POLICY PENNINGS

By Daryll E. Ray

Are multinationals now the stealth of Brazil's agricultural expansion?

Mention the increased globalization of the agricultural economy to most U.S. farmers and the sentiment they convey is: "Bring it on. Give us a reasonably level playing field and we will take on all comers."

Farmers, farm organizations, commodity groups, political bodies, and indeed most other U.S. agricultural stakeholders, have universally presupposed that the impact on U.S. agriculture of globalization would be substantial and only positive. Those presumptions seem reasonable since the export market provides access to the world's billions, not just the U.S.'s millions, of customers.

But, is part of the thinking behind the sentiment: "We will export more and others won't?" And/or "Importing countries want to import more, especially from us?" And yet, there is no guarantee that the actions of others in the global economy will universally work in the favor of U.S farmers.

Many "before-the-fact" formal analyses showed U.S. agricultural exports to be responsive to freer trade and increased globalization with lesser effects on the agricultures of other countries. Experience thus far, has not totally borne that out. Other agricultures around the world are not inclined to passively hand over markets to the U.S.

Another thing that the last few years has shown is that increased globalization and freer trade make it easier for multinational agribusiness firms to expand their presence in both exporting and importing countries. We have dubbed this agribusiness impact as the stealth effect of freer trade, since it did not appear on the computer screens of those doing free trade analyses.

Since we have been writing about Brazil lately, let's consider the extent to which this "stealth" has been operating in Brazil, relatively undetected by us in the Northern hemisphere.

Recall that Brazil has an abundance of unoccupied land that is suitable for large-scale agricultural production. According to the U.N. Food and Agriculture Organization, even after nearly 20 years of opening up the cerrados, Brazil still has 60% of the world's available unused farmland. In addition, Brazil's government has decreed that growth in the soybean sector will be an officially designated locomotive of the country's industrial development.

In this setting, the investment of multinational corporations can have a significant positive impact on agricultural development and expansion. Thus, in addition to governmental investments and subsidies, investment of multinationals improve Brazil's general and agribusiness-specific infrastructure and the increased presence of multinationals serves as a conduit for the introducing the new technologies.

Multinational presence has increased substantially in the area of soybean processing. In 1995, for example, the top ten soybean processing firms were, in order, Ceval, Sadia, Sanbra (which in 1997 changed its name to Santista Alimentos S.A.), Cargill, Incobrasa, Unilever, Bianchini, Olvepar, Coimbra, and Coamo.

At that time, Dutch based Bunge owned Santista Alimentos S.A. In 1997 they purchased number five Incobrasa, followed by number one Ceval leaving Bunge solidly in the number one position. Bunge then consolidated the Santista Alimentos' processing operations under the Ceval name and the retail operations of both companies under Santista Alimentos.

In that same time period, ADM entered the Brazilian market with the purchase of Sadia, making Bunge, ADM and Cargill the top three processors in Brazil.

Also, ADM purchased Glencore Grain Holding with facilities in Paraguay and Brazil. In an April 1, 1998 article in the Soybean Bluebook, Peter Golbitz quotes ADM's senior vice president, Martin Andreas, as saying, "We see Brazil as a major origination point for beans for ADM." Andreas goes on to say, "We purchase roughly 20% of Brazil's export beans and have been doing that for a while. Part of the year we get American beans for our European operations in Hamburg and Rotterdam, and part of the year you can't due to seasonality factors. So with the two, Brazil fills the gap for us."

More recently, Bunge announced on April 13, 2000, the purchase of Manah, S.S., making it the largest fertilizer business in Latin America. Together with its established unit, Serrana, Bunge now has a 28% share of the fertilizer market in Brazil. Bunge's press release announcing the purchase says, "Brazil represents the world's fourth-largest fertilizer market, and possesses some of the greatest potential for expansion of any area. A large availability of arable land, generally low consumption of fertilizer products in several important crop sectors and a projected increase in agricultural exports over the next several years is expected to drive growth in the Brazilian market … 'Our goal is to improve the efficiency and critical mass of Bunge's fertilizer operations,' said Mario Barbosa, president of Serrana."

The combination of the recent and largely unnoticed increased focus of agribusiness multinationals on Brazil with Brazil's long-standing abundance of unsettled land and public policy to expand the soybean sector, likely means that Brazil will continue to be a fierce competitor for soybean export markets.

We are not trying to say that there is anything wrong with agricultural processors, transporters and suppliers expanding their businesses in the international market. Rather we are suggesting that given the ready availability of new technologies and infrastructure investments to producers around the world, we should not have inflated expectations of ever expanding export markets.

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