

LEADERSHIP TOUR OF BRAZIL, A REPORT

**Woody Anderson
Anderson Farms
Colorado City, TX**

Abstract

Brazil has the potential to establish itself as a major exporter in the world cotton market. Brazil is also working to carve out a larger role in ongoing trade negotiations. In addition, the U.S. and Brazil are currently engaged in a WTO dispute over the U.S. cotton program. Given the importance of these issues, an industry delegation traveled to Brazil in April 2003 to learn first-hand about their cotton and textile industries.

Introduction

Good morning. Brazil continues to make a lot of news within the circles of the U.S. cotton industry. It is a pleasure to have the opportunity to report on our recent tour of Brazil's cotton and textile industries.

We've heard a lot about their potential to expand cotton production and become a significant competitor in world markets. More recently, the U.S. industry has been engaged in a WTO dispute brought by Brazil against our cotton program. And to make that more interesting, Brazil and the United States serve as co-chairs for negotiations on an agreement for a Free Trade Area of the Americas. With so much at stake and the dynamics between the two countries in constant change, it's easy to understand why we should learn as much as possible about their industry. As Bobby mentioned, our delegation got a first-hand look at Brazil's industry over a 9-day period in early April of last year.

Overview of Brazil

Before I hit the highlights of the trip, I thought that it would be a good idea to provide a brief overview of the size and scope of Brazil, their economy and their cotton industry. With 173 million people, Brazil is the second most populated country in the Western Hemisphere, second only to the U.S.'s 280 million. However, their Gross Domestic Product (GDP) of \$500 billion is only about 5% of the U.S. economy.

In recent years, Brazil's cotton production has averaged about 4 million bales. Their harvested acreage is roughly 2 million acres, for an average yield of 2 bales per acre.

Throughout the 1990's, Brazil was a significant importer of raw cotton, with imports between one and a half and two million bales. Over the last 2 to 3 years, imports have declined and exports have increased. Now imports and exports are roughly the same amount—which is about 500 thousand bales.

We've seen quite a bit of two-way trade between Brazil and the United States in recent years. Brazil has imported U.S. cotton, but quantities have been extremely variable, ranging from as little as 12,000 bales to as much as 250,000 bales. Conversely, the United States has been an increasing market for Brazilian textile and apparel products. In 2002, cotton textile imports from Brazil were equivalent to just under 200 thousand bales of cotton. Preliminary data indicate that '03 totals will be even larger.

Observations from Brazil Leadership Tour

Brazil's Textile Industry

Now, let's turn our attention to what we saw on our trip. We began in Sao Paulo with visits to two of Brazil's leading textile manufacturers. The first was a company called Coteminas. They consider themselves a progressive textile manufacturer with 11 mills in 4 Brazilian states, consuming almost one-half million bales of cotton and employing more than 11,000 people. And they produce primarily bed and bath products. The president of the company is currently the Vice President of Brazil. While we were not able to meet with him, we met with his son, Josue da Silva, who is Vice President of the company. And I'll tell you that Josue is a very impressive individual and is U.S. educated.

Coteminas buys some U.S. cotton, but he noted that high mikes are a problem. They prefer a mike of 4.0 or lower. Mr. da Silva is impressed with the professionalism of the US cotton industry, but frankly feels that the outlook for the US textile industry is very bleak.

He sees excellent potential in Brazil's cotton-based textile production, and not as much in synthetic fibers. He views the U.S. retail market as a primary destination for their exported textile products. He recognizes the competition posed by China, but

feels that the productivity of Brazil's textile manufacturers, coupled with energy costs, can go a long ways toward offsetting China's labor cost advantage.

Mr. da Silva communicated the enormous potential of Brazil to expand crop production, but realizes they also face serious constraints. Brazil has an additional 200 million acres that could be brought into crop production; but that expansion depends on interest rates, infrastructure and market conditions. To put that in perspective, the U.S. has about 210 million acres currently in corn, soybean, and wheat production. Additionally, fiscal constraints are preventing government from investing in improvements, and private investment will be relied upon.

We also discussed future trade agreements. He saw no big future for FTAA negotiations if the U.S. is not willing to include agricultural programs. Since the U.S. does not want to address these outside of WTO, Josue feels that FTAA will have to wait on WTO.

We also had the opportunity to visit with executives of Santista Textiles, primarily producing denim jeans and work wear. Currently, 30% of their cotton consumption is U.S. cotton. They have the ability to accept a wide range of mikes, and they said they are able to mix in cotton with a mike as high as 5.4.

In their opinion, Brazilian cotton production is here to stay, but again, infrastructure and lack of money are the limiting factors.

Brazil's Cotton Production

The next part of our trip took us to the state of Mato Grosso. This region, also referred to as the Center West, represents the growth area for Brazil's cotton production. Cotton acreage is declining in the traditional areas of the south and northeast and moving into Mato Grosso. The state covers about 220 million acres, which is roughly the combined size of Texas and Oklahoma. About 35 million acres are in some form of agricultural activity, but the belief is that tremendous expansion is possible under the right circumstances.

We were told that Mato Grosso has roughly 200 cotton farmers that now account for 50% of Brazil's cotton production. If we do a little math, that's 200 farmers accounting for 2 million bales. That breaks down to 10,000 bales per farmer, and at 2 bales per acre, implies an average size of 5,000 acres of cotton. So as you see, the farmers have taken advantage of economies of scale and are extremely large.

Our visit was a few weeks before cotton harvest, which usually begins in May and continues into June. The crop was a little late due to above-average rainfall in late March and early April. Also, we were there during the last stages of soybean harvest.

We were hosted by a cotton cooperative that represents 32 groups of producers who farm between 100 and 125 thousand acres of cotton. A typical farmer in the area will have 3 times as many soybean acres as they have cotton acres. A small farmer may only have 3,000 acres in crop production, while large farms approach 50,000 acres.

The cooperative, known as Unicotton, maintains their own HVI machines and provides classing services for both members and non-members. For members, the charge is \$0.30/bale and \$0.60/bale for non-members.

They also maintain research plots in the fields behind their offices for the purposes of testing different varieties and production practices. Researchers are looking for improvements in yields, fiber quality, disease resistance and weed tolerance.

The cooperative also operates 2 gins. In the first one, the gin stands were built in the late 1960's and the other was built in the late '80's. Both were moved from southern Brazil as cotton production moved out of that region and into Mato Grosso. In one season, there were 73,000 bales ginned over a 5-month period. In another year, they ginned 54,000 bales over a 4-month period. During our visit, employees were busy preparing the gins for the upcoming season. The gin employs 22 year-round employees and many seasonal employees. There will be 60 workers per shift during gin season, and each gin stand does 4 bales per hour.

We had the opportunity to visit a nearby farm; one of five operated by this producer. Across the five farms, he had 25,000 acres of soybeans and 5,000 acres of cotton. In the particular location that we visited, there were 12,500 acres, of which 3,700 acres were cotton with the remainder in soybeans. The operation has 25 full-time employees and 40 seasonal employees. It seems that farms in Brazil have less of a machine complement than a US farm of comparable size, and more of a labor force. However, with a longer and generally more predictable harvest season, they are able to use less machinery and take longer to gather the crop.

Expected yield for this particular operation is 1,600 pounds per acre, but excessive rain in the weeks prior to our visit had diminished yields due to boll rot. The farm applied 350 pounds per acre of fertilizer in 2 applications. They use 42 ounces of

PIX per acre, and they also have 10-15 insect sprayings per year. When asked about weed control, they indicated that it was done with a combination of spraying and manual labor.

At another farm visit, we had the opportunity to discuss costs of production. Expected yields for their operation are 1,100-1,200 pounds per acre with production costs of approximately \$400 per acre, excluding machinery. That's 35 cents per pound. On other visits, we heard production costs in the low to mid-40 cent range.

Advantages of agriculture in Mato Grosso are a favorable climate, good topography, high technology and good fiber qualities. Micronaire of 3.9 to 4.2 and 35-38 staple length are common. Our stay in Mato Grosso concluded with a visit to an experiment station farm. There is an emphasis on improving and increasing cotton production through a research foundation that was formed by 35 seed-producing companies. The aim is to assist with seed quality research done by the government entity EMBRAPA. The foundation has a budget of \$4 million, with 75% coming from growers through tech fees and the remaining 25% coming from industry.

Discussions with Government Officials

Our tour of Brazil concluded in Brazilia with meetings with officials from Brazil's Ag Ministry and the US Embassy. This was our first opportunity to speak directly with Brazilian government officials regarding future trade agreements, as well as the current WTO case against U.S. cotton. In my opinion, our conversations did not produce anything that was particularly surprising. One of the gentlemen was taking a strong stance on U.S. programs and felt very good about their WTO case against our cotton program. It was also evident that there was much uncertainty about the future of an FTAA.

Summary

In conclusion, I think that each member of the delegation saw the tremendous potential to expand crop production in Brazil. Suitable land is not a constraint. Also, the new land in Mato Grosso that is being brought into crop production is not forestland. Instead, much of the land was previously used for grazing cattle, and is covered by very scattered trees and small brush. They literally push a few small trees and offset the pasture before they plant. Their favorable climate and predictable rainfall patterns are also significant assets as they provide large planting and harvesting windows.

Costs are also relatively low, but at the time of our visit, producers were not expecting to make significant increases in cotton acreage. They did not view world prices, which at that time were close to 60 cents per pound, as providing tremendous incentives to expand production. However, the recent rise in cotton prices is attractive to their growers and harvested acreage this year is expected to be up by more than 25 percent from last year.

Soybeans are their primary crop and remain cotton's competitor for acreage. Producers will shift between the two based on market signals, but they must also take into account the relative production costs. Soybeans production costs are roughly one-third of cotton's, and the high costs of money due to their interest rates can shift the advantage to soybeans.

Infrastructure and transportation pose limitations on their ability to expand. As I mentioned earlier, our visit came on the heels of soybean harvest. I can personally attest to the poor condition of their roads after spending several days in the back of a van weaving from one side of the road to the other trying to dodge potholes. Over time, if these issues are addressed, we have to expect Brazil's production to continue to expand.

A number of people that we visited were very familiar with our industry, and most have visited the United States. It is quite clear that much Brazil's cotton industry is being patterned after our own. The producers we visited are very progressive and appear to be good businessmen. Overall, I think that our tour group found the trip informative and educational. We saw their potential and have a better understanding of their challenges. Thank you for the opportunity to provide this report to the Conference.