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Brazil Agriculture Policy Review

One in a series of policy notes on work of the OECD of interest to Canada

Brazil: Rising to the Top and Taking the World Along

In June 2005, OECD members met with senior government officials from Brazil to discuss Brazilian agricultural policies and future directions, as a part of a comprehensive agricultural policy review. Ongoing dialogue with Brazil on policy issues is important to fostering a better understanding of global challenges and opportunities that lie ahead. Results of the review will be published by the OECD in 2005. This policy note provides a preview of key findings.

Radical Reforms, Impressive Results

Over the past 15 years, the Brazilian economy has undergone profound transformation. Following the abandonment of import substitution policies in the late 1980s, the government embarked upon a wide range of reforms. These reforms included:

- **macroeconomic stabilization**
- **structural reforms**
- **trade liberalization**

Brazil achieved macroeconomic stability in the mid-1990s through budgetary restraint necessary to bring inflation under control.

Structural reforms included the privatization of state-owned enterprises, the deregulation of domestic markets, and the establishment of a customs union – Mercosur – with other South American countries. Trade liberalization included deep tariff cuts and the elimination of non-tariff barriers to trade.

These changes paved the way to a more stable investment climate and stimulated agricultural growth.

Brasilia Moves out of the Way for Agricultural Producers

Brazil's agricultural policy objectives include the promotion of agricultural growth within the constraints of environmental objectives, and the design of specific policies tailored to the needs of poor farm and rural households.

Brazil's agricultural sector has contributed to reform and benefited from it. Through the 1990s, Brazil scaled down its expenditures on price support and subsidized credit; it deregulated markets for wheat, sugar cane and coffee; and it liberalized trade, not just on the import side, but also for exports, by eliminating export licenses, quotas and taxes.

As a result, growth in agricultural production has been remarkable, especially of soybeans, complementary crops (e.g. second crop corn) and livestock (see Box 1). It has enabled Brazilian producers to improve productivity, take advantage of lower prices for imported inputs and expand their agricultural land base. A combination of short-term strengthening of world prices and a low exchange rate has also favoured exports.

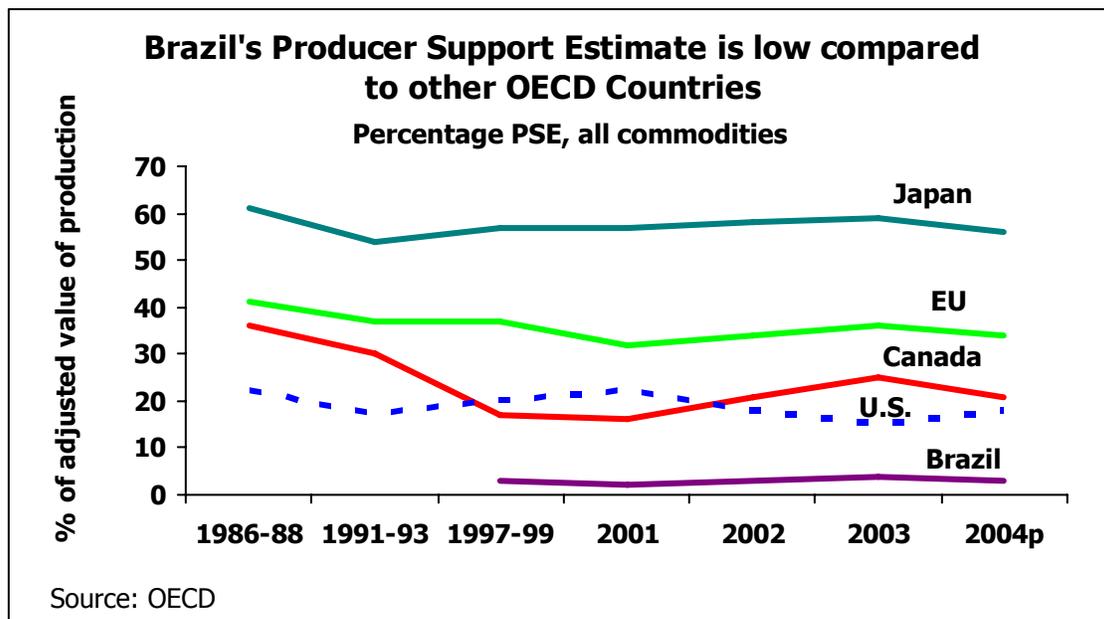
Underlying the recent boom in Brazil's agricultural exports are changes in the composition and direction of trade (see Box 1).

Brazil achieved growth in production and exports with relatively little support to its farmers. For example, producer support, as measured by the Producer Support Estimate (PSE), averaged 3% of the adjusted value

of production in 2002-2004. The highest support levels are for staple crops (wheat, corn and rice) and cotton, ranging between 6% and 17%.

The Brazilian government is making some progress in providing general services that enhance further growth in agriculture, such as support to research and extension, training and the development of rural infrastructure.

Although Brazil's support for general services makes up a greater share of total support to agriculture than Canada's, over the long-term, Brazil will need to invest significantly in roads and ports to reduce internal transportation bottlenecks.



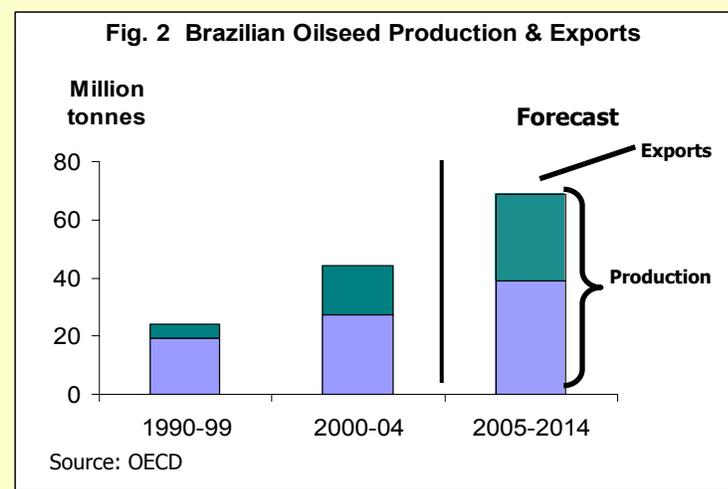
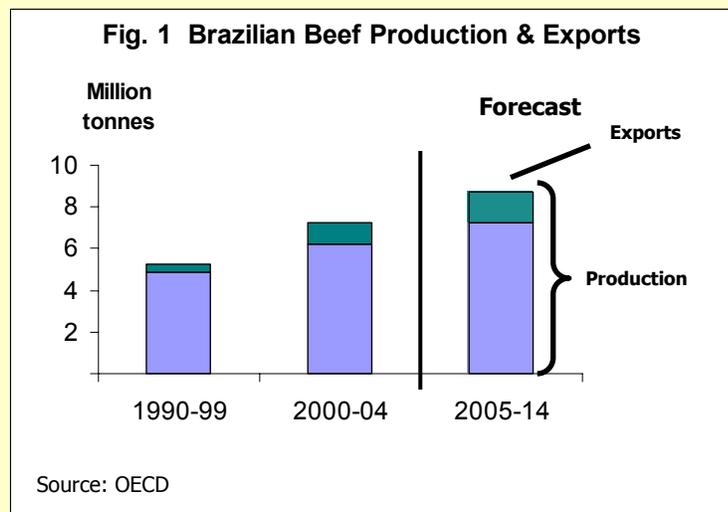
Box 1 – Agricultural Export Markets: Brazil Steps Ahead

Generally, Brazil is shifting the composition of exports away from traditional tropical products, such as coffee and orange juice, towards soybeans, sugar and meats – notably beef, poultry and pork.

Brazil is currently the world's largest net exporter of beef and poultry meat and the fourth largest exporter of pork. The OECD estimates that Brazil's beef exports increased by 178% between 1990-99 and 2000-04. The OECD projects that Brazilian beef exports will increase by 50% between 2000-04 and 2005-14 (see Figure 1).

Brazil's net exports of oilseeds increased by 248% between 1990-99 and 2000-04, giving it a 30% to 40% share of world trade. The OECD projects an increase of 79% between 2000-04 and 2005-14 on the basis of further expansion of Brazilian frontier lands and conversion of degraded pasture land, coupled with improved yields and better transportation (see Figure 2).

Brazil's agricultural trade flows have changed. Although OECD country markets are still very important (more than 40% of agricultural exports are destined to the European Union), the fastest export growth is expected to be in emerging markets, notably China and Russia.



Even so, the majority of agricultural production in Brazil serves the domestic market. The average export share of Brazil's agricultural production is typically around 25%, climbing to 30% in 2004.

Controlling Deforestation of the Amazon

The Brazilian Amazon, together with the surrounding Cerrado, contains the largest portion of the world's terrestrial biodiversity. Deforestation of the Amazon is therefore a major concern, both nationally and internationally.

The trade-off between the economic benefits from agricultural expansion and the environmental benefits from forest preservation is ultimately a domestic policy decision that pertains to Brazil.

In the early 1990s, Brazil removed tax and other incentives that were a main driving force behind the expansion of agriculture in the Amazon forest. In 2004, the government launched an Action Plan of Deforestation Prevention and Control in the Amazon.

If successful, the plan will address institutional and market failures through the introduction of a series of measures. These includes the introduction of a unified land registry system, improved enforcement of laws concerning deforestation and the illegal occupation of government land, reviews of public investment projects, and greater control over agricultural credit.

Although Brazil has taken several steps to reconcile the pursuit of agricultural growth with the protection of the environment, it could incorporate more integrated farming practices to reduce further deforestation.

Building On Success

Agricultural trade for Brazil, like Canada, has been a successful engine of growth. Future gains from trade will rely, in part, on a successful completion of the Doha Development Round of trade negotiations.

Brazil's challenge will be to sustain agricultural growth, while simultaneously making faster progression reducing poverty and curbing income inequality, as well as meeting their objectives of preventing deforestation of the Amazon.

The government is facing increasing pressure to support their producers, particularly those affected by non-tariff trade barriers and high tariffs abroad.

Canada has an opportunity to help shape the evolution of Brazil's agricultural policies and help them avoid the most distorting forms of support.

For a link to the report see:

OECD Review of Agricultural Policies — Brazil
<http://www.sourceoecd.org/agriculture/9264012540>

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