a recent trip to southern Brazil that producer opinions regarding the potential winter crop planted area differed greatly. Cooperatives in RGDS and Parana indicate that though producers are discouraged with returns for wheat, most have little option but to plant the crop again this year in direct planting systems following soybeans. However, several sources in RGDS have stated that a limited amount of winter crop land will move into sunflower production as returns are better and demand in the state will increase as a new processing plant (for biodiesel) in Passo Fundo should be completed soon. Meanwhile cooperatives in Santa Catarina and contacts in the Center-West believe area will be even or slightly greater than last year.

Corn is the principal winter crop that competes with wheat for planted area in Southern Brazil, where over 90 percent of the crop is produced. Over the past two years, severe drought in the region forced many producers that planned on planting winter corn to plant wheat instead. This year soil moisture conditions have improved which would suggest some area shift to corn. However, Post believes that the improved conditions for corn planting will be offset by the strengthening price of wheat. The chart below illustrates that the wheat/corn spread has nearly doubled over the past five months as producers prepare for planting and is greater than last year at this time. Furthermore, the outlook for corn prices is somewhat bleak as corn exports are unlikely due to the strong currency and current demand is restrained. Meanwhile wheat prices are expected to strengthen as Argentine exportable supplies are down from last year and lower quality Brazilian wheat continues to be exported.



Trade

According to official government data, total 2004/05 (October/September) imports were 5.2 million tons, which includes 4.9 million tons of wheat and 300,000 tons of flour and pre-mix flour (see Rice Policy section for more information). Argentina accounted for over 90 percent of exports to Brazil but Paraguayan shipments were significant at 300,000 tons. U.S. Wheat exports were very minimal due to plentiful and low-priced exportable supplies in Argentina combined with weak Brazilian prices. U.S. exports have fallen for the past 4 years as

domestic wheat production has climbed (see chart below). However, Post forecasts an increase in U.S. wheat exports this year due to tighter supplies in Argentina and rain during harvest in Brazil that lowered the quality of the crop in Parana. U.S. Hard Red Winter wheat should be particularly competitive in Northeastern Brazil from May to August before the domestic harvest.

U.S. Wheat Exports to Brazil (tons)			
2003/04	**2004/05**	**2005/06**	**2006/07**
652,453	487,037	106,809	18,799

Imports for October 2005 to September 2006 are forecast at 6.1 million tons. Imports for the first third of the year totaled 2.1 million tons including 131,000 tons of flour and pre-mix flour. Imports for the 2005/06 international trade year (July/June) are forecast at 6.0 million tons with 3.3 million tons imported through the first 7 months. Increasing domestic prices and a shortage of quality milling wheat should support strong imports for the final five months before harvest. Argentina (90 percent) and Paraguay (10 percent) continue to supply nearly all of Brazil's wheat imports.

Post forecasts October/September 2005/06 exports at 550,000 tons, compared to just 19,000 tons last year. Post is aware that over 400,000 tons have be shipped to date with reports of additional sales via the port of and Rio Grande. Most industry contacts expect that between 400,000 to 500,000 tons will be exported though some speculate as much as 700,000 tons could be shipped this year. Just two years ago Brazil exported 1.3 million tons of wheat due to excessive supplies of medium to lower-quality wheat and very low prices. The situation is somewhat similar this year, but less dramatic with fewer exportable supplies. Rain at harvest in Parana led to excess feed-quality supplies and continued strong imports from Argentina have depressed domestic prices. However, even under these circumstances, Brazilian wheat is not competitive in global markets and thus a government export subsidy in the form of the PEP program is being used to export low-quality supplies and support domestic producers.

Brazilian Subsidized Wheat Exports by Destination (1000 tons)			
Destination	**Brazil Wheat Exports Oct. 2005/Jan. 2006** (4 months)	**U.S. Wheat Export Market Share (%)***	**U.S. Corn Export Market Share (%)**
Spain	161,740	8	0
Philippines	121,910	65	41
S. Korea	55,000	35	26
Egypt	53,500	20	70
Vietnam	20,732	4	0
Israel	15,951	28	31
Total	**428,833**		

*Based on July/June 04/05 data for wheat and 04/05 Oct/Sept. data for corn

As an example, under the PEP program, which was previously used only to support internal transportation, a miller or trading company purchases wheat from an interior cooperative at the minimum price (R$350 in RGDS) and ships the wheat to the nearest port for around R$50 per ton for an FOB price of R$400 per ton. The buyer then approaches the government with proof that the wheat was purchased at the minimum price and with the bill of loading. At this point the buyer/shipper is eligible to bid at an auction for a subsidy under the PEP

program. Recent auction prices were around R$210 per ton with this amount provided directly to the buyer. Therefore, under this program a buyer/exporter with wheat at the port with a value of R$400 (U.S. $190), which is uncompetitive globally, can export it for as little as R$190 CIF (U.S.$85) given the R$210 subsidy. At this price of U.S. $85, Brazilian feed quality wheat is competitive globally against Black Sea feed supplies and U.S. Soft Red Winter. Post believes that all exports this year will be executed under the PEP. It is expected that most exports will be destined to feed rations, thus also competing with U.S. corn, but some will likely be mixed for flour production by importers such as Vietnam.

Consumption

Post forecasts 2005/06 (beginning October 2005) consumption at 11.0 million tons. The Brazilian Wheat Industry Association (Abitrigo) estimates that about 9.8 million tons of wheat were milled in 2005 and that milling will increase slightly this year for total milling of 9.9 million tons. During election years, such as 2006, consumption typically increases due to more social programs and government efforts to boost the economy. In addition to 10 million tons of milling, Post forecasts imports of 310,000 (wheat equivalent weight) tons of flour from Argentina, 600 tons of wheat for feeding, and 190,000 tons of seed and losses for a total of 11.0 million tons (see chart below)

Brazilian Wheat Consumption
(1,000tons)

Consumption base	2004/05	2005/06	2006/07
Wheat Milled	9,800	9,900	10,100
Imported Flour/Pre Mix*	320	310	300
Wheat for Animal Feeding	200	600	200
Seed and Losses	180	190	200
Total	**10,500**	**11,000**	**10,800**

* In wheat grain equivalent
Source: Post

Per capita wheat consumption in Brazil is just 50 kilograms compared to 120 kilograms in neighboring Argentina. According to Abitrigo, wheat consumption in Brazil increased an average of six percent per year from 1994 to 2002 but since then has not grown more than three percent each year. This is primarily due to the very low price of substitutes such as rice and manioc over the past few years. Along with low farm gate prices, these substitute products also benefit from exemption of the PIS/Cofins. For the Brazilian wheat industry this poor rate of consumption growth is compounded with competition from flour from Argentina, which is exported under a preferential tax system under the guise of “pre-mix.” These Argentina imports increased more than 10 percent last year leading millers to request government action, which has not yet occurred.