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GAIN Report

Global Agricultural Information Network

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U.S. Wheat Opportunity as Brazil Lifts Wheat Import Tariff

Report Categories:

Grain and Feed

Promotion Opportunities

Agricultural Situation

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Report Highlights:

On February 5, 2013, the Brazilian Chamber of Foreign Commerce (CAMEX) approved a measure to allow up to one million metric tons of non-Mercosul wheat to enter Brazil with a waived common external tariff (CET). The ten percent CET is applied on all eligible wheat imported from outside of Mercosul. The import tariff reprieve will last from April through July, 2013. Industry pressure and further demonstration of a Mercosul wheat shortage may likely precipitate a second tranche of waivers.

Brazil's 2012-13 Wheat Scenario

Brazil is facing its smallest wheat supply, estimated 4.3 million metric tons (mmt), in the last five years, as former reports (see latest: [Brazil Grains and Feed January 2013 Update](#)) have been indicating. Even when Brazilian wheat production is up, the domestic wheat sector is only able to meet half of the domestic demand, estimated at 11.1 mmt. Brazil traditionally imports wheat from Mercosul members, who enjoy a logistical advantage, particularly thanks to Argentina's geographical proximity, and a tax advantage, as Mercosul members do not need to pay the common external tariff (CET) on wheat trade. However, rains in Argentina have diminished the wheat crop and wheat quality, leading to a net wheat deficit in the region.

The domestic milling industry has been facing high wheat prices and subsequently Brazilian consumers are facing higher prices for wheat-derived products at the supermarkets. Domestic wheat prices have been above R\$40 per 60kg sack (approximately US\$333/mt), the highest nominal prices on record, according to the Center for Advanced Studies on Applied Economics (CEPEA). The Brazilian Millers Association (Abitrigo) asked the Government of Brazil (GOB) to alleviate the wheat prices by allowing up to 2.5 mmt of wheat to enter Brazil with a waived common external tariff (CET).

The bleak wheat scenario falls into a broader context of a worrisome food inflation trend across food categories around the nation. Food prices have risen an average of ten percent per year over the last five years. While the middle class of Brazil grows in size and clout with regards to nominal purchasing power, food inflation can present a challenge for ensuring these new entrants to the middle class continue to help stimulate economic growth.

Government of Brazil Takes Action to Alleviate Industry Shortage

In response to the requests from Abitrigo and other interest groups, the GOB announced on February 5, 2013, that it would waive the CET for up to 1 mmt of wheat during the time period of April through July.

The announcement signals business opportunities for U.S. wheat. Many wheat traders in the United States view the ten percent CET as a way Brazil effectively favors Mercosul wheat imports instead of North American wheat imports. This particularly may be the case with respect to the Northeast of Brazil. While the Northeast has many mills, the vast majority of wheat production takes place in the South (the states of Paraná and Rio Grande do Sul). To supply these Northeast mills, millers must source the wheat either from the South, from other Mercosul member countries, or from countries eligible to export wheat to Brazil (see Annex). It is important to note that northeastern Brazil is geographically closer to southern U.S. ports than to southern Brazilian ports. Because of these logistics, the domestic wheat market believes that most of the CET-free 1 mmt of wheat will originate from North America and be bound for northeastern Brazil.

A bilateral governmental meeting between Argentina and Brazil to discuss the question of wheat and CET exemptions remains scheduled for March 4, 2013, in Brasilia. At this meeting, Ministry of Agriculture, Livestock and Food Supply (MAPA) Secretary for International Relations Célio Porto has

stated that Brazil will ask for an update on the Argentine wheat supply to determine whether Brazil should grant a CET-waiver for another 1 mmt of wheat from outside Mercosul. Abitrigo has stated that the situation in Argentina is only getting worse and that it anticipates a second tranche of wheat waivers to follow.

Whether Russia Joins the Fray

A Russian delegation will be in Brasilia February 18-20, 2013, to hold their bilateral agricultural consultative dialogue with MAPA. In the midst of the bilateral discussions is an accord on the phytosanitary requirements for Russian wheat exports to enter Brazil. MAPA Minister Mendes Ribeiro Filho is expected to sign the accord on February 19. The timing of such an accord would be auspicious for Russia, as it would correspond well to the wheat export window with the waived CET. A similar accord that would allow Brazil to export soybeans to Russia is also on the discussion table.

ANNEX: Countries Authorized to Export Wheat to Brazil

Type	Scientific Name	Use	Country	Restrictions
Husked Grain	Triticum Aestivum	Consumption / Processing	Lebanon	None *
Grain	Triticum Aestivum	Consumption / Processing	Ukraine	IN 44/2005 **
Grain	Triticum Aestivum	Consumption / Processing	Russia	IN 04/2009 **
Grain	Triticum Aestivum	Consumption / Processing	Russia	IN 39/2009 ***
Seed	Triticum spp	Planting	Uruguay	IN 68/2008 **
Seed	Triticum spp	Planting	Paraguay	IN 68/2008 **
Seed	Triticum spp	Planting	Argentina	IN 68/2008 **
Grain	Triticum Aestivum	Consumption / Processing	Canada	Port. 545/1998 **
Grain	Triticum Aestivum	Consumption / Processing	France	None *
Grain	Triticum Aestivum	Consumption / Processing	Poland	None *
Grain	Triticum spp	Consumption / Processing	United States of America	IN 12/2000 ** IN 04/2001
Grain	Triticum spp	Consumption / Processing	Uruguay	IN 68/2008 **
Grain	Triticum spp	Consumption / Processing	Argentina	IN 68/2008 **

* No restriction. Only phytosanitary certificates are required.

** Pertinent Normative Instructions that indicate the phytosanitary requirements each country must follow

*** Russia: authorization only from the northeastern states

LINKS TO NORMATIVE INSTRUCTIONS (IN):

For the United States:

IN 12/2000 - <http://extranet.agricultura.gov.br/sislegis-consulta/consultarLegislacao.do?operacao=visualizar&id=2219>

IN 04/2001 - <http://extranet.agricultura.gov.br/sislegis-consulta/consultarLegislacao.do?operacao=visualizar&id=3636>

For Other Countries:

PORT 545/1998 - <http://extranet.agricultura.gov.br/sislegis-consulta/consultarLegislacao.do?operacao=visualizar&id=949>

IN 46/2002 - <http://extranet.agricultura.gov.br/sislegis-consulta/consultarLegislacao.do?operacao=visualizar&id=762>

IN 44/2005 - <http://extranet.agricultura.gov.br/sislegis-consulta/consultarLegislacao.do?operacao=visualizar&id=15314>

IN 68/2008 - <http://extranet.agricultura.gov.br/sislegis-consulta/consultarLegislacao.do?operacao=visualizar&id=19358>

IN 04/2009 - <http://extranet.agricultura.gov.br/sislegis-consulta/consultarLegislacao.do?operacao=visualizar&id=19493>

IN 39/2009 - <http://www.in.gov.br/imprensa/visualiza/index.jsp?data=04/12/2009&jornal=1&pagina=4&totalArquivos=280>