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Tomatoes and Products

Annual

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Report Highlights:

Post is estimating a 1 percent decrease in total Brazilian tomato production in 2003 to 3.6 million tons and a 3 percent fall in area planted and harvested. The tomato crop suffered from climatic and pest problems in various regions. Production and area in 2004 are forecast to increase by 5 percent due to more normal planting conditions and a continued increase in yields.

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Executive Summary

Post is estimating a 1 percent decrease in production in 2003 to 3.6 million tons and a 3 percent fall in area planted and harvested. The tomato crop has suffered from climatic and pest problems in various regions. Production and area in 2004 are forecast to increase by 5 percent due to an expected return to more normal planting conditions and a continued increase in yields.

Tomato ketchup and other tomato sauces have traditionally been the only sizable exports of U.S. product but this market is drying up. Exports have fallen from 699 tons in 2000 to just 55 tons through the first 10 months of 2003. Meanwhile, Brazilian production of tomato paste, ketchup, and other products is on the rise.

Economic Overview

Brazil, like other developing economies, is vulnerable to exchange rate fluctuations, and large foreign capital inflows and outflows put intense pressure on the exchange rate. If investors lose confidence, the flows register a downward trend, weakening the local currency, which leads investors to limit lending. Therefore, the cost of money increases. A reduction in the dependence on foreign capital seems desirable; however, for the foreseeable future, Brazil will continue to rely on foreign investment. For now, the Brazilian economic and political outlook is guardedly optimistic. Though Brazil's new President, Luiz Ignacio Lula da Silva, known as Lula, hails from the Labor Party, he has maintained much of the economic programs of his predecessor, Fernando Henrique Cardoso since taking power in January 2003. In addition, Lula has shown an ability to press forward with reforms in the Brazilian Congress, which at least in the short run is more likely to ensure growth and expand tax revenues.

In 2002, according to the Brazilian Institute of Geography and Statistics (IBGE), GDP totaled R\$1.32 trillion, 1.5 percent growth compared to 2001. The modest economic growth of 2002 and into 2003 has been, to some extent, due to uncertainties with the new government, impacting the exchange rate and the official interest rate - SELIC - which equalizes interest rates applied in the local market. The depreciation of the local currency over the past five years has clearly affected Brazil's imports. In January 2002 the dollar was trading at US\$1=R\$2.6, but by December 2002 the exchange rate had reached US\$1=R\$3.7, with SELIC climbing from 19 percent to 25 percent in the same year. However, as of early December of 2003, the SELIC had decreased to between 17.0 and 17.5 percent and the exchange rate to US\$1=R\$2.90.

Economic Indicators

	1998	1999	2000	2001	2002	2003*
GDP Growth (%)	0.1	0.9	4.0	1.5	1.5	1.0
Inflation (%) (IPCA/IBGE)	1.7	8.9	6.0	7.7	12.5	11.9
Average Exchange Rate (R\$/US\$)	1.16	1.81	1.83	2.35	2.96	3.00
Total Exports (US\$ billion)	51.1	48.1	55.0	58.2	59.6	66.0
Total Imports (US\$ billion)	57.5	49.2	55.7	55.5	55.3	50.0

Source:

- Brazilian Ministry of Development, Industry and Commerce (MDIC)/Secretariat of Foreign Trade (SECEX) trade databases (1998-2002)
- Brazilian Institute of Geography and Statistics (IBGE) (1998-2002)
- Brazilian Central Bank trade data
- Current trend analysis

* Projections for 2003 is based on Economic Research Institute and Foundation (FIPE)

Production

Total Tomato Production

Post is forecasting a 1.0 percent decrease in total Brazilian tomato production in 2003 to 3.57 million tons and a 3 percent fall in area planted and harvested. The tomato crop has suffered from climatic and pest problems in various regions. Production and area in 2004 are forecast to increase by 5 percent due to an expected return to more normal planting conditions and a continued increase in yields.

The four largest producing states of Goias, Minas Gerais, Sao Paulo, and Rio de Janeiro are expected to combine to produce 73 percent of Brazil's total crop. Production in these states is forecast to be even with 2002. However, the fall in total production in 2003 is due to decreased crops in smaller producing states, which include the Northeastern states of Bahia and Pernambuco and the Southern state of Parana. The southern states were impacted by hailstorm damage and the Southeastern states by the prevalence of white flies.

The white fly, which transmits the gemini virus, continues to cause considerable damage to production in the southeast and particularly in Sao Paulo. In 2002 it is believed that nearly half of Sao Paulo's table tomato crop was lost due to the pest. This year damage is expected to be less than 2002 but still significant. Heavy rains in the spring and hot summers tend to leave the fruit more vulnerable, less resistant to travel, and of poor color. Until the pest problems are brought under control, tomato production in the region is expected to be reduced considerably.

The fly first appeared in Brazil in 1989, and the climactic conditions in Brazil encouraged its spread. The gemini virus attacks both the fruit and the plant, slows plant growth, drastically reduces productivity, reduces fruit size, causes white lumps inside and yellow blotching on the fruit and leaves. Although there are white-fly resistant tomato varieties available, many farmers prefer to plant conventional varieties due to their higher yields and costs for battling the pests are often prohibitively high. If the pest remains problematic, producers are likely to reduce acreage while battling the issue and shift to more resistant varieties.

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. These efforts have spurred the growth in yields in Brazil. New varieties and greater use of inputs and technology are boosting productivity, as evidenced in the chart below

Average Yield of Brazilian Tomato Production (kg/ha): 1997-2002

1998	1999	2000	2001	2002	2003
44,032	50,369	53,263	53,784	58,546	59,365

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, and depreciation of the Brazilian currency relative to the U.S. dollar elevates production costs.

Brazilian tomato production is expected to increase in 2004, for both processing and fresh tomatoes. The increase in expected production is due to better success in fighting pests in some regions. 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 1,055,121 tons in 2003. Yields in this area known as the "cerrados" are the highest in the county at about 76 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.

Production in the Center-West is also spurred by the Sustainable Agricultural Program, which is a technical assistance program of Unilever Bestfoods. 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.

For Fresh Consumption

There are no official numbers on table tomato production. According to industry contacts, tomatoes for fresh consumption accounted for 60 percent of total Brazilian tomato production in 2002. However, the percentage of production for processing tomatoes is increasing, and is expected to continue growing. Therefore, for 2003 fresh production is estimated at 61 percent of total production and 2004 fresh production at 62 percent of total production.

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 an increasing percentage of this market demand is being filled by neighboring states.

For Processing

Tomatoes are produced throughout Brazil, primarily for the consumption of fresh tomatoes, but there are three regions within Brazil that are commercially important for processing tomatoes. These 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 from 2002 to 2003 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 there.

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.

Based on industry contacts and historical trends, Post estimates a recovery in processing production in 2004 and a 3-percent increase in processing tomato production to 1.43 million tons. Producers are expected to increase acreage due to expected high prices at planting resulting from a small crop in 2003. Production is expected to further increase due to higher yields and better varieties and improved technology. However, expansion is constrained by slow growth in consumption and inability to quickly expand processing capacity.

Tomato Paste Production

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 tomato paste. In general, industry contacts indicate that 70-75 percent of domestic production of processing tomatoes goes into paste and "extratos" and "puree" and the remainder goes into sauces but no figure is available for paste alone. Brazilian production of tomato paste is estimated at 130,000 in 2002, 130,300 tons in 2003, and forecast to increase to 130,500 in 2004. The majority of the paste is used in further processing for consumer-ready sauces and other such products.

Canned Tomato Production

Both Brazilian production and consumption of canned tomatoes are very low. What little production exists is used in the form of diced tomatoes, which is further processed into consumer-ready sauces and other such products. Consumer-ready sauces in the supermarkets in Brazil tend to be very smooth, including the sauces with additional ingredients and flavorings, reflecting Brazilian consumer preference. In general, Brazilian consumers do not use canned tomatoes in cooking at home either. The very small amount of canned tomatoes that are on the supermarket shelves are either from Italy or Argentina.

Consumption

Demographic Trends and Tomato Product Consumption

Since the last 1990s there has been a fundamental shift in consumer preference toward ready-to-eat and "semi-ready-to-eat" foods in Brazil. This in turn has led to increased consumption in prepared tomato-based products such as "ethnic" sauces for cooking meats, and for pasta, and ketchup. In addition to increased purchasing power, Brazilians have less time to go shopping for fresh produce, more women are entering the work force, more people are working "9-to-5" jobs, fewer people have time to go home for lunch and are 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. Consumption of gourmet tomato products, such as sundried tomatoes, is also rising quickly in Brazil, although from a low base.

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 should recover and grow 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).

In the past, the vast majority of Brazilian imports of tomato products have come from Chile, as they are 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.

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 October 2003, Brazil's applied Common External Tariff (CET) rates for non-MERCOSUL trading partners for selected tomato products are:

HS code:

0702.00	11.5 percent
2002.10	15.5 percent
2002.90	15.5 percent
2103.20.10	19.5 percent
2103.20.90	17.5 percent

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 (Argentina, Uruguay, Paraguay) are:

HS code:

0702.00	0 percent
2002.10	0 percent
2002.90	0 percent
2103.20.10	0 percent
2103.20.90	0 percent

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

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 common causes for product damage. Tomatoes are generally packed in wooden "K boxes," which are often infested with harmful bacteria and mold. The tomatoes 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" which also have 12 Brix but have other ingredients or flavorings in them and are more consumer-ready than the other classes of products.

PS&D Tables

Fresh Tomatoes PS&D

Country	Brazil					
Commodity	Fresh Tomatoes					(HA)(MT)
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official	Estimate	DA Official	Estimate	DA Official	Estimate
Market Year Begin		01/2002		01/2003		01/2004
Plnt For Fresh Consump	0	38000	0	35800	0	38000
Plnt For Processing	0	23700	0	24000	0	24800
TOTAL Area Planted	0	61700	0	59800	0	62800
Harv. For Fresh Cons.	0	38000	0	35700	0	37900
Harv. For Processing	0	23600	0	24000	0	24800
TOTAL Area Harvested	0	61600	0	59700	0	62700
Fresh Sale Production	0	2165000	0	2176143	0	2311200
Processing Production	0	1443340	0	1391305	0	1428800
TOTAL Production	0	3608340	0	3567448	0	3740000
TOTAL SUPPLY	0	3608340	0	3567448	0	3740000

Tomato Paste PS&D

PSD Table						
Country	Brazil					
Commodity	Tom. Paste,28-30% TSS Basis					(MT)(MT, Net Weight)
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official	Estimate	DA Official	Estimate	DA Official	Estimate
Market Year Begin		01/2003		01/2004		01/2005
Deliv. To Processors	0	0	0	0	0	0
Beginning Stocks	4499	4499	6399	6399	7949	7949
Production	130000	130000	130300	130300	0	130500
Imports	400	400	300	300	0	300
TOTAL SUPPLY	134899	134899	136999	136999	7949	138749
Exports	1000	1000	1050	1050	0	1100
Domestic Consumption	127500	127500	128000	128000	0	130000
Ending Stocks	6399	6399	7949	7949	0	7649
TOTAL DISTRIBUTION	134899	134899	136999	136999	0	138749

Canned Tomatoes PS&D

PSD Table						
Country	Brazil					
Commodity	Canned Tomatoes					(MT)(MT, Net Weight)
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official	Estimate	DA Official	Estimate	DA Official	Estimate
Market Year Begin		01/2003		01/2004		01/2005
Deliv. To Processors	0	0	0	0	0	0
Beginning Stocks	210	210	210	210	100	100
Production	2800	2800	2850	2850	0	2950
Imports	6200	6200	6000	6000	0	6250
TOTAL SUPPLY	9210	9210	9060	9060	100	9300
Exports	200	200	175	175	0	200
Domestic Consumption	8800	8800	8785	8785	0	9000
Ending Stocks	210	210	100	100	0	100
TOTAL DISTRIBUTION	9210	9210	9060	9060	0	9300

Prices

Estimated Tomato Production Cost Comparison – 2002 & 2003 Crop Years

Factor/State	Table Tomatoes		Tomatoes for Processing	
	2002	2003	2002	2003
Total Costs (R\$/ha) (U.S.\$/ha)	24,208 8,178	28,832 9,610	5,779 1,952	7,680 2,560
Income (R\$/ha) (U.S.\$/ha)	29,670 10,023	32,000 10,666	6,500 2,195	11,900 3,966
Net Income (R\$/ha) (U.S.\$/ha)	5,462 1,857	3,168 1,056	721 243	4,219 1,376
Margin (%)	18.4	9.9	11.1	35.5

Source: FNP Consultoria

Tomato Prices (Santa Cruz variety) Ceasas centavos/kg

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg
Brasilia:													
2001	66	62	58	68	70	52	53	43	29	28	n/a	n/a	76
2002	n/a	64	74	59	54	64	66	60	72	62	73	53	80
2003	59	84	144	116	91	57							93
Belo Horizonte:													
2001	39	34	31	43	47	32	34	27	17	17	n/a	n/a	46
2002	n/a	37	36	46	33	43	44	31	50	37	53	27	50
2003	38	57	85	74	57	28							57

Source: FNP Consultoria and SIMA

Salad Tomato Prices (Ceagesp - Sao Paulo) centavos/kg

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							101

Prices refer to tomatoes commercialized at CAEGESP in Sao Paulo only.

Source: CAEGESP, Boletim Mensal

Trade Tables**Imports of Fresh or Refrigerated Tomatoes**

0702 Tomatoes, Fresh or Refrigerated								
Brazil Imports								
	(January - December)						(Jan-Oct)	(Jan-Oct)
Country	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
	Tons	US \$	Tons	US \$	Tons	US \$	Tons	US \$
	2000		2001		2002		2003	
Netherlands	10	19,716	4	7,479	0	0	0	0
Venezuela	79	6,678	0	0	0	0	0	0
Argentina	0	0	0	0	41	7,413	0	0
United States	0	0	0	0	0	0	0	0
WORLD TOTAL	90	29,074	4	7,479	41	7,688	0	4

Source: Ministry of Development, Industry, and Commerce

Imports of Tomato Ketchup and Other Tomato Sauces

210320 Tomato Ketchup and Other Tomato Sauces				
Brazil Imports - Tons				
	(January - December)			(Jan-Oct)
	2000	2001	2002	2003
United States	699	171	149	55
Italy	363	183	139	135
Chile	27	38	78	22
WORLD TOTAL	1,109	457	377	250
Source: Ministry of Development, Industry, and Commerce				

Exports of Fresh or Refrigerated Tomatoes

0702.00 Tomatoes, Fresh or Refrigerated								
Brazil Exports								
	(January - December)						(Jan-Oct)	(Jan-Oct)
Country	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
	Tons	US \$	Tons	US \$	Tons	US \$	Tons	US \$
	2000		2001		2002		2003	
Argentina	20,435	4,923,291	11,131	3,019,525	3,791	917,687	2,604	537,063
Uruguay	995	233,536	544	90,573	158	39,992	0	0
Angola	2	1,162	11	8,135	4	2,864	0	0
Paraguay	43	9,423	16	10,905	0	0	40	21,124
WORLD TOTAL	21,475	5,167,412	11,702	3,129,138	3,954	961,021	2,645	595,349
Source: Ministry of Development, Industry, and Commerce								