

Agricultural Economy and Policy Report - BRAZIL **February 2009**

General Political Situation and Trends

Brazil is the fifth largest country in the world by population (190 million) and by land mass. Larger than the continental United States, it occupies over half of the South American continent. Its political system is similar to that of the United States: a federal government with three branches, 26 state governments, and one federal district. Brazil holds democratic elections every 4 years for president, governors, and mayors. The current president, Inacio “Lula” da Silva (of the Worker’s Party), a center-left politician, was re-elected in 2006. Brazil is a leader on political and security issues in the hemisphere and is an emerging global player on economic issues, trade, agriculture, and the promising biofuels area.

The United States and Brazil share much in common in terms of democratic values, geography, and social history. Brazil and the United States are often competitors in third markets for agricultural products, including soybeans, beef, poultry, corn, cotton, and frozen concentrate orange juice. While both countries are active in international organizations and often share common positions, they also openly disagree on key issues; for example, in the World Trade Organization (WTO) Doha negotiations and the WTO Dispute Settlement Body.

Macroeconomic Situation and Trends

Brazil is among the 10 largest economies in the world with a gross domestic product (GDP) of nearly \$1.3 trillion and per capita income of \$6,940 (2007). Inflation in 2007 was stable at 4 percent. Economic growth in 2007 was 5.4 percent, with agriculture growing at 5.3 percent. The industrial sector followed with growth at 4.9 percent while the service sector grew at 4.7 percent. The dynamics of Brazil’s economy have shifted over the past few years from export-led to demand-led growth. Brazil has paid down its debt, lowered interest rates, and cut back spending. Brazil had a \$24.7 billion trade surplus in 2008, with total exports of \$197.9 billion and imports of \$173.2 billion.

The Economy as it Relates to Agriculture

Agriculture is a major sector of the Brazilian economy and is critical for economic growth and foreign exchange earnings. In 2008, the agribusiness sector (including production agriculture, processing, and distribution) accounted for 25 percent of Brazil’s GDP, of which crop production and related inputs accounted for 18 percent, while livestock and related inputs accounted for 7 percent. Brazil’s agribusiness contribution to overall exports reached 36 percent in 2008. The agribusiness sector also contributes with 35 percent of the labor force.

Domestic Agricultural Policy Overview

Brazil ranks number one in world production and exports of coffee, sugar, and frozen concentrate orange juice; number two in soybeans, tobacco, beef, and poultry; and three or four in corn, pork, and cotton. In the past, potential agricultural expansion was grossly underestimated. There are few natural limits to future food, fiber, and biofuel production in Brazil due to the availability of

huge areas of unutilized arable land. By becoming more efficient at integrating grain and cattle production and fully utilizing degraded pasture lands, Brazil could greatly increase crop production. By some projections, there is near-term potential to expand plantings by more than 200 million acres. Government credit and tax-incentive programs have spurred crop production and construction of processing facilities. Over the last few years, Brazil has dramatically increased financial support to its agricultural sector. Credit from the federal government for production is the dominant source of financing for agricultural producers. In July 2008, Brazil's President announced the 2008/2009 Agricultural and Livestock Plan, which took effect October 2008. The 2008/2009 program makes available R\$65 billion (US \$41 billion at the time it was announced), an 11 percent increase over the previous year, with the intent of boosting agricultural production in the face of rising food prices and domestic inflation. From this amount, R\$55 billion was designated for corporate agriculture, and R\$10 billion was designated for family farming.

The success of Brazil's ethanol program has made it a world model for alternative energy. As the second leading ethanol producing country after the United States, Brazil actively promotes ethanol as a renewable fuel worldwide. During President Bush's March 2007 visit to Brazil, Secretary Rice and Foreign Minister Amorim signed a Memorandum of Understanding (MOU) laying out three areas for bilateral cooperation on biofuels: research coordination, promotion of biofuels use in third countries, and development of international standards. A steering committee and an advisory committee, which include the private sector, have been formed to implement the MOU.

General and Agricultural Trade Situation

Stimulated by high international commodity prices, Brazil's agricultural exports exploded over the past 5 years, reaching a record \$71.8 billion in 2008, making Brazil the third largest agricultural exporter (behind the United States and the European Union). Agricultural shipments accounted for 36 percent of the country's total exports in 2008. Agricultural trade between Brazil and the United States remained stable in 2008 at \$6.2 billion, of which Brazilian exports accounted for 86 percent. The United States is a major importer of Brazilian sugar, coffee, orange juice, tobacco, hardwood lumber, and plywood.

Brazil is the largest member of the Mercosul, a regional customs union that includes Argentina, Paraguay, and Uruguay. In recent years Brazil has increased its participation in organizations such as Codex, where it often coordinates positions with the United States. In multilateral negotiations, Brazil and the United States share many common positions, particularly regarding the production and trade distorting policies of highly developed economies, such as the EU and Japan. However, Brazil usually groups the United States into the trade-distorting category, citing U.S. sugar quotas, domestic support programs, and high tariffs. In the WTO Brazil has strong influence as leader of the G-20 group. Brazil continues to be influential in the Doha negotiations.

SPS and Regulatory Systems

The Office of Agricultural Protection (SDA), Ministry of Agriculture, Livestock, and Food Supply (MAPA), is responsible for enforcing sanitary and phytosanitary (SPS) regulations governing

plant and animal product imports. For certain processed products, responsibility is shared with the Ministry of Health. Brazil has a centralized rule-making system under which all relevant executive acts must be published in the Diário Oficial (the Brazilian Federal Register).

SPS market access issues for agricultural and food products have become major trade irritants between the United States and Brazil. However, the establishment of the U.S.-Brazil Consultative Committee on Agriculture (CCA) has improved bilateral dialogue on technical issues. The last U.S.-Brazil CCA meeting took place in Brasilia in May 2008, and technical meetings, which included discussion of many outstanding SPS issues, were held in September 2008, in Washington, D.C.

Brazil has a substantial risk assessment-based regulatory framework for dealing with both gene technology and agricultural biotech products. The National Technical Commission on Biotechnology (CTNBio) is Brazil's regulatory body responsible for approval of all domestic and imported biotech products. Despite this modern legal framework, agricultural biotechnology continues to be a difficult issue in Brazil as government agencies, consumers, and environmental groups are divided on how to approach, conduct research on, and approve commercial applications for biotech products. The United States and Brazil share many interests regarding development of and trade in products of agricultural biotechnology. Producers of biotech crop seeds have made progress in addressing intellectual property rights protection.

USDA Stakeholders

The following cooperators (seven commodity boards and one regional association) are conducting activities in Brazil: U.S. Dairy Export Council, USA Rice Federation, Cotton Council International, Distilled Spirits Council, Pear Bureau Northwest, U.S. Meat Export Federation, the California Pear Bureau, and Food Export USA. These groups all maintain regular communication with the Agricultural Trade Office in São Paulo.