POLICY PENNINGS

By Daryll E. Ray

Brazilian acreage potential is larger than previously thought

Two years ago I thought I was putting my neck on the chopping block when I wrote, "Brazil has 200 to 300 million acres of unsettled land that can be economically brought into production." Based on a recent USDA Foreign Agricultural Service (FAS) study, it looks like I was wrong. Their conservative estimate puts the number closer to 420 million acres.

Michael Shean of the Production Estimates and Crop Assessment Division at FAS recently reported, "that previous estimates of the scope for possible agricultural expansion [in Brazil] have been grossly underestimated. There are in fact few natural limits to the future expansion of grain and oilseed production which cannot be overcome by astute planning, research, and adequate investment capital."

Before you fall into complete despair, it should be noted that Shean estimates that this land will not all come into production at once. The long-term trend suggests that this expansion would proceed at the rate of 3 to 4 percent a year, if current conditions continue to prevail. Significantly lower crop prices or higher cattle prices could retard the expansion of crop acreage, while high crop prices could accelerate the growth in crop acreage.

This growth is premised on three conditions: 1) the legalization of the production of GMO crops in Brazil; 2) the widespread adoption of high-yield crop varieties; and 3) improvement in the transportation infrastructure in Brazil that will lower the cost of getting agricultural crops to the port.

The matter of the legalization of GMO crops is a matter of intense debate in Brazil. If approval is granted, soybean producers are planning on growing both GMO and non-GMO varieties in the hope that they will be able to receive a premium for the additional costs associated with producing and segregation the non-GMO beans. the high-yield crop varieties are already coming on-line and their widespread adoption is just a matter of time.

When it comes to the infrastructure issue (rail, highways and barges), one only needs to note that the new Governor of one of the largest soybean growing areas in Brazil, the state of Mato Grosso, is Blairo Maggi. Maggi has been called the "King of Soybeans" because he produces nearly a quarter million acres of soybeans. He ran his election campaign on a platform of economic development. One can be sure that cost reducing improvements in infrastructure are high on his list of economic development tools.

Much of the potential additional acreage for crop production comes from land that is now used for pasture and cattle production. In the U.S., much of the land that is used as pasture cannot be used for crop production because it is too arid or hilly. In Brazil much of the pasture land is agronomically identical to the adjacent soybean acreage. If the returns from soybeans exceed the returns from cattle then a portion of the pastureland will be converted to crop production. Much of the recent soybean acreage increase has come from pastureland.

Additional Brazilian cropland will not swamp U.S. producers in any given two to five year period. Rather it will continue to keep the pressure on. We also must keep in mind that any U.S. policies that are designed to drive our competitors out of the international marketplace are not likely to work. Policy or no policy in the U.S., Brazil seems destined to open up its vast agricultural areas in the same way that the U.S. opened up the prairies west of the Mississippi.

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