Brazil

Tractors roar against 'real' plan

by Lorenzo Carrasco

The biggest grain crop in Brazilian history—more than 80 million tons—which should be a reason for enthusiasm and celebrations among Brazilian farmers, incredible as it may seem, is turning into a nightmare threatening to bankrupt hundreds of thousands of farming units throughout the country and put 500,000 people out of work, because the prices at which the grain is sold on the national markets are lower than the minimum cost needed to uphold minimum farm profits.

The origin of this absurdity is the stupid, incompetent policy of monetary stabilization imposed in the country since July 1, 1994, when the present currency, the "real," was set up. In their zeal for artificially holding down inflation, the government based its Real Plan on two anchors which are sinking national production: first, artificially valuing the real against the dollar; and second, keeping the price of basic grains for human consumption equally artificially depressed, through reducing the tariffs on imports of these same grains, as well as by limiting money for purchasing the crop, by means of credit-tightening measures and an increase in the banks' reserve requirements. For example, the government freed up 7.5% less money for the 1994-95 harvest than last year, when the crop was 7 million tons smaller.

If this government stupidity were not already enough, the farming picture worsened as a result of the very high interest rates for farm credits, indexed to the Reference Rate—which from July 1994 to January 1995 increased by 22.45%—plus 11% interest, which caused, from July 1994-February 1995, an increase in farmer debt of more than 40%, while the variation in the market price was falling for some products as much as 20% (see **Table 1**).

Losses set to rise

For example, maize producers, who are the most affected, saw their debts go up by 44.9%, while their prices collapsed by 21.43%. Thus, the price they were being paid at the end of March for a 60-kilo sack was an average of 4.70 reals, and the minimum price was 6.32 reals. The situation for the soy producers is similar, and rice growers are hardly better off. The results of this situation will be felt with its full weight in the next growing season, which will suffer a rise in costs of approximately 35% owing, above all, to the increase in nitrogen fertilizers from $210 to $280 per ton.

If this situation does not change, the losses of farmers will be huge. For example, it is estimated that maize producers will lose more than $1 billion in the sale of their production. Rice growers will be hit by losses of $200 million.

The situation will tend to worsen because of the latest rises in interest rates which the government imposed to try to stop the massive capital flight out of Brazil. The raising of the real interest rate from 3.22% to 4.25% will have direct effects on the Reference Rate (RR) which is the indexer of all farm credits. For example, an average RR of 4% a month represents an annual cost of 60%, which, added to an annual interest rate of 11%, represents an annual financial burden on agriculture of more than 80%.

In the face of this situation, the president of the National Agricultural Confederation, Antonio Ernesto De Salvo, stated ironically, "The entities of the sector are not going to induce the producers to not pay their bank debts or to create problems of food supply for the country. With a 50% financing cost paid by the producer, insolvency in rural credit will not be induced—it will occur as a matter of course."

Researcher Fernando Homem de Melo, from the Foundation Institute for Economic Investigations of the University of São Paulo, and one of the most important authorities on agricultural questions in the country, calculates that the loss of profit in the farm sector as a whole will be at least $4 billion, which will in turn have a huge effect on the consumption of manufactured goods, which will redound into an immediate industrial recession.

The problem will get more and more drastic as the crop begins to be harvested. According to farm leaders, barely 17% of production, equivalent to 13.8 million tons, is covered by minimum price supports, which have already been frozen since last July. But most farmers, those who have the other 83% of the remaining crop, will have to submit to the tortures of marketing their grain in a climate of abundant production but scarcity of consumers, which is an aberration in a country which has 40 million of its inhabitants on the brink of famine.

TABLE 1
Farm prices fall below minimum for survival

Product	Percent increase in agricultural debt*	Percent drop in market price*	Market price, March 1995**	Minimum price**
Irrigated rice	41.89	−2.89	8.50†	8.85†
Beans	48.89	−12.24	43.00	22.50
Maize	44.19	−21.43	4.70	6.32
Soybeans	44.19	−19.69	8.80	7.73
Wheat (ton)			135.00	144.61

* From July 1994 to February 1995
** Reals per 60 kg
† Reals per 50 kg
Source: National Confederation of Agriculture

A marketplace in São Paulo, Brazil. Thanks to the government's foolish policies, farmers are being driven into bankruptcy because their products are sold on the domestic markets at below the cost of production.

These are the farmers who went into debt outside the system of product-equivalence and have their debt corrected by the RR plus interest, up to a rate of 11% a month.

"Maybe we will have to defend ourselves in the courts," threatened the president of the Brazilian Rural Society, Roberto Rodrigues, in an editorial in the society's newsletter on April 2. "In the end, there exists a vast apparatus which protects us from those who do not obey the law. Article 187 of the Brazilian Constitution, for example, says expressly that agricultural policy shall be planned and executed taking especially into account, 'prices compatible with the costs of production and guaranteed markets.' "

Opening to famine

The nightmare of Brazil's farmers does not end here, because the government, besides sinking them with the "anchors" of its monetarist policy, is promoting a flood of imported grain which is either subsidized or comes from more productive economies. This was facilitated by the coming on line of the so-called Mercosur, which freed up imports from Argentina, promoting a criminal competition against the domestic producers of wheat, soybean, maize, dairy products, temperate-climate fruits, and cotton. For example, the cost of Argentine wheat is $50-100 per ton, whereas the Brazilian farmer produces it at $120-200 a ton. As for maize, Argentina produces it at $50-90 per ton, while in Brazil it costs $75-115 a ton to produce. This distortion is derived in part from the exchange policy which artificially devalued the dollar with respect to the real.

The case of wheat is even more drastic. In 1994, for example, imports were at 5.3 million tons, when just 10 years back only 2 million tons were imported. In 1984-85, Brazil cultivated 2.6 million hectares and brought in a crop of 4.324 million tons. In 1993-94, the cultivated area had been reduced to 1.4 million hectares, and production to 2.126 million tons. Worse yet, Brazil is importing heavily subsidized wheat from the European Union, below the costs of production, saturating Brazil's capacity for grain storage.

As the farm leaders put it in a document delivered to President Fernando Henrique Cardoso on Feb. 13, 1995 in Campo Mourão, Paraná: "With respect to the exchange rates, the authorities insist on affirming that exports have fat to burn and can tolerate the discrepancy; this is not the case for the commodities which are suffering the influence of the subsidies war waged by the United States and the European Union. What is true, is that Brazil has turned into a net importer of cotton, barley, maize, rice, and wheat, precisely because of the exchange rate discrepancy and the favorable conditions of financing and interest offered by the grain and cereals exporters, who are applauding the attitude of Brazil and even get to the point of fighting for space, as is happening with Canada and the United States, quarreling over the Brazilian wheat market. Only one year ago, Brazil spent $1.6 billion buying grains and cereals, on account of which the Treasury spends money for storage and freight of the domestic products. And 400,000 Brazilian jobs are lost."

Protests start

This public calamity, caused by the so-called monetary stability plan, has already given rise to a wave of protests throughout Brazil. In mid-March, marches and tractorcades began in the states of Rio Grande do Sul, Paraná, Santa Catarina, and Mato Grosso do Sul.

In Paraná, the demonstrations involved the entire state. In the city of Pato Branco, 8,000 farmers occupied the streets, burning effigies of President Cardoso and his agriculture minister, José Eduardo Andrade Vieira, the boss of the Bamerindus bank, which is one of the country's biggest. In Guarapuava, in the same state, the protests engaged 5,000 farmers, 200 tractors, and 200 trucks.

In Santa Catarina, the biggest march took place in the city of Xanxerê, bringing together 6,000 farmers from 70 cities of the region. The local mayoralty allowed all its civil servants to participate in the demonstration, which was also supported by Gov. Paulo Alfonso and all of their federal representatives, including three senators and 16 deputies.

The anti-government rage was explained by the president of the Brazilian Rural Society, Roberto Rodrigues: "The government does not allocate resources to guarantee the policy of minimum prices and is also not indicating the warehouses to receive the crops. With this, the product-equivalence [a mechanism by which the farmers have their loans converted into values equivalent to a certain amount of the planted crop and pay their debts in money reckoned by this same amount] promised by the government remains in a vacuum, because the farmers have no place to take their products and hence to receive the authorized appraisal and to exchange it for the debts assumed with the Banco do Brasil."

Beyond this, Rodrigues said, "What makes this picture worse is the policy of reducing import quotas, which leaves the farmers in the lurch, having to compete with other countries' subsidized farmers. It is ironic that the warehouses which the government did not authorize to receive domestic farm production are brimming with the violent importation of foodstuffs. If there is no change in the government's farm policy, the serious consequences will make themselves felt in the next harvest."

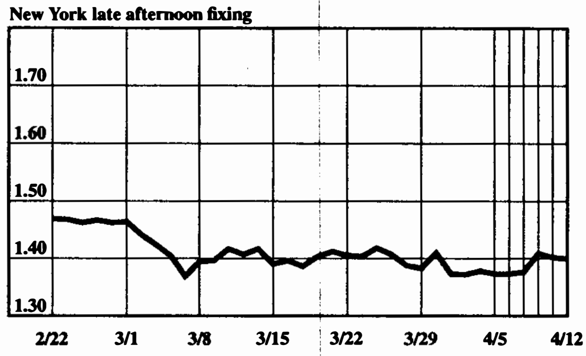
The president of the National Agricultural Confederation, Antonio De Salvo, also repudiates the government's policies. "The government is not complying with all of its promises to agriculture. They are not allocating the necessary resources to acquire the crops to guarantee minimum prices. The loss of confidence is disastrous, because it is holding back producers from investing. . . . What is happening with this, together with the indexation of credit, is that the debts are rising crazily and prices are collapsing, making it impossible to replace the costs of the harvest. This is a policy which is going to destabilize agriculture, provoking an increased rural exodus, joblessness, and bloating the major cities."

Even though the Brazilian press has ignored the explosive potential in the Brazilian countryside, the continuation of the present monetary policy could in a very short period of time touch off a reaction which will rock the political and institutional stability of Brazil.

Currency Rates

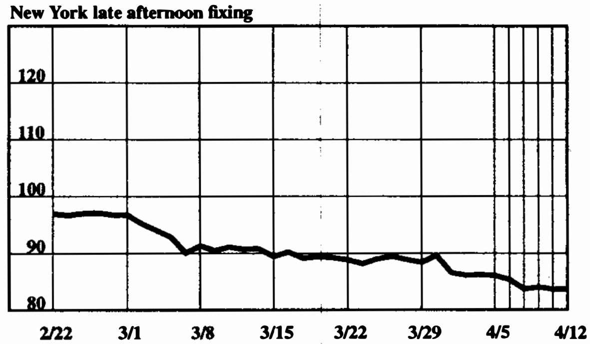
The dollar in deutschemarks

New York late afternoon fixing



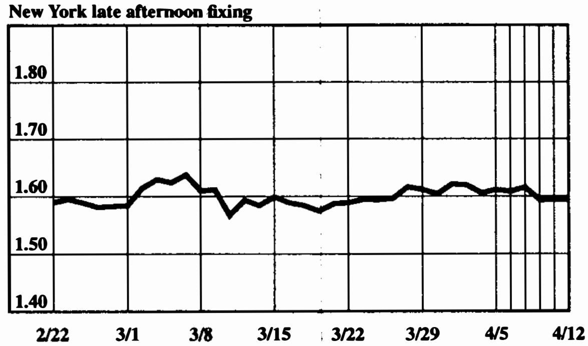
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing