

PolicyPennings by Dr. Daryll E. Ray

Farm Crisis in Brazil: Farmers Block Roads

It was on our final day in Brazil last February that we first heard of the potential of a looming crisis for Brazilian soybean farmers. Several members of our group went to the offices of a multinational agribusiness firm and in the discussion they were told that a number of Brazilian farmers had rolled forward up to two years' input loans into this year's borrowings. Their only hope was for things to turn around with this year's crop.

In late April, farmers in Brazil's center-west began to block trucks carrying soybeans and other agricultural commodities from using the main highways like the ones we had been on two months earlier. The farm protest is in response to a financial crisis brought about by a strengthening Brazilian real against the US dollar.

Since May 2004, the Brazilian real has increased by 53 percent compared to the US dollar. For farmers who have traditionally sold their beans in US dollars but paid their bills in Brazilian currency, it suddenly takes twice as many beans to pay off a given bill as it did two years ago. A recent Dow Jones article reports that 60 kilogram bags of soybeans that bought 12 liters of diesel a year ago now cover the cost for 6 liters.

While port prices have remained at reasonable levels, freight costs between the field and the port have risen by 75 percent cutting into the farmer's margin. Fertilizer costs have also risen as have the costs of an increasing number of applications of fungicides to combat the spread and yield loss of Asian Soybean Rust. The result is that for farmers in the center-west of Brazil, the local soybean price is below the cost of production.

Adding to their woes, adverse weather has reduced farmers' yield and production. Production will be greater than last year, but short of early season expectations. In a financial crisis, every bushel of weather and disease loss is significant.

Seed and chemical companies who have financed a significant portion of the inputs have suggested that they will not continue to finance farmers unable to pay off their input debts and, without debt repayment, some may, themselves, be in financial trouble. In addition to covering the cost of inputs, most farmers are also faced with long-term capital costs for land and machinery.

The farmers' protest which has spread to a third state in Brazil is beginning to have an impact on processors and shippers. At the beginning of the blockage, most processors had a supply of soybeans on hand and could continue their usual activities. But, with the protests going into their third week the storage bins are beginning to look like Old Mother Hubbard's cupboard.

Protest leaders are suggesting that if the government does not address the concerns of producers, the impact of the reduced availability of agricultural commodities like soybeans could ripple through the national economy. At the time this column is being written Brazilian farmers are planning a May 16 march on Brasilia, the Brazilian capital.

Press reports quote Brazilian Agricultural Minister Roberto Rodrigues as saying, "Negative cycles in agriculture are common anywhere in the world. The government is fully conscious of the grand crisis affecting the producer." The initial government response was to offer a half a billion dollars in subsidies to the farmers, a total rejected by the farmers as inadequate.

Looming in the background of all of this is the growing world soybean stock levels. As recently ago as the 2002 crop year, world year-ending soybean stock levels amounted to about a 30 day supply. Today, the 2005 crop year-ending stock levels are over a 90 day supply. Most analysts attribute the current high prices, relative to stock availability, to uncertainty about Brazilian supply and the fund participation in the commodity markets.

If the funds were to abandon the agricultural commodity markets, soybean prices could fall significantly, leaving Brazilian farmers in an even deeper crisis than they are today. And given the current stock levels it could take a couple of years to get soybean stocks back down to historic levels.

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