



International Trade Report

July 8, 2003

When the Price is Right, U.S. Wheat Materializes in Brazil

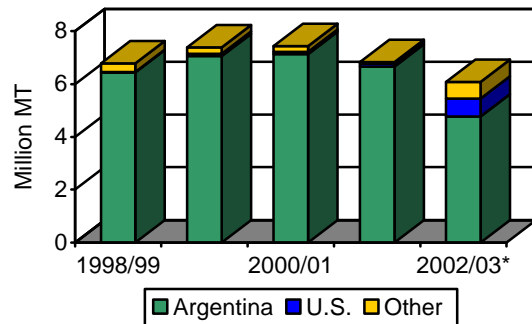
Summary

Falling prices are enabling U.S. wheat to overcome tariff, phytosanitary and logistical disadvantages in the Brazilian market.

Argentina Naturally Dominates

Brazil has historically relied upon Argentina as a result of its abundant wheat supplies and freight advantage. Upon the implementation of Mercosul in 1995, Argentina's market share immediately rose from 75 percent to 95 percent largely due to the preferential treatment it receives – exemption from the 10 percent Common External Tariff and the 25 percent merchant marine tax.

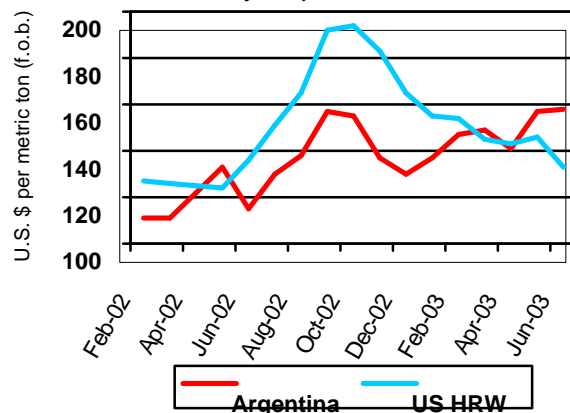
Brazilian Wheat Imports by Origin



But When the Price is Right...

Last year, this reliance weakened. The economic crisis in Argentina led to reduced production, but exportable supply fell even more sharply, as farmers retained wheat as a form of currency. As a result, the price of Argentine wheat has risen steadily. Last summer, when the price of Argentine wheat temporarily rose above that of U.S. HRW, Brazil bought almost 700,000 tons of U.S. wheat, the most it has purchased since the introduction of Mercosul. Much of this wheat

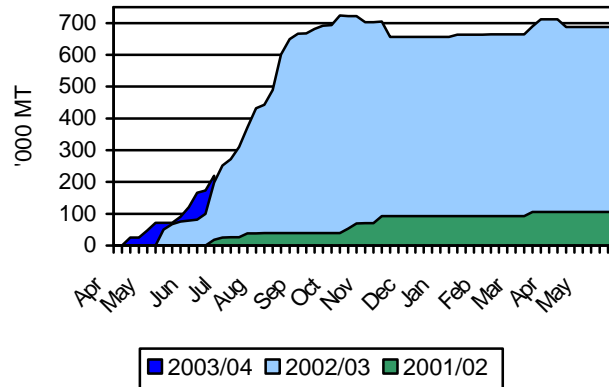
Monthly Export Quotations



was imported into the northeast, a grain-deficit region with approximately 20 percent of the country’s milling capacity and an exemption from the merchant marine tax. In the fall, as U.S. HRW reached its highest price in six years, Brazil relaxed its phytosanitary barriers to allow imports of Eastern European and FSU wheat.

This year’s U.S. wheat crop is anticipated to rebound by more than 13 million tons. The expectation of bountiful supplies has led to a reduction in the U.S. price, while the price of Argentine wheat continues to rise. In June, Argentine wheat was an average of \$25 more expensive than U.S. HRW, the largest gap in over seven years. The United States now has a window of opportunity, before lower-priced new-crop supplies from Argentina become available in December. Brazil started buying U.S. wheat even earlier than last year, and total commitments are currently higher than in all of 2001/02, at nearly 220,000 tons.

Cummulative Weekly Commitments** of U.S. Wheat to Brazil



Problems Persist

While competitive prices should allow U.S. wheat to have an even better year this year, several barriers remain. With the return of a certain level of economic stability and an expected 20 percent rebound in production, Argentina’s exports are anticipated to return to relatively normal levels. Furthermore, U.S. wheat must overcome many uneconomic impediments to diversified trade, as Brazil often halts shipments as a result of a weed seed or smut that, according to U.S. officials and scientists, does not pose a threat to Brazilian agriculture. In addition, the United States is the only country in the world required to implement stringent measures to ensure that no Canadian thistle is present in shipments.

* July 2002 – May 2003

** Commitments = Outstanding Sales of June/May crop + Accumulated Exports

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