

## AGRICULTURE On hold

**Solange Monteiro**

COUNTRIES THAT EXPORT agricultural commodities are now becoming anxious about the future, watching what is happening in the big driver of world food demand, China. Brazilian suppliers try to assess how China's demand has been affected by the international crisis and the changes it is making in economic policy to stimulate the domestic market. Besides following global developments, Brazilian agribusiness is also awaiting domestic policy decisions, plans, and investments in infrastructure and education to ensure more competitiveness in the uncertain horizon for international commodity prices.

Ignez Lopes, head of the IBRE Center for Agricultural Studies, points out that until now the path of growth adopted by agribusiness could not be better. The policies adopted in 1990 and the dedication of farmers to assimilate technologies without subsidies in recognition of the new reality of the global market allowed Brazilian agribusiness to take advantage of increasing world demand for food. In less than 20 years agribusiness has moved beyond the context of a fixed exchange rate and tariff protection to become a

leading world exporter of such products as sugar, coffee, orange juice, ethanol, beef, tobacco, and chicken. "Previously the sector was badly affected by trade policy and the fixed exchange rate. During that period, if farmers increased production, prices would fall because there was nowhere to sell the surplus," says Lopes.

Agribusiness also benefited from the 1996 Kandir Law which eliminated the VAT on exports, and the creation of Mercosur in 1991, which made the country face direct competition from neighbors with strong agricultural traditions, like Argentina. "This forced Brazil to adjust," Lopes explained. "Argentina's corn and wheat came in very cheap. Initially with no tariff protection and

a low dollar, the first impact of the opening was to import more. Only after farmers adjusted to the new conditions did Brazil become an exporting powerhouse."

Mauro Lopes, CEA project coordinator, notes that the Brazilian Agricultural Research Corporation (EMBRAPA) came up with a successful model of regional research centers in specific products, as well as other initiatives, such as investment in genetic research, to replace trial and error. "The result was that while grain production grew at an average annual rate of 5.9% between harvesting seasons



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1999/2000 and 2009/10, the planted area increased only 2.3% annually," he says. This represents a jump in 10 years from 83 million to 147 million metric tons, thanks to annual productivity growth of 3.5%.

These productivity gains, however, reflect a countryside very different from the popular bucolic perception. Today, Brazil's grain production involves half-million-dollar harvesting machines with GPS, and computers that automatically analyze soil quality and spell out the exact amount of fertilizer needed. To invest in new technologies, however, agribusiness demands a skilled work force that is in short supply. The National Service of Rural Training recently hired IBRE to conduct a survey to identify worker training needs for each region. The first results are worrying. "The needs are vast—from specialists in field supervision and machinery maintenance and fighting pests to salesmen to market products," Mauro Lopes says.

What matters greatly for the sector in the medium term is the lack of logistics infrastructure to meet agribusiness needs. When logistics costs are high, producers earn less. For Mauro Lopes, initiatives like the concessions program to unlock investments in transportation infrastructure are needed urgently. For example, the 1,700-km BR-163 interstate highway is designed to be a major route for transporting grain. "It will benefit 23 municipalities whose crops account for 18 million metric tons a year," he says.

#### **FOR ALL**

"Investment in infrastructure is also important for small farmers; today without the scale of the large producers, they can see the comparative advantage of their products dissipate because of the logistical

cost," says Mauro Lopes. According to the 2006 Agrarian Census of the Brazilian Institute of Geography and Statistics, the 3.9 million small farms account for 7.6% of total agricultural production. Of these, about 2.2 million generate only half the minimum wage per month, accounting for only 0.9% of total production value. At the opposite extreme, 300,963 farms account for 78.8% of total production value. "Policies of land distribution will not solve the rural poverty problem," says Daniela Paula Rocha, an IBRE researcher. She and colleagues estimate that about 1.4 million small farmers would be able to expand production if they had access to technology and were assisted by appropriate public policies. The other small farmers would require more targeted policies and social programs to improve their income, and might have to move beyond the agricultural sector.

"In the 1960s and 1970s, policy focused on increasing agricultural production. It has had no effect among small farmers because it benefitted only those that have access to bank financing and minimum price," says Lopes. For her, the only way to get results is to give active technical assistance to the producer. In June this year, President Dilma Rousseff announced a plan for creating a national agency for assistance and rural extension that would disseminate best practices using protocols and technology packages, with direct assistance to small farmers. "Access to technology as well as microcredit is the way we must ensure the inclusion of small farmers . . . There are many small farmers perfectly incorporated into the market, and this is a frontier we can expand," Mauro Lopes concluded. ▀