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Brazil

Agricultural Situation

Brazil Announces Credit Package for 2010-11 Crop Year

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Report Highlights:
Brazil's Congressional House Commission on Agriculture just proposed a bill at a cost of US$14 billion annually to provide direct subsidies to producers. The Government of Brazil also announced last month it will make available US$64 billion in agricultural credits to boost production during the upcoming crop year (October 2010 – Sept 2011), an increase of 7.5 percent over last year's credit program. Brazil is initiating a Low Carbon Agriculture Program (ABC) to address sustainability and a new credit line exclusively for middle-class farmers (Pronamp). The Brazilian Congress also is reviewing Measures that would allow rescheduling of more than US$50 billion in farm debts. Brazil's increasing agriculture support has tended to escape World Trade Organization disciplines in large part due to its self-designation as a developing country.

Post: Brasilia

President Lula and Agriculture Minister Rossi launched the 2010/11 Agricultural Plan (PAP) on June 7,

2010. The new PAP entered into effect on July 1 and emphasizes reducing the cost of financing and increasing support to middle-income producers. Of note, the Government is initiating a Low Carbon Agriculture Program (ABC) to address sustainability and a program that provides financing for on-farm storage to improve infrastructure. In addition to the new PAP, the Brazilian Congress also is reviewing measures that would allow rescheduling of farm debts, estimated at more than US$50 billion. Furthermore, Brazil's Congressional House Commission on Agriculture proposed on July 13, 2010 a bill at a cost of R$25 billion (US$14 billion) annually to provide direct subsidies to producers. The proposed direct subsidy of R$500/hectare (US$280/hectare) disbursed before March 31 each year would be applicable on an estimated 50 million hectares agricultural land compliant with required norms. This proposed law would be revised on a biannual basis and would be suspended only when other principal agriculture producing and exporting countries revoke direct subsidies to their producers.

The 2010/11 Agriculture and Livestock Plan, called PAP, allocates a total amount of R$116 billion (US$64 billion) to finance production costs, marketing and investment for the upcoming 2010/11 crop year (October 2010 through September 2011) an increase of 8 percent over last year's plan. Of this amount, R$100 billion (US$55 billion) is allocated for commercial and export-oriented agriculture, while R$16 billion (US$9 billion) is allocated to family agriculture. Although the plan creates a new line of credit exclusively for middle-class farmers (Pronamp) whose annual income is less than R$500,000, the National Agriculture Confederation (equivalent to the U.S. Farm Bureau) has opined that the PAP is not favorable to Brazil's 2.5 million middle-class farmers. Since 2002, the PAP budget has quadrupled.

Brazil's large and increasing agricultural support programs have tended to escape World Trade Organization (WTO) disciplines due to their self-designation as a developing country and the manner in which the support is extended. It is estimated that rural credit is equivalent to one quarter of gross agricultural output.

The following are the main points of the 2010/11 PAP Plan:

1. Interest Rates. The Government decided to maintain last year's level of subsidized interested rates at 6.75 percent, with interest rates offered to middle-class producers set still lower at 6.25 percent. These are considered negative interest rate offerings when compared to market interest rates around 3 to 4 percent **per month** for working capital.

2. Production and Marketing Credit. The amount allocated to finance production and marketing costs is R$75.6 billion, a 14 percent increase over last year's plan, of which R$60.7 billion is offered at a fixed interest rate of 6.75 percent with the remaining R$14.7 billion offered at market-influenced interest rates, historically around 15 percent.

3. Government support programs including the Minimum Price Program are allocated R$5.2 billion (US$2.9 billion).

4. Investment Credit. Total funds available for financing investment in farm and livestock programs is R$18 billion (US$10 billion) at subsidized interest rates of ranging from 5.5 to 9.5

percent per year. Investments include:

a) The Low Carbon Agriculture Program (ABC) created and funded with R$2 billion with a purpose of recovering degraded land areas, forest planting and other sustainable measures. The program's goals are to recover 15 million hectares of degraded land and reduce CO_2 emissions by 176 million tons by 2020.
b) Lending to promote on-farm storage set at R$2 billion
c) Lending to sugar producers in the Center-South to build inventories and incentives for Northeastern fruit growers to boost output totaling $R2.4 billion.