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Brazilian President Dilma Rousseff Promises Farmers a Better Agricultural Credit Package for 2013-14 Crop Year

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Report Highlights:

The Brazilian government (GOB) is expected to announce the “Crop and Livestock Plan for the 2013-14” marketing year as early as May. Brazilian President Dilma Rousseff affirmed that the 2013-14 Plan would offer more credit and lower interest rates to producers than the 2012-13 Plan. The 2012-13 plan includes R$115 billion in credit lines allocated for commercial and export-oriented agriculture, equivalent to US$58 billion at subsidized interest rates. In addition, the Brazilian government is providing for 2012-13 crop year R$18 billion (US$ 9 billion) for family farming. These annual plans are the best way to understand the array of Brazil’s government programs to support production and investment for the agricultural sector at subsidized interest rates.

General Information:

The GOB is expected to announce the “Crop and Livestock Plan for the 2013-14” marketing year as early as May. Brazilian President Dilma Rouseff affirmed that the 2013-14 Plan would offer more credit and lower interest rates to producers than offered in 2012-13. In particular, President Dilma Rouseff announced that the upcoming 2013-14 Plan will include a significant reduction in the interest rate to 2.5 percent from the current 5.5 percent applied on new or used agricultural equipment acquired by producers, i.e. tractors, harvesters, sprayers, and implements.

The GOB is operating the “Crop and Livestock Plan for the 2012-13” marketing year. The “Plano de Safra”, as called it in Portuguese, is announced each year before the planting season of the summer crop, September-November. The plan is the best way to understand the array of Brazil’s government programs to support production and investment for the agricultural sector at subsidized interest rates.

BRAZIL’S 2012-2013 CROP AND LIVESTOCK PLAN

The 2012/13 plan calls for a total of R$115.25 billion in credit lines allocated for commercial and export-oriented agriculture, the equivalent to US$58 billion at the current exchange rate of US$1.00=R$2.00, an increase of 7.5 percent from last year in local currency.

The total amount of credit announced is split into two major categories:

a. credit for production and marketing: R$86.95 billion (US$43.5 billion), up 8.4 percent from the previous year;
b. credit for investment: R$28.3 billion (US$35 billion), up 5 percent from last year;

Brazilian farmers will use most all of the credit lines (R$70.5 billion or US$35 billion) above at a fixed subsidized interest rate of 5.5 percent annually. This is a significant reduction of nearly 23 percent in the rate compared to last year’s fixed subsidized rate of 6.75 percent.

Notes:(1) The interest rate of 5.5 is a real negative interest rate if discounted by the annual inflation rate for 2012 of 5.84 percent; (2) The current average free market rate for farmers in Brazil runs between 15 and 22 percent per year, depending on the individual bank-farmer negotiation; (3) The average market interest rate is 30 percent per year for business in general, and 49 per percent per year for consumers.

In the past, the President of Brazil was quoted as saying that “loans at nearly negative rates are compatible with the international market and will allow Brazilian farmers to compete under equal conditions with other countries.”

The 2012/2013 “Plano de Safra” has the following objectives: (1) increase current record grain and oilseed crops from 161.2 million metric tons to 170 million metric tons; (2) guarantee food security; (3) establish and implement regionally focused policies, prioritizing investments in storage, irrigation, soil conservation, agriculture equipment; (4) guarantee adequate resources to the National Rural Credit System (SNCR) and marketing support of agriculture production; (5) increase limits and reduce interest rates on rural credit; (6) increase the coverage of the rural insurance program; (7) ensure the continuation of support for the medium-sized producers; (8) encourage good management practices in agriculture and livestock production; (9) strengthen cooperatives; (10) encourage low-carbon agricultural production practices that reduce greenhouse gas emissions; (11) strengthen production of biofuels.

The following are the main feature of the 2012/13 Crop and Livestock Plan:

1. Interest Rates. The Government reduced subsidized interest rates to 5.5 percent from last year's level of 6.75 percent, and reduced the interest rate to 5 percent from 5.5 percent per year for low carbon agriculture programs (ABC); This program has received the greatest annual increase in participation at nearly 600 percent, measured by credit extended, for the initial months of 2012/13 crop season. The program objectives include reducing greenhouse gas emissions, reducing deforestation, ensuring compliance of rural properties with environmental legislation, increasing reforestation, and encouraging recovery of degraded lands.

2. Production and Marketing Credit. The amount allocated to finance production and marketing costs is R$86.95 billion (US$43.5 billion), a 8.4 percent increase over last year's plan, of which R$70.5 billion (US$35 billion) is offered at a fixed interest rate of 5.5 percent with the remaining R$16.4 billion (US$8.2 billion) offered at market-influenced interest rates, historically around 15 percent.

3. The Minimum Support Price Program. This program was allocated R$5.4 billion (US$2.7billion), up from R$5.2 billion last year;

4. Investment Credit. Total funds available for financing investment in farm and livestock programs are R$28.3 billion (US$14.2 billion), up 5 percent from the previous year, and at the subsidized interest rates ranging from 5.0 to 8.5 percent per year, according to the programs listed in the plan, such as the ABC program (5%), the MODERINFRA program (5.5%), the MODERAGRO program (5.5%); the PRODECOOP (5.5%), the PROCAP-AGRO (5.5), the MODERFROTA (5.5%), the PRONAMP (5%), and the Constitutional Funds (5 – 8.5%) (see final page for brief program descriptions);

5. Increase in the credit limit per producer/crop for production credit to R$ 800,000 (US$ 400,000) up from R$650,000 (US$325,000) last year. Increase in credit limit for marketing of crop set at R$1.6 million (US$800,000) per producer. Special credit limit of R$1.2 million (US$600,000) set for swine producers to retain sows and alleviate challenges faced by the sector in light of import restrictions currently imposed by some importing countries.

There is no accurate information available about the total cost of these government programs offered to producers, including debt rescheduling (Law 11,775 of 2008 amended by Law 12,380 of 2011). We have attached a table provided by the Brazilian Finance Ministry regarding all disbursements by the Brazilian treasury for subsidizing several agricultural programs from 1977 to 2010. It is estimated that total farm debt in Brazil is R$ 130 billion (US$65 billion).

DOMESTIC AGRICULTURAL POLICY PROGRAMS

The GOB maintains a rural credit system and several long-term loan programs to support agricultural production and farm income, all at subsidized interest rates. The following is a summary of the most important domestic support programs:

Government Commodity Loan Program (EGF): This program is frequently 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 6.75 percent. The volume of such subsidized credit available is limited.

Industry Commodity Loan Program (EGF - Industry): 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 predicated on an arrangement between the processor and the farmer or cooperative. Financing is limited to 50 percent of the production capacity of processors, and payment to farmers cannot be lower than the government-established minimum commodity price. Subsidized interest is available at annual rates of 6.75 percent.

Federal Government Acquisition (AGF): 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.

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 6.75 percent plus banking expenses.

Premium for Product Outflow (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. Cotton, wheat, corn, rice, soybeans, dry edible beans, wine, 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.

The Premium for Marketing of Products and Value for Marketing of Products (PEP & VEP): It provides the minimum guaranteed price to producers and cooperatives by paying the difference between the minimum guaranteed price and the market price. The objective is to supplement the supply of commodities in areas of the country considered to be deficient in agricultural production, such as the

North and Northeast of Brazil. The difference between the programs is that in PEP, the products are taken from private stocks, whereas in VEP the products are taken from public stocks.

Risk Premium for Acquisition of Agricultural Products Deriving from Private Contracts of Sales Options (PROP): 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.

The Equalization Premium Paid to the Producer (PEPRO): PEPRO is a premium granted to the farmer or cooperative which sells its products at public auction. The government pays the difference between the Official Reference Value and the value of the premium (the maximum value paid by the government as a guarantee of the Reference Value).

Option to Sell Contract: This contract 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 government expectations for futures prices, and represents a price hedge to producers and cooperatives.

Product Equivalency: Small producers under the Program to Strengthen Family Farms (**PRONAF**) are entitled to production cost financing based on the equivalency concept whereby farmers pay their back loans by delivering an equivalent amount of the crop. The government-established minimum price is used as a 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 6.75 percent. The volume of credit available at this rate is limited.

Other Long-Term Investment Support Programs:

Long-term support for production and processing of agricultural products is centralized in the Brazilian Bank for Economic and Social Development (**BNDES**) and the Special Agency for Industrial Financing (**FINAME)**.

Both 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:

A. FINAME Rural. A credit line for the 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.

B. BNDES Automatic. A credit line aimed at creating pasture supporting other animal production projects and for producing forest products. Annual interest rates are similar to the credit line above, and terms of financing are flexible according to each project.

C. Other BNDES credit lines (mostly with subsidized interest rates) are commodity target or program-oriented, such as:

PRODAMEL (Program for the Development of Apiculture);

PRODECAP (Program for the Development of Sheep and Goats);

PROCAMOL (Program to Support the Development of Shrimp Farming);

PRODEVINHO (Program for the Development of the Wine Industry);

PROPASTO (Program for Pasture Improvement);

PROLEITE (Program for Developing Milk Production);

PROFRUTA (Program for the Development of the Fruit Industry).

PROSOLO (Soil Conservation Program);

PRONAMP (National Program to Support the Medium-sized Rural Producer)

MODERINFRA (Program for Farm Storage Building)

MODERAGRO (Program for Modernization of Agriculture and Conservation of Natural Resources)

PRODECOOP (Program for Development of Cooperatives)

ABC (Low Carbon Agriculture Program)

MODEFROTA (Modernization of Agricultural Machinery Program)

Constitutional Funds – (special investment credit line)