

FUTURE DIRECTIONS FOR THE BRAZILIAN AGRICULTURAL POLICY

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The problems faced by the Brazilian Agriculture related to macroeconomic policies undertaken in the nineties did not hinder the continuity of its development and insertion in the world market.

Grain production jumped from 82.8 million tons in the 1999/2000 crop season to a historical record of 123.2 million in 2002/2003 but faced lower levels in the following years and next crop upper estimates is 120.6 million tons. Soybean and meat production and exports, including beef and poultry, remained ascendant.

Notwithstanding the internal and external restrictions to agribusiness exports, it remained highly competitive and intensified its participation in world market after the late eighties and reached US\$ 47.2 billions in the last twelve months. This is equivalent to about 36% of Brazil total exports and contributed to an agribusiness trade balance surplus of US\$ 41 billions.

Brazil production and export performance early this decade is explained mainly by Chinese agricultural imports, mainly grains, and favorable agricultural prices behavior in world market. However, after 2003 these prices declined and its effects were aggravated by droughts in the next two years, in addition to domestic macroeconomic constraints (high interest rates and overvalued exchange rate), bringing the government back to the market in support to rural producers in crisis.

Rural producer's debt ought to be continuously renegotiated in the last few years under governmental support, and agricultural policy instruments adjusted in order to allow them face agricultural goods and inputs unfavorable market behavior. It required higher public expenditures and caused agricultural policy discontinuity whose costs for the Federal Government increased.

Others short and long run agricultural policy measures, recently implemented or under implementation, will contribute to the agricultural recovery and development.

A crop and livestock integration program was launched in 2005 to stimulate the use of a production process based on simultaneous and sequential production technique for grain, fibers, meat, milk, agroenergy crops and others in the same tract of land. Its merit is to maximize plants and animals biological cycles and minimize the use of machineries, equipments and labor, and preserve environment as well through the recovery of degraded pasture areas and crop areas whose sustainability is menaced. This program relies on a special investment credit line and on technical support provided by the Brazilian Agricultural Research Enterprise – Embrapa.

A new market oriented rural insurance model is under implementation in Brazil. It will cause deep changes in agricultural support policies and will play an important role on the sustainability of rural development. This is a long way in which Government plays a crucial role in setting a legal and financial support framework which shall include an official system of protection against catastrophes.

In 1995, the Brazilian Government introduced an Agroenergy National Plan as part of its effort to promote the country self-sufficiency in all sorts of fuel. In pursuing this target, Brazil will create a new market for its agriculture, especially for sugar-cane and oilseed producers, although the country is already the major world producer and consumer of alcohol. This is particularly true considering the increase in biodiesel production and the possibility of adding it to the diesel and also the fact that this mix will be compulsory after January 2008 in a proportion of 2%. It means that oilseed demand will increase 1.2 million tons and 1.5 million hectares will be added to production, but this new area is already available and amounts just 1% of planted area. After 2013 the compulsory mix will be 5%, the equivalent to 2 billion liters per year.

Biodiesel is a new biodegradable fuel derived from renewable sources such as vegetal oils and animal fats, and Brazil has many species of oilseeds which can be utilized for bio-diesel production, such as castor beans, palm, sunflower, “babaçu”, soybean and cotton.

Ethanol production will also be stimulated due to the decision of allowing the Brazilian National Bank for Economic and Social Development (BNDES) credit lines to include the financing of agribusiness activities related to sugar and alcohol production.

Concerning the future directions for the Brazilian agricultural policy, we consider that it should be pursued so as to (a) avoid case by case interventions associated with sector's crises, (b) minimize the need of official financial support and (c) increase the efficiency of public expenditures without harming agricultural sustainability and development. For that purpose, agricultural policy strategic guidelines based on free market, low level of governmental intervention and higher participation of market sources of agricultural financing should be preserved and reinforced.

This evaluation certainly will prevail after next January when the country Presidency and Governors will initiate a new mandate, and the High and Lower Chambers will be renewed. Thus, although specific agricultural policy review measures will be established according to the new Administration, we formally proposed to (a) restrain the use of Minimum Prices in Federal Government Acquisition operations; (b) stimulate Commodities Exchange operations that utilize hedging instruments; (c) alleviate cumulative taxes; (d) extend the drawback regime to all agribusiness products; and (e) increase expenditures on Agriculture in areas strategic for agribusiness development, such as plant and animal health protection, agricultural research and technical assistance to farmers.

Notwithstanding the proposed measures, and the ones in course as above mentioned, contribute to improve agricultural policy effectiveness, its effects are somewhat limited because the Brazilian agricultural development is highly influenced by macroeconomic constraints and by infrastructure deficiencies. Conversely, these limitations influence agricultural policy, which at the end are designed so as to counteract the effect of those problems on the sector. Consequently, it increases public expenditures on agricultural support programs and requires the use of policy instruments that alternatively would not be necessary.

The challenge is to overcome those constraints and we are moving in that direction carrying with us sound agricultural policies and relying on what the sector has already achieved. Brazil is already a growing competitor and major exporter of soybeans, meat and poultry, and its grain production and exports grow steadily as well as productivity. That makes us confident that we can go even further in transforming Brazilian agriculture and increase its world market insertion.