Brazil would gain from freer agricultural trade but small farms need to adjust, says OECD

Brazil, with its vast agricultural resources, has much to gain from more open international trade, according to a new OECD report. But efforts to reduce rural inequality need targeted policies to encourage thousands of small, family-run farms become more competitive and to help develop other employment opportunities.

In its first ever Review of Agricultural Policies in Brazil the OECD says that if the US, the European Union and other OECD countries were to cut import tariffs and export subsidies on agricultural products, farmers in Brazil would gain from the resulting rise in international prices, with the larger commercial producers benefiting most.

The report estimates that a 50% cut in tariffs and export subsidies globally, together with a 50% reduction in domestic support to agriculture in OECD countries, would benefit the Brazilian economy – through higher incomes for consumers and producers - by some 1.7 billion US dollars, the equivalent of around 0.3% of GDP.

Brazil’s reforms over the past 15 years have helped to reduce poverty overall, yet more than 60% of the rural population still has an income below the absolute poverty line of half the minimum wage, the report notes. A range of policies are needed for small-scale farmers to raise their incomes and benefit from the expected growth in Brazil’s share of world agriculture trade, for example programmes to upgrade farming skills and technologies.

Brazil is not a member of the OECD but it participates in OECD work in a number of areas, as an Observer on OECD committees. The OECD’s review of Brazilian agriculture is part of an ongoing co-operation programme launched in 1999, which has already resulted in a number of other studies, including reviews of the Brazilian economy, competition policy, tax reform and insurance and private pension funds.

Commercial agriculture in Brazil has grown rapidly in recent years, including in areas that have traditionally been important to small-scale farmers such as diary products and maize, the OECD report notes. This creates pressures on less competitive semi-subsistence farmers, for whom the long-term future mostly lies outside agriculture. Measures are required to encourage diversification and help identify other sources of income and business opportunities in rural areas. Such an adjustment will need to be accompanied by effective social safety nets.

However, given the role of agriculture in the Brazilian economy, it is important that policies aimed at poorer farmers do not hold back further improvements in productivity of more competitive farms. There is scope for a range of policies that would boost the overall competitiveness of Brazilian agriculture and benefit commercial and non-commercial farmers alike. These include long term investments in infrastructure (notably improvements to transport networks) and reform of rural credit and tax systems.

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The report also shows that:

- Government support represents 3% of farm receipts in Brazil, compared with 2% in New Zealand, 4% in Australia, 17% in the US, 34% in the European Union and an average of 30% in OECD countries. A growing share of support in Brazil is in the form of credit subsidies to farmers.

- The European Union accounts for 41% of Brazil's agro-food exports although China, Russia and other rapidly growing markets are becoming increasingly important destinations. Brazilian exports of soybeans to China surged from 15 000 tonnes to 6 million tonnes between 1996 and 2003.

- Export shares of soybean products, sugar and alcohol have increased over recent years while shares of orange juice and coffee have declined. Overall, soybean products, sugar, meat, coffee and tobacco account for three-quarters of export earnings.

- Exports accounted for 31% of agricultural production in 2004 compared with shares of 41% in Canada, 74% in Australia and 22% in the US.

- Brazil has vast reserves of potential cropland that could be exploited without encroaching on the Amazon rainforest, although policy changes are needed to eliminate existing incentives for deforestation.

To receive a copy of the report *Review of Agricultural Policies in Brazil*, journalists are invited to contact Nicole Le Vourch, OECD Media Relations Division (tel: + 33 1 4524 8088 or nicole.levourch@oecd.org). For further information journalists should contact the Media Relations Division (tel + 33 1 4524 9700 or news.contact@oecd.org).