

National Forum on US Agricultural
Policy and the 2007 Farm Bill: Conserving
Ecological Integrity and Economic
Resilience of American Working Lands
Stanford Forum

Brazilian competitiveness and its
Agricultural Policies

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Stylized Facts

- Brazilian population – over 180 million – very large domestic market. As an exporter, Brazil is closer to the USA and the EC, rather than Argentina, but with a much higher rate of agricultural trade surplus over total agricultural trade $(X-M)/(X+M)$. In 2005, 29 billion/34 billion = 85%;
- Key macroeconomic stabilizing factor (trade surplus is equal to agricultural trade surplus);
- Share of domestic production exported – 30%;

Stylized facts

- Late 90's very intense growth in production (from 58 to 120 million metric tons); very fast growth in exports (from US\$ 13 billion – 1990 – to US\$ 32 billion – 2005)
- Third largest exporter of agricultural products
- Leadership in various production chains
- Very little support to commodities – PSE of 3% of the gross value of farm receipts

Stylized Facts

| Products | Main Exporters | Share of World Exports | Products | Main Exporters | Share of World Exports |
|---------------|-------------------------------------|--------------------------|--------------|---|-------------------------|
| Orange Juice | 1. Brazil 2. Spain | 81% 7% | Poultry | 1. Brazil 2. USA | 35% 31% |
| Sugar | 1. Brazil 2. EU | 33% 11% | Coffee | 1. Brazil 2. Vietnam | 30% 15% |
| Tobacco | 1. Brazil 2. USA | 27% 8% | Beef | 1. Brazil 2. Austrália | 24% 20% |
| Ethanol | 1. Brazil 2. USA | 13% 12% | Soybeans | 1. USA 2. Brazil | 49% 32% |
| Soybeans Meal | 1. Argentina 2. Brazil | 44% 32% | Soybeans Oil | 1. Argentina 2. Brazil | 49% 28% |
| Pork | 1. EU 2. USA 3. Brazil | 20% 17% 11% | Cotton | 1. USA 2. Uzbekistan 3. Brazil | 39% 10% 5% |

Explanations

- “Economic and political reforms of the early to mid-1990’s have improved the investment climate, unleashing a reservoir of latent comparative advantage in the agricultural sector”. USDA (2001), “Agriculture in Brazil and Argentina: developments and prospects for major field crops”

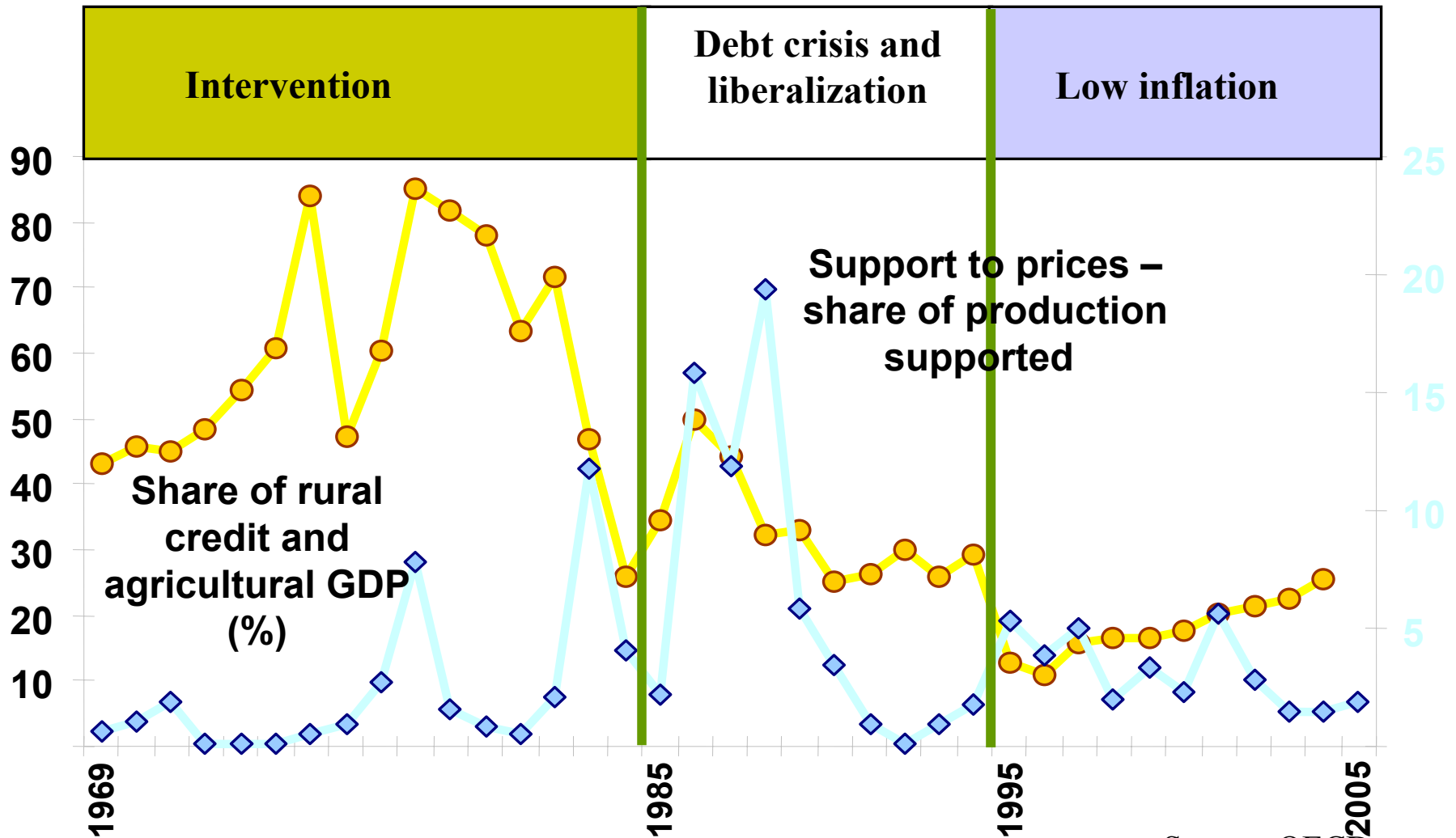
Endowment of natural resources

- Very large agricultural area – just behind USA, China, and Australia (arable land in use 47 million);
- Large stock of unused land and land that can easily be brought into production (pastures 220 million ha, unused agricultural land 106 million ha);
- Development of tropical agriculture – varieties for *cerrado* lands, research activities by EMBRAPA and private sector. Direct planting, no tiling.

Structural reforms – 80's

- Macroeconomic domestic scenario – foreign debt, balance of payment, inflation and fiscal crises - forced Brazil to follow the path of liberalization by the end of the 80's (more a case of lack of options rather than a rational political decision);
- Replacement of the ISI policies by liberal policies – end of the discrimination against agriculture – export taxes, cut in input tariffs.
- Credits and production subsidies dramatically cut

Credits and subsidies have dried up



Source: OECD

Structural reforms – 90's

- MERCOSUR – competitive integration – opening up of Brazilian agricultural markets to world class competition – powerful incentive for farmers to increase productivity to compete;
- Domestic VAT on agricultural exports not charged as of 1996 – key measure to end discrimination against agriculture. Allowed for increased exports of basic products rather than processed products.

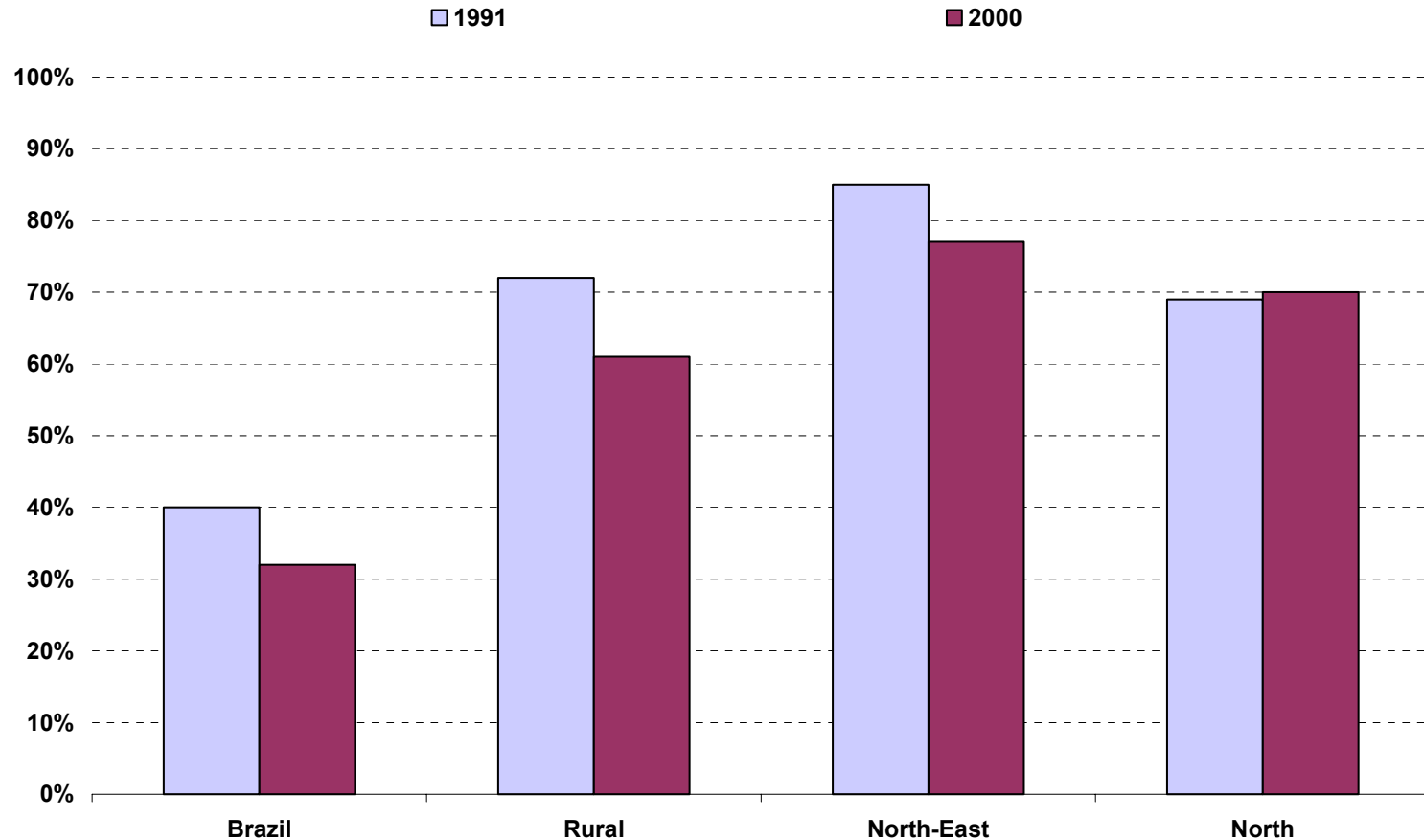
Conclusions

- Sound Green Box policies on agricultural research; problems remain in infrastructure;
- Cuts in distortion although debt related problems remain – conclusions of the OECD study;
- Recent favorable macroeconomic environment – depreciation of currency in 2002, followed by appreciation – exports continue to be strong.
- Unleashing of productivity – growth from 1975 to 2002 – 3.3% and 5.7 from 1998 to 2002.

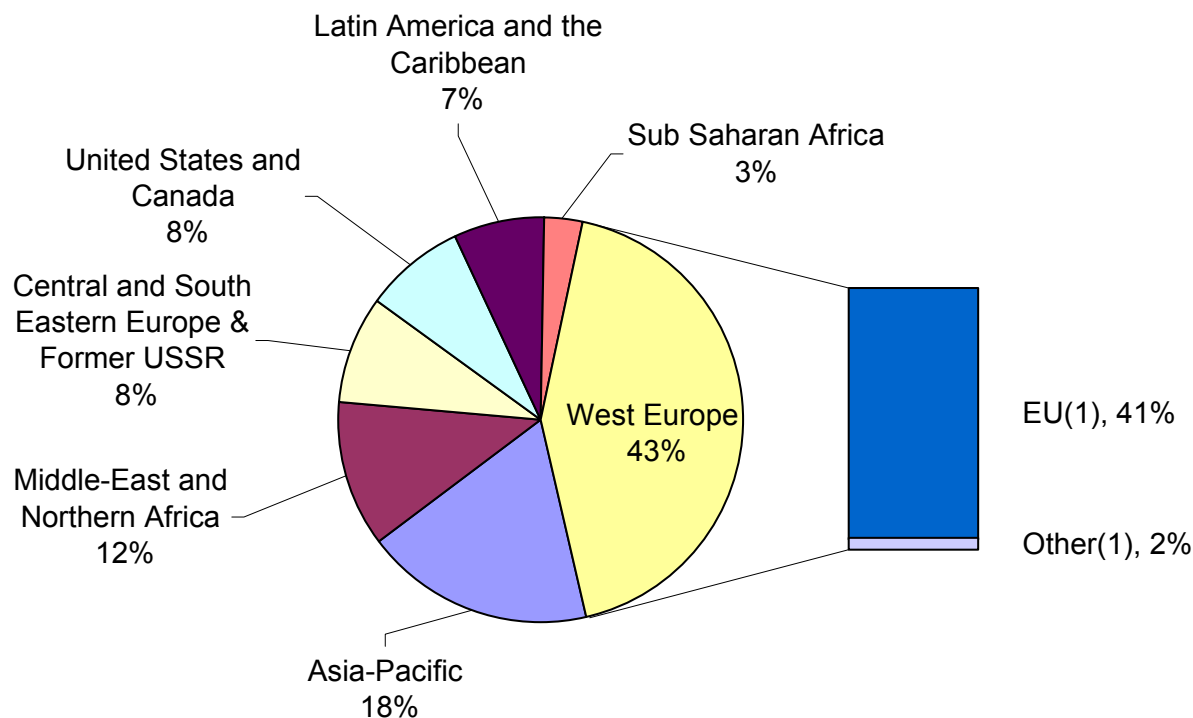
Not the whole story

- Family farming – over 4 million families – substantial share of Brazilian production
- Fortunately, mostly on non-tradable goods (black beans, manioc). Others are integrated in very productive sectors – poultry, hogs.
- Social policies requirement – agrarian reform, PRONAF (1995) – URAA article 6.2 – subsidized credits. Still very modest in terms of resources (latest notification US\$ 495 million, around US\$ 125/family).

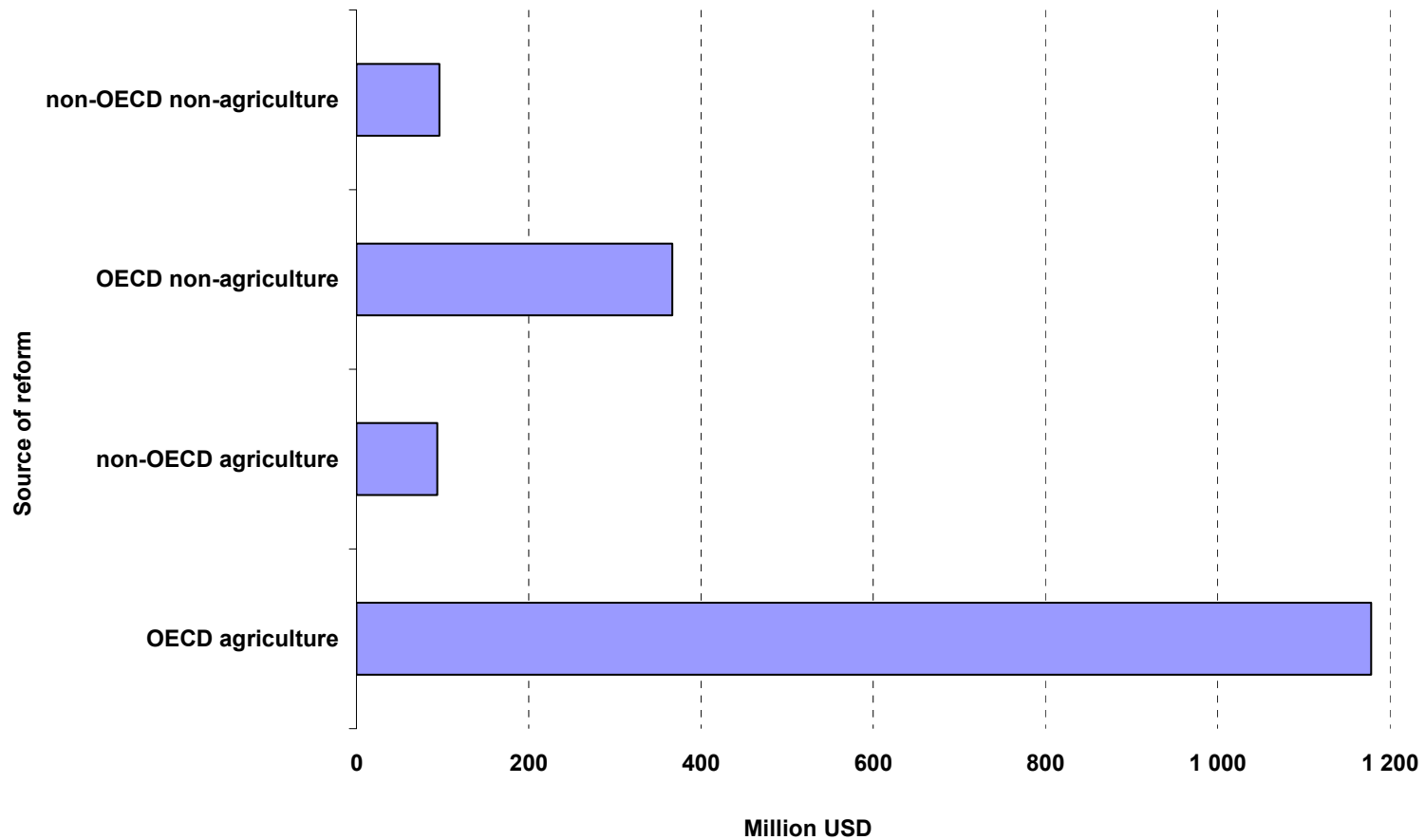
Trade and poverty reduction- a win-win situation



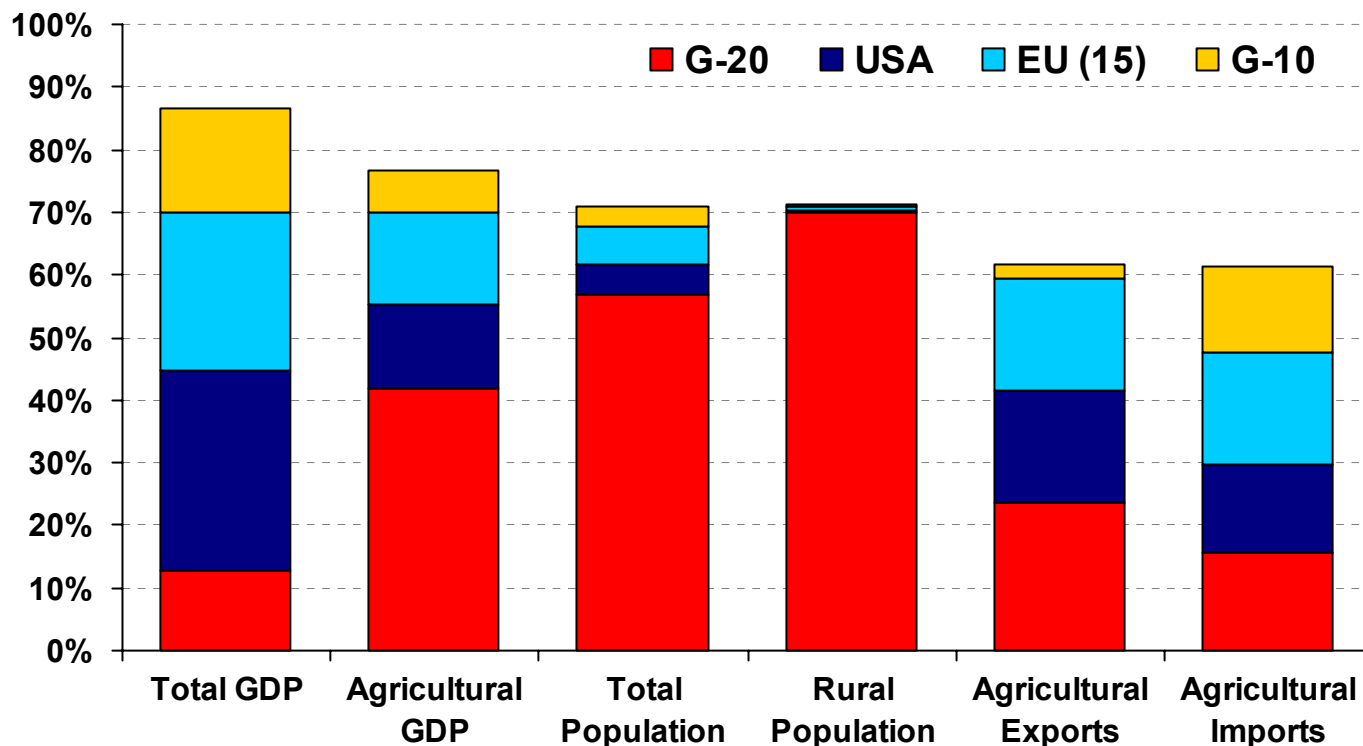
Brazilian agriculture and trade negotiations – OECD study



Brazilian agriculture and trade negotiations – OECD study



Brazilian agriculture and trade negotiations – the G-20



Brazil and trade negotiations – South-South Trade

