USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 7/5/2007

GAIN Report Number: BR7625

Brazil

Trade Policy Monitoring

Brazil Announces the 2007/08 Agricultural Plan

2007

Approved by:
Alan Hrapsky, Agricultural Counselor
U.S. Embassy

Prepared by:
Elizabeth Autry, Agricultural Attaché

Report Highlights:
After significant delay, President Lula and Agriculture Minister Stephanes launched the 2007/08 Agriculture Plan (*Plano Agricola e Pecuário*, PAP) on June 28, 2007. The new PAP, which went into effect on July 1, emphasizes reducing the cost of financing and increasing support to middle-income producers. Regarding the serious issues of infrastructure deficiencies and high accumulated debt, the government is forming working groups to discuss the issue.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Brasilia [BR1]
[BR]

After significant delay, President Lula and Agriculture Minister Stephanes launched the 2007/08 Agriculture Plan (*Plano Agricola e Pecuário*, PAP) on June 28, 2007. The new PAP, which went into effect on July 1, emphasizes reducing the cost of financing and increasing support to middle-income producers. For the first time, the government added "supply of energy" to the stated goals of Brazilian agriculture (in addition to the traditional goals of food supply, economic growth, job creation and increased rural income).

The new plan allocates R$70 billion (US$36.8 billion) to finance costs, commercialization and investment, an increase of R$10 billion from the 2006/07 plan. Of this amount, R$58 billion (US$30.5 billion) is allocated to commercial agriculture (R$49.1 billion for costs and commercialization and R$8.9 billion for investment), and R$12 billion (US$6.3 billion) is allocated to family agriculture (*agricultura familiar*). The PAP also lowers the interest rate for this financing to 6.75 percent (from 8.75 percent). The National Agriculture Confederation (equivalent to the U.S. Farm Bureau) had requested R$90 billion (US$47.4 billion) and an interest rate of 4.5 percent.

Most middle-income producers have had difficulty accessing financing as a result of an estimated R$131 billion (US$69 billion) in accumulated debt from previous crops largely accumulated in the last five years but some of which dates to the early 1990s. In 2005/06, producers only qualified to use R$5 billion of the available R$50 billion. In an effort to help these producers, some adjustments were made to the Program to Create Jobs and Rural Income (PROGER Rural). The allowed gross annual income of users was doubled to R$220,000 (US$115,800), the credit limit was doubled to R$100,000 (US$52,600) per beneficiary, and the interest rate was lowered nearly 2 percent, to 6.25 percent. The government estimates that these changes will provide access to credit for 70 to 80 percent of the middle-income producers who are linked to cooperatives. The government is also looking at identifying ways to encourage increased use of private credit instruments.

In an effort to overcome structural difficulties and expand the use of the program, the rural insurance subsidy has increased from R$2.3 million in 2005 to R$31.1 million in 2006 to the new plan of R$100 million (US$52.6 million). In addition, proposed legislation will be sent to Congress (reportedly in August) to create a Catastrophe Fund to protect the insurance market against financial losses in the event of a catastrophe.

The PAP also guarantees resources to stabilize prices before and after planting through the use of its commercialization support instruments (such as the Equalization Premium Paid to the Producer, PEPRO). Most of these programs are based on established minimum prices. The minimum prices were reviewed, but changes were only made for small crops such as manioc. No change was made to the minimum prices of wheat and rice, as requested by producers who argue that the minimum price for those commodities is below the cost of production.

Brazilian Government Support for Commercialization ('000 mt)

	2005	**2006**	**2007***
AGF	1,689.8	2,640.9	59.3
PEP	2,150.0	9,149.0	804.4
PEPRO	0	6,029.4	7,266.5
PROP	943.7	3,955.5	2,313.7
Public Option	351.9	0	800.7
TOTAL	5,135.4	21,774.8	11,244.6

* January 1 – June 22, 2007
** 2005 = R$1.2 billion; 2006 = R$2.3 billion
*** For program descriptions, see below.

The new plan acknowledges the significant problems associated with a lack of adequate infrastructure (particularly in the Center-West), but states that it cannot be dealt with through agricultural policy. As such, the government is creating a working group to study the issue. It is estimated that R$3 to 5 billion (US$1.6 – 2.6 billion) is required to solve the problem.

The other significant issue not directly dealt with in the new plan is the estimated R$131 billion (US$69 billion) in accumulated rural debt, which the government continues to roll over. An inter-ministerial working group has been formed to study the issue and suggest a mechanism that will be, according to an opinion piece by Minister Stephanes in the *O Estado de Sao Paulo*, “technically viable, financially supportable and socially just”.

The PAP also acknowledges that the AFRMM (25 percent tax on freight) is a bothersome addition to the cost of inputs and agricultural products and states that the tax should be eliminated.

Reports indicate that the South and Southeast of Brazil (the location of the new Minister’s constituency) consider the new plan to be heading in a positive direction by increasing the participation of middle-income producers. However, the Center-West is critical of the lack of measures to deal with the losses associated with poor infrastructure. The director of the Agriculture Federation of Mato Grosso was quoted as saying that the plan is “timid”.

Support Programs

<u>Federal Government Acquisition (Aquisição do Governo Federal, AGF)</u>
This program allows the government to acquire agricultural products at the minimum price when the market price is below the minimum. It also allows the government to acquire products at market prices for use in the family agriculture program and to build strategic stocks.

<u>Premium and for Marketing of Products (Prêmio de Escoamento de Produto, PEP)</u>
This program provides the minimum guaranteed price to producers and cooperatives without the need for the federal government to purchase the products, but rather paying the difference between the minimum guaranteed price and the market price. The objective of the program is to supplement the supply of commodities in areas of the country considered to be deficient in agricultural production, such as the Northeast of Brazil. The products are taken from private stocks.

<u>Risk Premium for Acquisition of Agricultural Products Deriving from Private Contracts of Sales Options (Prêmio de Risco para Aquisição de Produto Agrícola Oriundo de Contrato Privado de Opção de Venda, PROP)</u>
This is a subsidy program granted in the form of a public auction for the consumer to acquire, at a future date, a determined product directly from the producer and/or cooperative at a prefixed price, utilizing a private contract for the option to sell.

<u>Equalization Premium Paid to the Producer (Prêmio Equalizador Pago ao Produtor, PEPRO)</u>
This is a premium granted to the farmer or cooperative which sells its products at public auction, where the government pays the difference between the Reference Value established by the government and the value of the premium (the maximum value paid by the government as a guarantee of the Reference Value).

<u>Option to Sell Contract (Contrato de Opção de Venda)</u>
This program is a futures option offered by the federal government through public auctions to producers and cooperatives. By purchasing a futures option, the holder has the right to

deliver to the government by a specified date a certain quantity of the commodity, named in the contract, at a specific price. This program signals to market agents the government expectations for futures prices and represents a price hedge to producers and cooperatives.