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Brazil

Tomatoes and Products

Annual Report

2006

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Report Highlights:

Post reports a 7 percent decrease in total Brazilian tomato production in 2005 to 3.3 million tons and a 7 percent decline in area harvested to 58,385 hectares Production in 2006 is expected to increase slightly to 3.45 million tons as yields return to normal levels. Although a drop in processed acreage is occurring this year, Brazil's ever-improving varieties continue to improve yields, and production should surpass last year's drought and moisture-affected crop. Fresh market tomatoes are expected to decrease in 2006 by 40,500 tons. Production and acreage in 2007 is expected to return to 2005 levels.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Brasilia [BR1]
[BR]

Executive Summary

Post reports a seven percent decrease in total Brazilian tomato production in 2005 to 3.3 million tons and a seven percent decline in area harvested to 58,385 hectares. Production in 2006 is expected to increase slightly to 3.45 million tons as yields return to normal levels. Although a drop in processed acreage is occurring this year, ever-improving varieties are being developed by Embrapa, Brazil's research entity, which means production should surpass last year's drought and moisture-affected crop. Fresh market tomatoes are expected to decrease in 2006 by 40,500 tons. Production and acreage in 2007 is expected to return to 2005 levels.

Economic Overview

Brazil's economy, aided by favorable international economic circumstances, has dramatically improved its foreign debt situation. Although GDP growth dropped to 2.3% in 2005, down from a strong performance (4.9%) in 2004, Brazil has experienced booming exports, low inflation, decreasing unemployment and reductions in the debt-to-GDP ratio. Economic activity should pick up in 2006; key analysts expect GDP growth of about 3.5%. Buoyed by exports and investment inflows, the *Real* has remained at strong levels, allowing the government and businesses to pay down external debt. The government pre-paid its IMF obligations, its last remaining rescheduled Paris Club obligations and in April 2006, announced it had retired the last of its Brady bonds. This removes from the books all restructured debt associated with Brazil's late-1980's default. Based upon the improving external debt dynamics, Fitch IBCA upgraded its credit rating on Brazil's sovereign debt in February 2006, to BB (two notches below investment grade). The economy also has shown resilience, remaining for the most part unaffected by a major political scandal and the replacement of the finance minister.

Despite this considerable progress, key challenges remain. The public sector-debt-to-GDP ratio is on a downward trend but remains high, at about 52%. Real interest rates are among the highest in the world; reducing them will require both reductions in the government's borrowing requirement and reform of the financial sector and the judiciary. Income and land distribution remain skewed. Investment and domestic savings are low, although growing. The informal sector constitutes between 35 to 40 percent of the economy, in part because the tax burden (nearly 38 percent of GDP) is high. Achieving and sustaining high growth rates requires the implementation of more of the government's structural reform agenda and increased efforts to build a more welcoming climate for investment, both domestic and foreign. There has been only marginal progress on the reform agenda after passage of multiple measures in 2003 and 2004.

Economic Indicators

	1999	2000	2001	2002	2003	2004	2005	2006*
GDP Growth (%)	0.90	4.00	1.50	1.90	0.50	4.90	2.30	3.50
Inflation (%) (IPCA/IBGE))	8.90	6.00	7.70	12.50	9.30	7.60	5.20	4.20
Average Exchange Rate (R$/US$)	1.81	1.83	2.35	2.93	3.07	2.93	2.44	2.32
Total Exports (US$ billion)	48.10	55.00	58.20	60.40	73.10	96.50	118.30	124.00
Total Imports (US$ billion)	49.20	55.70	55.50	47.20	48.30	62.80	73.60	85.00

Source: Central Bank and Ministry of Planning
* Forecast

Production

Total Tomato Production

Post reports a 7 percent decrease in total Brazilian tomato production in 2005 to 3.3 million tons and a 7 percent decline in area harvested to 58,385 hectares. Production in 2006 is expected to increase slightly to 3.45 million tons as yields return to normal levels. Although a drop in processed acreage is occurring this year, ever-improving varieties are being developed by Embrapa, Brazil's research entity, which means production should surpass last year's drought and moisture-affected crop. Fresh market tomatoes are expected to decrease in 2006, but only 40,500 tons. Production and acreage in 2007 is expected to return to 2005 levels.

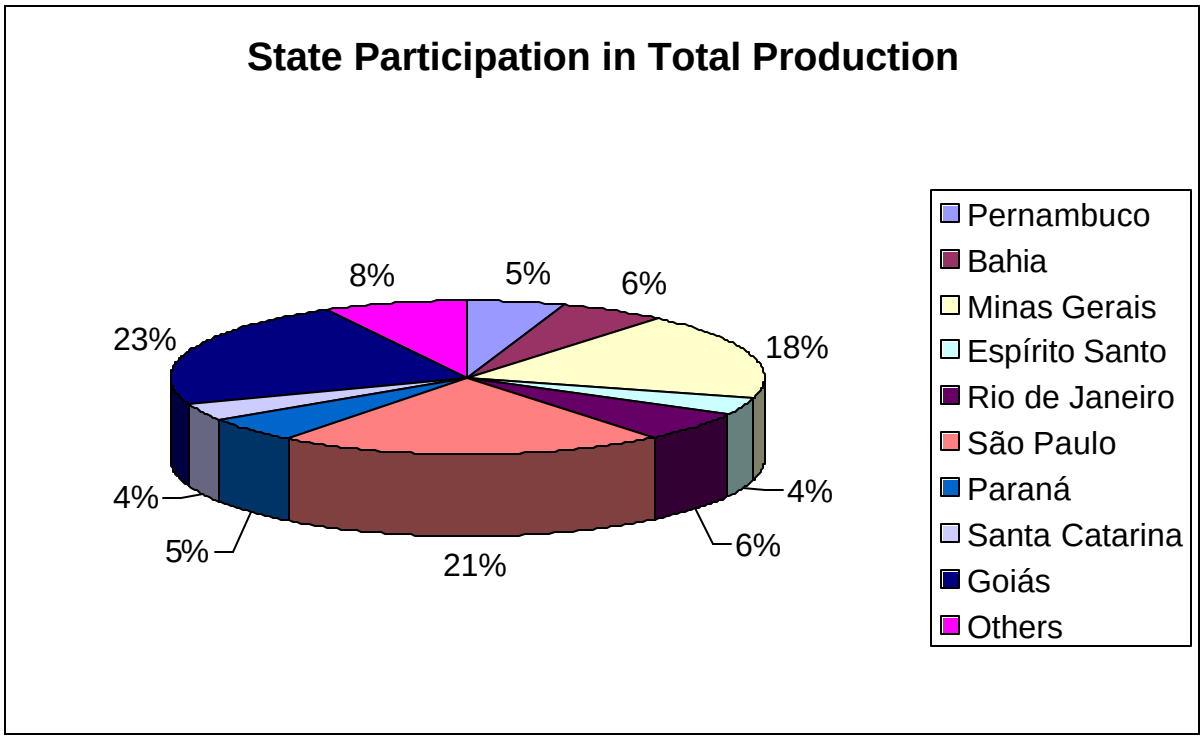
Production in 2005 was affected by untimely rain during the harvest, which reduced productivity, in particular in São José de Uba, one of the major production areas. Producers in this region had difficulty covering their costs and have reduced their planted area this year. Production in the state of Rio was also negatively impacted by white fly that cause a 20- 30 percent reduction in production and a 50% drop in yields. Finally, in the state of Espirito Santo, 40% production losses left tomato farmers poorly positioned in 2006, lacking capital needed for planting and pest and disease management.

During the period between harvests, bacterial canker (ring rot) reduced yields 20% in São Paulo. Prices, however, maintained high during this time, so producer losses were minor. An area increase for the tomato-producing region of São Paulo is expected for this year. Farmers in São Paulo made the best profits overall in 2005, due to higher overall prices and record yields. In Mogi-Guaçu, São Paulo, yields increased 30%.

Tomato area is expected to rise in 2006 due to the fact that more production that will be financed by graders and wholesalers. Area in the state of Santa Catarina is expected to rise 20% over 2005, and yields so far have been reported as good due to drier than normal weather conditions. Producers in Santa Catarina are also using a new technology against hail which has also boosted yields.

The three largest producing states of Goias, Minas Gerais, and Sao Paulo are expected to produce half of Brazil's total crop. The center-west growing area, encompassing the states of Minas Gerais and Goiás, is expected to produce approximately 75 percent of total processing tomatoes. Production in three states continues to grow.

Due to the growth potential for Brazilian consumption, Brazilian agricultural institutes and seed research companies have invested considerable resources to develop new and improved tomato varieties during the last 20 years. Brazilian research entity Embrapa is working on seed that is not only resistant to the local Gemini virus but also better suited to the climates of Brazil. New varieties and greater use of inputs and technology continue to boost productivity.



Brazilian Tomato Production by State in 2005

Region / State	Production (Tons)	Planted Area (Hectares)	Area Harvested (Hectares)
Brazil	**3,396,767**	**59,376**	**59,286**
North	**8,466**	**1,075**	**1,064**
Amazonas	3,198	626	625
Roraima	5,268	449	439
Northeast	**519,059**	**12,848**	**12,842**
Maranhão	6,814	340	340
Ceará	94,482	1,775	1,775
Rio Grande do Norte	11,841	373	373
Paraíba	21,672	650	650
Pernambuco	179,874	4,230	4,224
Sergipe	5,340	310	310
Bahia	199,036	5,170	5,170
Southeast	**1,668,166**	**25,782**	**25,721**
Minas Gerais	617,544	9,088	9,082
Espírito Santo	123,961	1,959	1,959
Rio de Janeiro	209,131	2,905	2,850
São Paulo	717,530	11,830	11,830
South	**399,539**	**8,376**	**8,368**
Paraná	185,299	3,532	3,532
Santa Catarina	123,239	2,309	2,308
Rio Grande do Sul	91,001	2,535	2,528
Center-West	**801,537**	**11,295**	**11,291**
Mato Grosso do Sul	3,898	97	94
Mato Grosso	2,231	126	125
Goiás	776,430	10,792	10,792
Distrito Federal	18,978	280	280

Source: IBGE

Average Yield of Brazilian Tomato Production (kg/ha): 1997-2005

1999	2000	2001	2002	2003	2004	2005
50.369	53.263	53.784	58.546	59.211	59.238	56.695

Source: IBGE

There are no official Brazilian statistics distinguishing processing and table tomatoes. Tomatoes can be grown in many regions of Brazil, and a favorable climate allows for production throughout the year, but the main season runs from June to September. Production is greatest in regions with milder winters and low chance for frost. Summer production poses greater risks for disease and fruit set problems, and is concentrated in higher elevations. The cost of production for tomatoes is very high, as it entails heavy use of labor and imported inputs, such as seeds, fertilizer and chemicals. Many input costs are U.S. dollar-based, so the recent appreciation of the Brazilian currency relative to the U.S. dollar has begun to bring some relief, although production costs continue to increase.

New higher-yielding tomato varieties are expected to further boost yields and production. Planted area is increasing rapidly in the Center-West region and has climbed from just 292,795 tons in 1996 to an estimated 900,000 tons in 2005. Yields in this area known as the Cerrado are the highest in the county at about 75 tons per hectare compared to 65 tons per hectare in the southeast region, which is the largest production region. Use of drip irrigation in the Center-West region is gaining popularity as it saves water (20 percent less) and energy. Additionally, drip irrigation applies water to the base of the plant without wetting the leaves and thus cuts down on humidity thereby impeding the development of diseases and cutting fungicide costs. Though installation of drip irrigation costs double that of center-pivot, some producers report a financial return 25 to 30 percent greater than with conventional center pivot irrigation. Yields under drip irrigation are reported at 110 tons per hectare, which is 40 percent greater than under traditional irrigation.

The Sustainable Agricultural Program, which is a technical assistance program of Unilever Bestfoods, also helps to spur production in the Center-West. The project aims to increase participating farmers profit margins as well as stimulate overall production, which would theoretically lower the company's tomato procurement costs. Unilever has also established a research farm in Goias in the Center-West which works to establish new tomato varieties, test irrigation systems, and monitor diseases.

Fresh Consumption

According to industry contacts, tomatoes for fresh consumption accounted for 75 percent of total Brazilian tomato production in 2005. The percentage of production for processing tomatoes is increasing, and is expected to continue growing.

The state of Goias became the leading producer in 2003 overtaking Sao Paulo. However, the major consumer market for table tomatoes in Brazil remains Sao Paulo and neighboring states are filling an increasing percentage of its market's demand.

Processing

Brazilian processed tomato production is estimated at 1.5 MMT for 2005, up 500,000 tons from the previous year. New high-yielding hybrids and greater use of inputs and technology are boosting productivity of processing tomatoes, particularly in the Center-West region. Yields in this area are highest in the country at about 75 tons/ha compared to 65 tons/ha in the Southeast region.

Tomatoes are produced throughout Brazil, primarily for fresh consumption, but there are three regions within Brazil that are commercially important for processing tomatoes. They are:

Region 1: the states of Bahia (BA) and Pernambuco (PE) in the Northeast region (planting in March-May, harvesting in June-October),

Region 2: the states of Goias (GO) and Minas Gerais (MG) in the center of the country (planting in March-June, harvesting in June-October), and

Region 3: the state of São Paulo (SP) in the Center-South region (planting in February-June, harvesting in June-November).

Based on official Brazilian statistics (IBGE), these three regions account for roughly 75 percent of all tomato production in Brazil, and virtually all the processing tomato production.

Tomato production declined in Region 1 in the past 5 years by 35 percent due, in large part, to further expansion of more profitable fruit production (bananas, grapes, mangoes, guavas) in the region and continued disease/pest problems, particularly with the white fly. The increased cost of pesticides and other inputs to combat the problem elevated the production costs for industrial tomatoes.

Production of processing tomatoes in Region 3 is expected to continue gradually declining over the long-term due to competition for area by other crops, urban encroachment, and subsequent increases in land values. Disease and pests are also a problem in this area and the cost of keeping these under control reduces the cost incentive to continue to grow processing tomatoes.

Tomato producers and the processing industry continue to migrate to the Center-West, particularly to the state of Goias due to financial incentives and favorable growing conditions. Financial incentives include lower taxes and easier access to long-term financing with low interest rates. Furthermore, farmers are enticed by lower fixed production costs in the form of cheaper land prices.

Production Processing Breakdown

It is the estimation of industry contacts that 40 percent of domestic production of processing tomatoes goes into extracts, which are more concentrated than paste and often used for marinating meats. Thirty percent goes into tomato sauces and purees, 15 percent goes into paste, and 14 percent into ketchup. However, since no official data on tomato products exists in Brazil and there is not a good match between terms used in Brazil and those used in the United States, it is difficult to estimate production numbers for processed tomato products.

Tomato Paste

Brazilian production of tomato paste is estimated at 145,000 in 2005, and forecast to increase to 150,000 in 2006. The majority of the paste is used in further processing for consumer-ready sauces and other such products. Exports to neighboring Paraguay and Argentina continue to decrease due to the strong Real, making Brazilian tomato products less competitive in these countries.

Demographic Trends and Tomato Product Consumption

There has been a fundamental shift in consumer preference toward ready-to-eat foods in Brazil. This, in turn, has lead to increased consumption of prepared tomato-based products such as "ethnic" sauces for cooking meats, pasta, and ketchup. In addition to increased purchasing power, Brazilians have less time to go shopping for fresh produce, more women are part of the work force, fewer people have time to go home for lunch and are instead eating fast food for lunch, fewer people have full-time maids to do the cooking, and urbanization is increasing. In addition, increasing consumption of fast food (pizzas, hot-dogs, hamburgers) has also increased demand for tomato products. Popularity of gourmet tomato products, such as sun-dried tomatoes, continues to rise in Brazil.

The recent changes in Brazilian consumer habits and lifestyles are expected to continue to drive consumption trends in Brazil over the long term. Although short-term economic factors have slowed growth in consumption of tomato-based products, consumption is recovering and growing at a healthy pace with economic recovery.

Fresh Tomato Consumption

Per capita tomato consumption is fairly low in Brazil, particularly for fresh tomatoes. According to Ceagesp (A Sao Paulo-based Agricultural Institute), Brazilian per capita tomato consumption is 6.3 kilos per year, while per capita consumption in Norway, Greece, Switzerland, and other countries exceeds 40 kilos per year. Brazilian fresh tomato consumption should increase with economic growth, improvement in varieties, and quality control.

Trade

Historically, the majority of Brazilian imports of tomato products are in the form of tomato paste (imported paste is 28-32 Brix), which is used to supplement domestic production and is further processed in Brazil into consumer-ready sauces and other similar products. Most Brazilian imports of tomato paste, when they occur, enter the country during the first half of each calendar year after the Brazilian harvest has already been processed and subsequently used in the production of finished products (harvesting in Brazil ends in October/November).

0702.00 Tomatoes, Fresh or Refrigerated						
Brazil Imports						
January - December						
Country	Quantity	Value	Quantity	Value	Quantity	Value
	Tons	US $	Tons	US $	Tons	US $
	2003		2004		2005	
World	24	5,292	223	67,684	18	41,516
Uruguay	24	5,292	200	54,782	18	41,160
Chile	0	0	23	12,902	0	0
United States	0	0	0	0	0	356
Source: Ministry of Development, Industry, and Commerce						

210320 Tomato Ketchup and Other Tomato Sauces			
Brazil Imports – Tons			
January – December			
	2003	2004	2005
World	175	563	941
Italy	133	303	379
United States	34	157	290
Chile	0	93	170
Argentina	0	6	53
Colombia	0	3	21
Venezuela	0	0	11
Greece	0	0	8
Germany	7	0	8
Others	1	1	1
Source: Ministry of Development, Industry, and Commerce			

2002.90 Tomato Paste						
Brazil Imports						
January - December						
Country	Quantity	Value*	Quantity	Value*	Quantity	Value*
	Tons	US $	Tons	US $	Tons	US $
	2003		2004		2005	
World	7,968	4.86	2,867	1.80	8,153	4.29
Chile	6,829	4.13	1,419	1.02	3,723	2.05
China	0	0.00	1,008	0.50	3,644	1.78
Italy	580	0.38	255	0.17	576	0.33
Argentina	8	0.00	184	0.11	207	0.13
Others	551	0.35	1	0.00	3	0.00
Source: Ministry of Development, Industry, and Commerce *millions of US$						

0702.00 Tomatoes, Fresh or Refrigerated						
Brazil Exports						
January - December						
Country	Quantity	Value	Quantity	Value	Quantity	Value
	Tons	US $	Tons	US $	Tons	US $
	2003		2004		2005	
World	3,176	667,642	890	101,572	476	135,107
Argentina	3,135	664,781	265	64,508	380	83,504
Paraguai	40	2,124	623	35,521	0	0
Italy	0	0	0	0	58	45,455
Uruguay	0	0	0	0	38	5,733
Others	1	737	2	1,543	0	415
Source: Ministry of Development, Industry, and Commerce						

In the past, the vast majority of Brazilian imports of tomato products have come from Chile, which is the largest and most efficient producer in the region. Imports of most tomato products dropped considerably in 1999 because the January 1999 devaluation of the Brazilian currency increased the cost of imported products. Conversely, Brazilian exports of fresh tomatoes, primarily to neighboring countries, increased in 1999 as the devaluation made Brazilian products more competitive but have since dropped considerably as the Real has gained strength.

Brazil's fresh tomato imports, which were primarily sourced from other South American nations, have dropped considerably in recent years. The Netherlands is currently the largest source of Brazil's fresh tomato imports. The vast majority of Brazil's fresh tomato exports are destined to MERCOSUL nations. African nations, particularly former Portuguese colonies, occasionally import small quantities of fresh Brazilian tomatoes.

The United States was the leading supplier to Brazil of ketchup and other tomato sauces. However, U.S. ketchup exports have dropped considerably since 1998 and domestic production of ketchup has increased and replaced imports.

Tariffs

Brazil is a member of MERCOSUL, which is comprised of Brazil, Argentina, Uruguay, and Paraguay. Countries within MERCOSUL enjoy duty-free access for most agricultural products traded within the trading bloc, while a Common External Tariff (CXT) is applied for non-MERCOSUL countries. The CXT puts U.S. agricultural products at a competitive disadvantage. The MERCOSUL's Common External Tariff (CXT) was lowered one percent in January 2002.

As of February 2005, Brazil's applied Common External Tariff (CET) rates for non-MERCOSUL trading partners for selected tomato products are:

U.S. agricultural products also face a Merchant Marine Tax, which is a 25-percent surcharge on the value of the freight for imports of all products (Note: this measure has been waived for imports to the North/Northeast regions of Brazil in order to stimulate development in the region).

Brazil's tariff rates for MERCOSUL partners including Argentina, Uruguay, and Paraguay is zero for fresh tomatoes and all processed products.

HS code	Tariff
0702.00	10 percent
2002.10	14 percent
2002.90	14 percent
2103.20.10	18 percent
2103.20.90	16 percent

Chile and Bolivia are associate members of MERCOSUL and receive preferential reductions of 60% of the duty from the CET.

Since May 1, 2005, all import transactions of goods and services are subject to a PIS/COFINS social tax of 9.5 percent. There are some exceptions, but most of the agricultural and food product imports are subject to the 9.5 percent tax, which represents the sum of two social taxes: PIS/PASED (1.65%) + COFINS (7.60%). The PIS/COFINS tax was approved through Law 10,865.

HS Code	PIS/COFINS (%)
0702.00	0
2002.10.10	9.25
2002.10.90	9.25
2103.20.10	9.25
2103.20.90	9.25

Other

Loss Rates

Product loss for tomatoes in Brazil is falling due to the adoption of long life and more transport resistant varieties. Loss rates have dropped from more than 40 percent to an estimated 20 percent, according to industry contacts. Improper handling continues to be the main reason for losses. The common forms for packing and packaging are the predominate causes for product damage. Tomatoes are generally packed in wooden "K boxes," which are often infested with harmful bacteria and mold and are easily contaminated. Furthermore, the tomatoes on the bottom of the crates are crushed, thereby accelerating the rotting of the fruit.

Industry Terms and Standards

Terms for the different classes of products are used differently in Brazil than they are in the United States and this could cause some confusion. In both the United States and Brazil, paste is considered to be a product that has 28-32 Brix; generally 31 in Brazil.

Brazil also has a class of products that are called "extratos" or extracts. Extratos have 21 Brix and can be considered a "semi-concentrated" product. Puree would probably be the most similar product in the United States. The difficulty is that paste and extratos are considered one class of products by the industry and trade and it is difficult to make a distinction between the two in the case of Brazil. In general, it can be assumed that

imported paste is 28-32 Brix but domestic production will include products that are 28-32 Brix and products that are 21 Brix.

To further confuse the issue, Brazil also has a class of products termed “puree,” which has 12 Brix and is analogous to tomato sauce in the United States. Finally, there are sauces that also have 12 Brix but have other ingredients or flavorings in them and are more consumer-ready than the other classes of products.

Salad Tomato Prices (Ceagesp - São Paulo) cents per kg in Brazilian Reals*

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg
2001	64	58	66	79	73	51	54	52	51	48	49	62	82
2002	54	62	64	79	59	71	74	63	82	80	79	58	85
2003	65	89	163	134	85	64	56	54	58	76	70	98	84
2004	100	78	86	91	134	164	151	172	152	103	81	79	116
2005	77	89	113	104	126	103	106	89	96	95	145	101	104

Prices refer to tomatoes commercialized at CAEGESP in Sao Paulo only.
Source: CAEGESP, Boletim Mensal, Jan/Feb 2006 Edition of Hortifruti Brasil
*Average Exchange Rate in 2005 approx. RS 2.44=U$S 1.00

Santa Cruz Tomato Prices (Ceasa - Minas Gerais) cents per kg in Brazilian Reals*

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg
2001	39	34	31	43	47	32	34	27	17	17	n/a	n/a	82
2002	n/a	37	36	46	33	43	44	31	50	37	53	27	85
2003	38	57	85	74	57	28	27	22	25	33	37	43	84
2004	62	49	44	37	66	96	125	113	105	79	47	49	116
2005	48	85	55	60	86	62	64	52	59	54	102	77	67

Prices refer to tomatoes commercialized at CEASA in Belo Horizonte/MG only.
Source: CEASA/MG Boletim Mensal
*Average Exchange Rate in 2005 approx. RS 2.44=U$S 1.00

PS&D Tables

PSD Table Country Brazil Commodity Fresh Tomatoes (HA)(MT)							
	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		01/2005		01/2006		01/2007	MM/YYYY
Plnt For Fresh Consump	0	42500	0	42500	0	42500	(HA)
Plnt For Processing	0	16000	0	15550	0	16000	(HA)
TOTAL Area Planted	0	58500	0	58050	0	58500	(HA)
Harv. For Fresh Cons.	0	42415	0	42550	0	42450	(HA)
Harv. For Processing	0	15970	0	15550	0	15975	(HA)
TOTAL Area Harvested	0	58385	0	58100	0	58425	(HA)
Fresh Sale Production	0	2040500	0	2000000	0	2040700	(MT)
Processing Production	0	1263100	0	1450000	0	1270000	(MT)
TOTAL Production	0	3303600	0	3450000	0	3310700	(MT)
TOTAL SUPPLY	0	3303600	0	3450000	0	3310700	(MT)

PSD Table
Country
Brazil
Commodity
Tomato Paste,28-30% TSS Basis
(MT)(MT, Net Weight)

	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		01/2005		01/2006		01/2007	MM/YYYY
Deliv. To Processors	0	0	0	0	0	0	(MT)
Beginning Stocks	9000	6876	11235	9990	8735	9390	(MT, Net Weight)
Production	145000	150000	150000	147000	0	149000	(MT, Net Weight)
Imports	6452	8153	2000	8400	0	8500	(MT, Net Weight)
TOTAL SUPPLY	160452	165029	163235	165390	8735	166890	(MT, Net Weight)
Exports	14217	8539	14500	7000	0	7500	(MT, Net Weight)
Domestic Consumption	135000	146500	140000	149000	0	149000	(MT, Net Weight)
Ending Stocks	11235	9990	8735	9390	0	10390	(MT, Net Weight)
TOTAL DISTRIBUTION	160452	165029	163235	165390	0	166890	(MT, Net Weight)