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Brazil

Cotton and Products

Annual

2004

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Report Highlights:
Post raised 2003/04 lint cotton production to 1.25 million tons and area to 1.0 million hectares. Exports were lowered to 225,000 tons and imports to 100,000 tons. Production in 2004/05 is forecast at a record 1.5 million tons on 1.25 million hectares. Post forecasts exports at 500,000 tons and imports at 100,000 tons.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Unscheduled Report
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Executive Summary

Production: Cotton production in 2003/04 is forecast to reach a record 1.25 million tons on 1.0 million hectares. Strong profit prospects induced producers to increase area 265,000 hectares over the previous year. Mato Grosso and Bahia led the charge with area in the two states expanding by approximately 200,000 hectares. Post forecasts total production in 2004/05 at 1.5 million tons on 1.25 million hectares as producers continue to expand area due to high expected profits. Bahia should be the leading state in rate of area and production expansion with new areas in western Bahia being brought into cotton production. Mato Grosso will continue as the leading production state and expansion is again expected to be significant.

Trade: Post forecasts 2003/04 exports at 225,000 tons, more than double that of last year. However, this forecast is lower than earlier in the year as shipping logistics have restrained exports. Shipments in 2004/05 are forecast at a record 500,000 tons as abundant domestic supplies and limited internal consumption will allow exports with many contracts already signed for exports to Asia from the 2004/05 crop. Imports in 2003/04 are forecast at 100,000 tons with the U.S accounting for 71 percent of shipments to date. Imports in 2004/05 are also forecast at 100,000 tons with continued demand for lower-grade and Pima cotton.

Economic Overview

The Brazilian economy grew 1.6 percent in 2001 with inflation at 7.3 percent, due to the effects of the Argentine economic crisis, energy rationing, political scandals, and the impact of the September 11, 2001 terrorist attacks. In 2002, the economy grew 1.5 percent with inflation at 12.5 percent because of the strong devaluation of the Real, and continued high interest rates for commercial loans. In 2003 the economy struggled and GDP fell –0.2 percent and inflation was 9.2 percent. For 2004, the Brazilian economic and political outlook is guardedly optimistic. Though Brazil's President, Luiz Ignacio Lula da Silva, known as Lula, hails from the Labor Party, he has continued the sound macroeconomic policies of his predecessor, Fernando Henrique Cardoso, since taking power in January 2003.

Growth in 2004 is forecast at 3.5 percent, with inflation at 6.0 percent. Credit terms have eased substantially with interest rates falling from 25 percent to 16 percent and thus investment is on the rise. More investment should create jobs and subsequently consumption is expected to increase. Evidence of a recovery in the economy came in the fourth quarter of 2003, which saw 6 percent annualized growth. Also contributing to the economic recovery is growth in exports, to which agriculture continues to be the principal factor.

The agricultural sector (including agribusiness) accounts for 30 percent of Brazil's gross domestic product. Agricultural exports represented 34 percent of Brazil's total exports in 2003. Total Brazilian agricultural exports in 2003 reached US$24.9 billion, while Brazilian agricultural imports were only US$3.8 billion. Brazil's agricultural exports to the United States are seven times higher than U.S. agricultural exports to Brazil. Primary U.S. agricultural exports to Brazil (2003=$392 million) include cotton, wheat, rice, feeds, beverage bases, hides and skins, planting seeds, snack foods, processed fruit and vegetables and juices, and live animals. Primary Brazilian agricultural exports to the United States (2003 = $2.70 billion) include coffee, sugar, panel products, tobacco, fruit and vegetable juices, lumber, canned and processed meats, tree nuts, shrimp, cocoa, and lobster.

Economic Indicators

	1999	2000	2001	2002	2003	2004*
GDP Growth (%)	0.9	4.0	1.6	1.5	-0.2	3.5
Inflation (%)	8.9	6.0	7.3	12.5	9.2	6.0
Average Exchange Rate (R$/US$)	1.81	1.83	2.35	2.96	3.10	2.95
Total Exports (US$ billion)	48.1	55.0	58.2	59.6	73.1	85.0
Total Imports (US$ billion)	49.2	55.7	55.5	55.3	48.2	61.5

- *Forecast
- GDP growth and export and import forecasts provided by the Ministry of Planning
- Inflation and average exchange rate forecast provided by Central Bank of Brazil

PS&D Table

Brazil							
Cotton							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		08/2002		08/2003		08/2004	MM/YYYY
Area Planted	0	743700	0	1000000	0	1150000	(HECTARES)
Area Harvested	735000	743700	1000000	1000000	0	1150000	(HECTARES)
Beginning Stocks	526027	500000	627052	563612	790347	838612	(MT)
Production	846956	847500	1175723	1250000		1500000	(MT)
Imports	122580	122580	87091	100000	0	100000	(MT)
TOTAL SUPPLY	1495563	1470080	1889866	1913612	790347	2438612	(MT)
Exports	106468	106468	304817	225000	0	500000	(MT)
USE Dom. Consumption	783816	800000	816475	850000	0	870000	(MT)
Loss Dom. Consumption	-21773	0	-21773	0	0	0	(MT)
TOTAL Dom. Consumption	762043	800000	794702	850000	0	870000	(MT)
Ending Stocks	627052	563612	790347	838612	0	1068612	(MT)
TOTAL DISTRIBUTION	1495563	1470080	1889866	1913612	0	2438612	(MT)

Production

Post forecasts total Brazilian cotton production for 2003/04 at 1.25 million tons on 1 million hectares, which is up roughly 45 percent and 40 percent respectively over last year. This production forecast is slightly higher than CONAB's forecast of 1.24 million tons as Post forecasts minimally higher production in Bahia and Mato Grosso, though late rains may impact yields slightly. Most cotton producers in Mato Grosso and Bahia, where about 65 percent of the national crop is produced, also plant soybeans. Soybean rust infestation in Bahia and Mato Grosso last year combined with strong cotton prices at cotton planting encouraged producers to increase cotton area with area in Bahia alone estimated over 100 percent larger than last year. Weather during this growing season in the Center-West region has been satisfactory overall, though excessive rain in Mato Grosso has minimally impacted the crop and lack of rain has lowered yields in Parana and Sao Paulo. Though the majority of the crop has not yet been harvested, yields at this stage are not likely to be greatly affected by adverse weather.

Cost of Production for Cotton
2003 Cost by State in $Reais

	Mato Grosso	Goias	Mato Grosso do Sul	Sao Paulo	Bahia
Mechanical Operations	923	889	721	914	1,145
Inputs	1,484	1,692	1,642	1501	1,786
Administration	159	158	137	215	171
Post-Harvest Costs (includes Ginning)	311	132	100	256	312
Total Cost per Hectare	2,877	2,872	2,601	2,886	3,415
Revenue per Hectare	4,703	4,674	3,675	5,426	5,256
Profit per Hectare	1,826	1,802	1,074	2,540	1,841
Sales Margin	**39%**	**39%**	**29%**	**47%**	**35%**

Source: FNP Consultoria and Agroinformativos

With prices expected be continue very strong over the next few months during harvest and good yields likely, producers report that they expect very high returns in the range of 40 to 50 percent. With such healthy profit prospects, production is expected to continue to expand until cotton prices fall significantly.

Post forecasts 2004/05 production at 1.5 million tons, lint cotton, up 20 percent from the 2003/04 expected record crop. Total area is forecast at 1.25 million hectares up 25 percent from the 2003/04 area of 1 million hectares. Production is expected to expand at a slightly lesser rate than area because new cotton land brought into production produces less than established cotton land. Most newly cleared land is planted with soybeans or rice in the first year or two and it may take as many as seven years for a field to achieve its full productive capability. Generally, land that is brought into cotton production for the first time has been tilled for a few years and the soil conditions are adequate. Therefore, yields on land coming into cotton from soybeans are generally good but still less than land that has been planted to cotton for several years.

Average Lint Cotton Price CIF Sao Paulo Reais per 15 kg			
	2002	2003	2004
January - March	32.4	60.9	72.9
April - June	32.9	56.3	
July - September	41.5	52.6	
October - December	54.7	66.9	

Source: Safras

Producer Seed Cotton Prices in Mato Grosso R$/15 kg													
	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Avg.
2001	9.6	9.6	9.5	9.4	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	**9.40**
2002	9.4	9.5	9.5	9.5	9.5	9.5	11.0	11.3	12.5	14.9	16.0	16.6	**11.58**
2003	17.4	18.1	18.5	18.5	18.2	17.7	17.5	17.7	17.5	18.2	20.0	20.0	**18.27**
2004	20.7	21.0	21.2										**20.96**

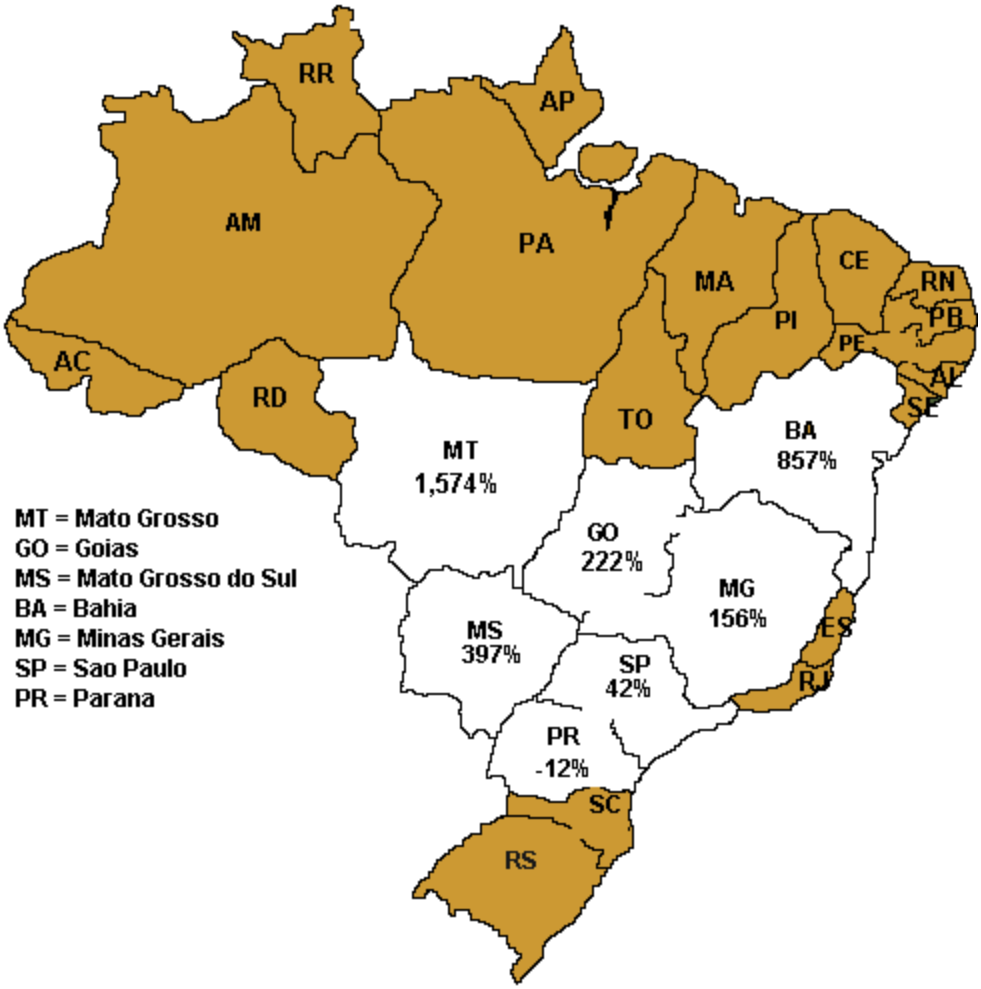
Source: CONAB

As has been the case the past couple of years, area expansion in 2004/05 is expected to be focused in the states of Bahia, Mato Grosso, and Goias where land is being cleared and pasture converted to cotton and soybean production and where investment in seed varieties will spur some yield increases. Very strong exports are expected due to growing international demand for Brazilian cotton, especially from China, and firm prices should encourage farmers to plant more cotton. Forward contracting for exports is increasing and contracts for the 2004/05 crop have been signed for exports to Asia. Contract prices were reportedly fixed at US $20 per pound compared to production costs estimated at under $15 per pound. Though overall liquidity for cotton is less than soybeans, increased forward contracting will spur cotton production. Advance input sales already indicate a large expansion in area for the 2004/05 crop in Mato Grosso, which should be planted in October and November. Additionally, producers in Bahia are anxious to increase cotton acreage after several years of volatile soybean yields.

Cotton Area, Yield, and Production by State/Region (1000ha; kg/ha, 1000MT lint cotton)						
State/Region	MY 2002/03			MY 2003/04		
	Area	Yield	Production	Area	Yield	Production
Parana	29.3	837	24.5	43.7	704	36.2
Sao Paulo	59.9	1,026	61.5	72.5	975	77.1
Minas Gerais	35.2	911	32.1	48.2	968	43.9
Mato Grosso Sul	43.6	1,432	62.4	54.5	1,415	78.0
Mato Grosso	300.3	1,374	412.6	399.4	1,415	548.8
Goias	95.4	1,197	114.2	128.9	1,265	154.3
Bahia	86.3	1,320	113.9	179.1	1,340	240.0
Others - N/NE	85.1	309	26.3	103.5	597	61.8
Total	735.1	1,153	847.5	1,029.8	1,199	1,240.1*
Source: CONAB						

* Post forecasts 100,000 tons combined higher production in Bahia and Mato Grosso due to slightly higher area and yields.

Change in Cotton Production by State Since 1996/97



Though an expansion in cotton production is expected in 2004/05, the increase is forecast to be less than the 35 percent increase seen between the 2002/03 and 2003/04 crops. Soybeans compete with cotton for area in much of Brazil and producers usually decide in June to August which crop they will plant in the spring. During June to August of 2004, soybean prices are expected to be strong due to tight U.S. supplies before harvest, a lower-than- originally expected South American crop, and strong global demand. Soybean area should also increase due to better management of rust, as producers are now well aware of the need for early preventative fungicide applications. Another factor that should limit the growth in cotton area is raising input costs. Input costs for cotton are about U.S. $1,100 per hectare compared to U.S. $330 for soybeans and raising fertilizer and herbicide/pesticide prices could favor a less input intensive crop than cotton. Along with rising costs, some producers are cautious about future prices due to the increased forecast cotton area in the U.S. and concerns about the Chinese government possibly slowing cotton imports. Furthermore, producers are concerned this year about current ginning capacity and an insufficient number of cotton harvesters. If infrastructure issues turn out to be a problem at harvest this year, producers may restrict cotton expansion next year. In contrast to these limiting factors, higher expected returns should encourage more production.

Growth in Brazil's rapidly increasing cotton area is likely given the abundance of cheap land and low labor costs. However, the rate of expansion will likely be affected by the adoption of biotechnology. Biotech cottonseed is currently not approved for use in Brazil, but most producers are anxious to plant BT cotton. Some contacts have indicated that a small amount of BT cottonseed is likely being planted illegally in the Center-West region but it is difficult to ascertain the extent of usage since cooperatives and state governments are reluctant to address the matter. Unlike farmers using Roundup Ready soybeans who enjoyed safety in view of the vast number of producers who previously illegally used the seed, cotton producers may be more fearful of prosecution by IBAMA (the Brazilian equivalent of the U.S. EPA). Though biotech research is being done by private and public entities in Brazil, current Brazilian law does not clearly sanction such research or approval of new varieties for use. It is probable that the Biosecurity Law that Brazil's Senate is presently debating will clear Congress and move to the executive branch for signing by the end of the year, but there is continued concern over how definitive the measure will be. And until the use of agricultural biotechnology is resolved, Brazilian cotton growers that use legally approved non-biotech seed varieties will continue to face higher input costs than their U.S. competitors.

Consumption

Estimates and forecasts of cotton use in Brazil vary greatly among sources with the government, trade, and cooperatives all providing different projections, which range from 700,000 tons per year to 1.2 million tons per year. Some industry contacts report that no organization is performing an accurate survey to determine consumption and many textile companies underestimate use in an attempt to suppress cotton prices.

Contacts in the textile industry believe that Brazilian textile production experienced a 1 percent decrease in 2002 and a flat to 1 percent decrease in 2003. High cotton prices were seen as depressing consumption. Though textile exports were healthy in 2003, exports represent only 5 percent of total domestic textile production. With domestic textile consumption expected to recover only minimally in 2004, many companies are now focusing more on exports and lobbying for the government's advocacy in the FTAA negotiations in hopes of reducing import quotas for textiles.

Post estimates 2003/04 consumption at 850,000 tons, slightly higher than CONAB's forecast of 826,000 tons. Post also projects 2002/03 consumption higher than CONAB as most sources believe that an estimate of 770,000 tons for consumption in 2002/03 was too low. Post forecasts a 2 percent increase in consumption in 2004 due to an expected recovery of the economy and greater demand for textiles. This forecast increase in consumption is slightly less than industry forecasts since Post believes that cotton prices will continue to be strong this year and thus restrain consumption.

Trade

Post forecasts 2003/04 exports at 225,000 tons as shipping problems have slowed the pace of exports over the past few months. Exports for the first three quarters of the marketing year have totaled 170,000 tons, and typically the fourth quarter (Aug/Jul Marketing year) is the slowest for exports, averaging under 20 percent of the total during the past several years. This year, high freight rates, competition for storage with soybeans and a late cotton harvest are likely to decrease the shipping pace even greater than that normally experienced. Cotton harvest in general is now occurring later as production is shifting from the South to the Center-West region. Despite these export-restraining factors, shipments should total 225,000 tons, which would be more than double that of 2002/03 as China,

Indonesia, and Japan have thus far all significantly increased imports from Brazil. Brazil is now seen as a major price and quality competitor of the United States in China.

Brazilian Cotton Exports by Destination 1000 tons		
	Aug 2002 to July 2003 12 months	Aug 2003 to March 2004 8 months
Argentina	43	37
Japan	8	23
China	4	18
Indonesia	7	17
Colombia	3	6
Korea	0	6
Pakistan	0	5
Italy	6	5
Thailand	5	5
Portugal	9	2
Others	21	46
Total	**106**	**170***

*Post forecasts total marketing year exports at 225,000 tons

Exports in 2004/05 are forecast at 500,000 tons with 250,000 tons reportedly already contracted. As mentioned earlier, forward export sales are increasingly common and, in fact, contacts report that there have been many contracts for delivery as far forward as September 2006. Next year, Asian demand is expected to continue strong and prices received by exporters should continue to be healthy. Export sales over the past few months have averaged around U.S. $1,150 per ton compared to U.S. $855 per ton two years ago. Further stimulating exports is the improving quality of cotton, mostly from Mato Grosso, as well as improved inspection and tracebility of shipments.

High international freight rates and a lack of shipping containers in Brazil could somewhat restrain exports in 2004/05. However, given the domestic textile industry's limited ability to absorb excess supply, it is expected that nearly all the increase in supply from the larger expected harvest will need to be exported, even if international prices drop significantly after harvest. Further stimulating exports is a recent governmental revision to the PIS/COFINS tax which favors exportation of cotton over domestic use.

Post forecasts 2003/04 imports at 100,000 tons with 65,000 tons imported during the first 3 quarters of the marketing year. The United States has accounted for 71 percent of the exports after a market share last year of 48 percent. 2004/05 imports are forecast at 100,000 tons despite the large increase in domestic production. Representatives of the textile industry report that regardless of Brazil's booming cotton production, cotton will still need to be imported due to the demand for Pima cotton and for lower grade cotton used for denim production. Brazil was long considered a low-quality producer but this image has changed dramatically over the past few years to where very little lower-priced inferior quality cotton exists despite the fact that most Brazilian cotton is non-irrigated.

Brazilian Cotton Imports by Destination (1000 tons)		
Exporter	Aug 2002/July 2003	Aug 2003/March 2004 (8 months)
United States	59	46
Paraguay	35	12
Greece	4	2
Argentina	2	2
Togo	4	0
Ivory Coast	4	0
Mozambique	3	0
Others	12	3
Total	**123**	**65***

* Post Forecasts 100,000 tons for Aug/July year

Stocks

Government stocks of cotton vary significantly during the year but represent only a small portion of overall stocks. Meanwhile private stocks vary little with most textile companies holding about 2 months of consumption in stocks while cotton cooperatives and producers hold little in storage. However, CONAB estimates 2003/04 ending stocks at 185,000 tons, which is 60 percent greater than the previous year.

Post forecasts 2003/04 ending stocks at 838,612 tons and 2004/05 ending stocks at 1.1 million tons. Post forecasts for stocks differ dramatically from those of CONAB since Post uses a August/July marketing year compared to CONAB's March/Feb year.

Policy

Administrative and Fiscal Measures

Minimum Support Prices (R$)				
Products	Region/State	Unit	02/03 Crop	03/04 Crop
Cotton				
Seed cotton	South, Southeast, Center-West & Southern Bahia	15 kg	10.08	13.40
	North-Northeast, except Southern Bahia		10.08	13.40
Lint cotton	South, Southeast, Center-West & Southern Bahia	15 kg	33.90	44.60
	North-Northeast, except Southern Bahia		33.90	44.60
Cottonseed	South, Southeast, Center-West & Southern Bahia	15 kg	1.78	2.37
	North-Northeast, except Southern Bahia		1.78	2.37
Corn	South, Southeast, TO, Southern BA, MA & PI	60 kg	7.43	9.50
	GO, MS & DF	60 kg	7.21	8.50

	MT, AC & RO	60 kg	6.27	7.50
	North-Northeast	60 kg	8.70	10.50
Soybeans	South, Southeast, Center-West and Rondonia	60 kg	10.18	11.00
	North (except RO) and Northeast	60 kg	9.66	10.40
Sorghum	South, Southeast, Center-West & Southern Bahia	60 kg	5.62	6.88
Source: Ministry of Agriculture, Livestock and Supply (MAPA)/CONAB.				

Key Elements of Domestic Support Programs

The Brazilian government maintains a rural credit system that offers various instruments to support agricultural production and farm income. These programs are summarized below:

1. Government Commodity Loan Program (EGF):

This program is heavily used by farmers to finance the holding of their products in accredited warehouses as collateral for the bank lender. The loan amount is based on the value of product offered as guarantee, based on a minimum price set annually by the government for various products. Banks normally provide loans on the basis of 70 percent of the minimum price. Subsidized interest is available at annual rates of 8.75 percent interest (commercial rates are 26 percent). The volume of such subsidized credit available is limited.

2. EGF-Industry Commodity Loan Program:

This program is similar to EGF, but applicable only to processors of agricultural commodities under the Minimum Support Price Program, except for rice and soybeans. Access to this program is available between the processor and the farmer or cooperative. Financing is limited to 50 percent of the production capacity of the processors, and payment to the farmer cannot be lower than the government-established minimum commodity price in effect. Subsidized interest is available at annual rates of 8.75 percent.

3. Government Commodity Acquisition Program (AGF):

This program is similar to EGF and applicable to farmers who sell farm products to the federal government. Products must be in accredited warehouses, cleaned, dried and graded. The government, through the National Food Company (CONAB), an entity of the Ministry of Agriculture and Food Supply (similar to USDA/CCC), purchases the product at the minimum price.

4. Rural Promissory Note (CDR):

Processors of agricultural commodities can contract a CDR with accredited banks. Financing is limited to 50 percent of the processor's production capacity. Processors must prove they have paid at least the minimum price to the producer. Products eligible for CDR are: cotton, rice, corn and wheat. Subsidized interest rates are 8.75 percent plus banking expenses.

5. Subsidy Auction Program (PEP):

This program is similar to the U.S. loan deficiency payment program. Through this program, the government pays the difference between the prevailing market price and the minimum price of the product. Only wheat, corn, and rubber have been eligible for this program so far. The federal government through CONAB conducts public auctions to set a premium for

buyers of a given product. These buyers then contact producers interested in selling their production at the minimum support price in force. Buyers (normally processors or millers) must transport the product to the destination previously established by the program.

PEP was first introduced in November 1996 to help sales of domestic wheat at the minimum price and to relieve pressure on government purchases of wheat. The PEP was initially put in place to assist in the marketing of lower quality wheat shunned by mills at prevailing market prices. Wheat was put up for auction to millers who bid on the level of the subsidy and not the price of the wheat. Through these official auctions, the government compensated for some of the difference between the prevailing market price and the minimum price. Under the PEP, the government never takes possession of the wheat itself but facilitates the transfer of the wheat from the seller to the buyer. In some respects the program is basically a transportation subsidy as the bonus varies with the distance from the seller to the purchasing mill. After an initial slow start in 1996, PEP auctions accelerated and PEP has proven useful marketing tool for the Brazilian government. The costs of PEP are much less than purchase, storage, subsequent marketing, and eventual losses under a Government purchase program.

6. Option Contract:

The federal government through CONAB offers a futures price, normally between harvest periods, for purchase of eligible (wheat, corn, rice, and cotton) product. The futures price is established by CONAB at the moment the contract is offered, and the price is always above the minimum price. The producer may acquire a put option to sell contracts of 27 metric tons. The producer of the option contract acquires the right to sell the contracted product to CONAB at a later date and price specified in the contract.

7. Product Equivalency:

Small producers, under the Program to Strengthen Family Farms (PRONAF), are entitled to production cost financing based on the equivalency concept: farmers pay their back loans by delivering an equivalent amount of the crops. The government established minimum price is used as reference. This scheme is only available for cotton, rice, corn and wheat. Interest rates for small family farms are highly subsidized, at the annual interest rate of 5.75 percent. The volume of credit available at this rate is limited.

8. Other:

Long-term support for production and processing of agricultural products is centralized in the BNDES - Brazilian Bank for Economic and Social Development, along with the Special Agency for Industrial Financing (FINAME). Together these form the BNDES system. The BNDES system's mission is to foster economic and social development in Brazil, acting as an agent for long-term investments. The BNDES system provides financial support to the following sectors of the Brazilian economy: agriculture, industry, infrastructure, commerce and services. The BNDES system offers a broad range of services to support various agribusiness project types. Among those are:

- FINAME Rural. A credit line destined for acquisition, maintenance and/or rebuilding of agricultural machinery. The annual interest rate is 14.5 percent for a period of 5 years, with a grace period of two years.
- BNDES Automatic. A credit line aimed at creating pasture, other animal production projects, and for production of forest products. Annual interest rates are similar to the credit line above and terms of financing are flexible according to each project.

Programs covered under the 2003/04 Agricultural Plan are listed below. Funding in 2003/04 increased to R$5.75 billion (U.S. $1.91 billion) from R$4.63 billion (U.S.$ 1.58 billion) in 2002/03.

2003/04 Agricultural Plan
Ministry of Agriculture and Supply

Program	Description of Items Financed	2002/03 Funding	2003/04 Funding	Credit Limit R$1,000/ Operation	Interest Rate (%)	Maximum Payment Period (years)
		R$ Million				
PRODEFRUTA	Fixed or semi-fixed investments related to the introduction and improvement of fruit varieties.	380	240	200	8.75	8
MODERAGRO	Soil improvement, green fertilizer, soil conservation, reclamation of pastures, and designation of meadow.	570	600	200	8.75	5
PRODEAGRO	Fixed and semi-fixed investments related to production of flower, goat & sheep, fish, honey, pork, poultry, and rubber.	140	60	150	8.75	5
MODERINFRA	Fixed and semi-fixed investments directed toward irrigated agriculture and the installation or improvement of silos or rural properties.	300	500	400	8.75	8
PRODECOOP	Fixed and semi-fixed investments for cooperative organizations seeking to aggregate the value of agricultural production.	250	450	20,000	10.75	12
PROPFLORA	Fixed and semi-fixed investments for the commercial planting of forests.	60	50	150	8.75	12
PROLEITE	Machinery and equipment for dairies.	100	100	80	8.75	5
MODERFROTA	Agricultural tractors, implements, and harvesters, as well as equipment for coffee processing.	1,000	2,000	No Limit except for coffee	9.75	5
				20 coffee	12.75	6
PROGER	Fixed and semi-fixed investments of small farmers.	100	250	56	7.25	8
FINAME AGRICOLA ESPECIAL	Machinery and equipment for the processing of cotton, fruit, seeds, fish, and others.	500	500	300	13.95	5
SUBTOTAL		**3,430**	**4,750**			
CONSTITUTIONAL FUNDS*		**1,200**	**1,000**			

TOTAL	**4,630**	**5,750**	

- Constitutional funds can be used in any of the above programs or other programs.

State Level Support

Most contacts assert that the majority of the programs discussed above influence production somewhat indirectly, but the state of Mato Grosso has implemented an aggressive program, called PROALMAT, targeted directly at increasing cotton area in the state. Mato Grosso charges a 12 percent ICMS tax on cotton sold by producers on the domestic market. However, under the PROALMAT program, the producer is only taxed 4.5 percent, which includes 3 percent ICMS and a 1.5 percent tax that is destined for research. In order to qualify for the reduced tax, producers must dispose of chemicals properly, register all farm workers and provide them with meals and housing, and destroy the field residual after harvest to decrease pests. The result has been that production in Mato Grosso, the leading export state, has soared over the past few years and other major cotton producing states are interested in the program or have already implemented a similar program. The rationale behind the program is that the Mato Grosso state government can actually take in more revenue in taxes though the discount since it encourages the production of high value cotton versus bulk commodities such as soybeans and corn.