

Reflections on Agriculture in South America

Michael Boland
Professor of Agricultural Economics
Arthur Capper Cooperative Center

Kansas State University



General Thoughts

- Based on experiences in Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Honduras, Paraguay, Peru, and Uruguay.
- May conflict with some things you may have heard or read about.
 - No “Daniel Boone” stories although it is a frontier in many places
- General observations based on what I have observed in these countries.
- Agriculture is a much bigger part of GDP, exports, and employment in these countries.



International Agribusiness

- Last spring, I took 31 students on a four week study tour of Argentina, Brazil, Chile, and Uruguay
- Visited farms, agribusinesses, university faculty, and students
- Wrote case studies on various agricultural industries in each country
- Motivation for doing this was student interest and need for out-of-the classroom experiences
- Took an eight weeks of six hours a day, intensive Spanish language classes
 - In Honduras at Zamorano University – best ag school in Latin America



Study Tour Route (by Bus)



Central America



Objective

- Discuss how free trade agreements and trade liberalization is impacting agriculture in these countries.
- Provide some insight where agriculture may be headed in these countries
 - Small subsidies exist in some countries but nowhere on the scale of the wealth transfer in the U.S.

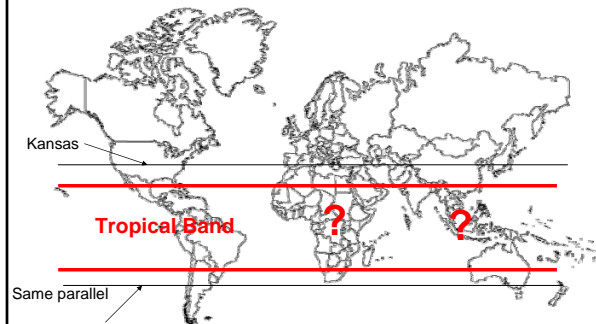


General Comments

- Everyone knows what their exchange rate is relative to the US \$ and why that is important
 - Do we know in Kansas?
- Everyone wants to better “understand us”
 - We are their “Wal-Mart”
- What they see on television and in movie theaters is who they think we are
 - Is that true for Kansas?
- They envy our technology but believe every U.S. farmer is a millionaire because of farm subsidies
 - True?
- Monoculture is becoming more popular
 - Soybeans, coffee, sugar cane, etc.
- Central America is becoming an extension of Miami /South Florida
 - Moving quickly and rapidly due to trade



Where in the world?



South America

- Easy to see why people are enthralled with South America
 - Brazil is largest country in tropical band
 - Mountains, plains, and lowlands
 - Pampas in Argentina have deep soils and flat ground like NW MN and eastern ND
 - Enormous potential
 - Chile has biosecurity and central valley like CA
 - One of few such areas of the world
 - Uruguay has highly educated population
 - Easy place to live
- Lots of labor availability in each country
 - Different regulations on work



Central America

- Extension of Miami / South Florida
 - Very "comfortable" countries to visit
 - Easy to get beach property
- Easy to ship to Miami
- CAFTA and Caribbean Basin Initiative has established many relationships
- Many horticultural crops are replacing wheat, beef, etc. in these countries
- Risk
 - Weather (i.e., tropical storms, etc.)
 - Disease (e.g., citrus canker has affected Florida citrus industry in a big way)
- Opportunity cost of land in Florida
- More labor availability (and no worker's comp)
 - More injuries (and no legal system)
- Economies are rapidly integrating

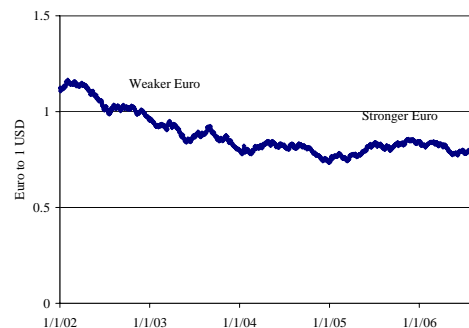


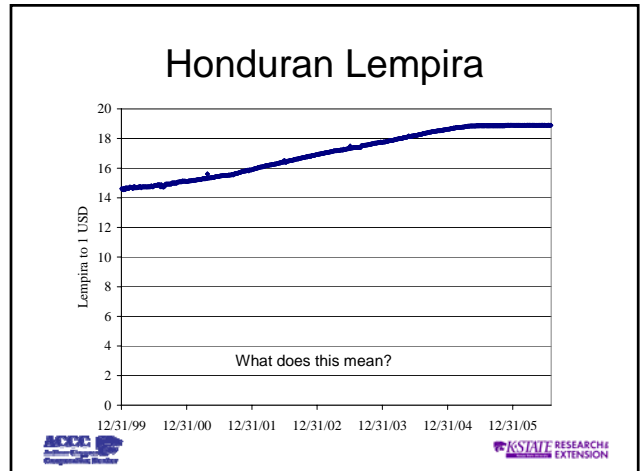
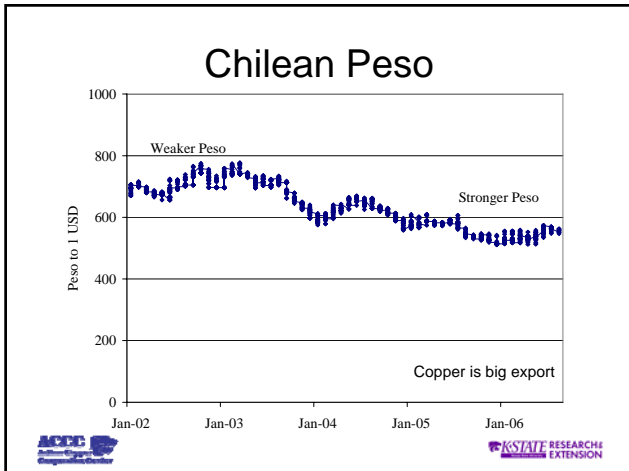
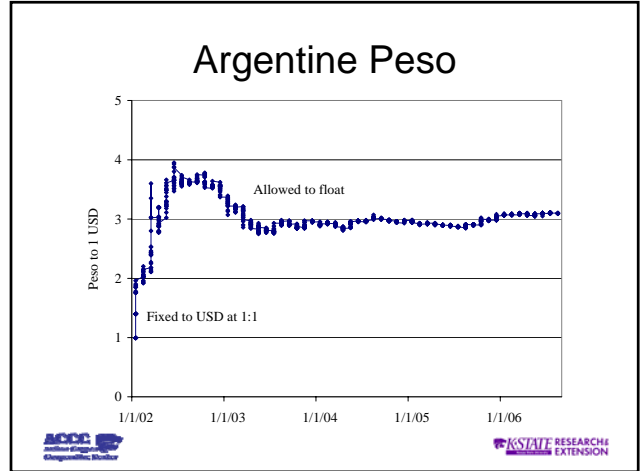
Exchange Rates

- Constantly changing and macroeconomic policies are designed to encourage exports
 - Countries do not know how to maintain a weak currency which is needed for an export-focused economy
 - Lots of tinkering with macroeconomic policies
 - Many farmers have not lived through a prolonged strengthening of their currency
 - Increased globalization means they are dependent upon imported seed, fertilizer, etc. which is priced in dollars or other currencies
 - Example: Robotic milkers are priced in euros.
- True "farmers" get little help from their governments
- The following figures have five years or so of data on the price of a currency in USD.
 - In general, these currencies have strengthened relative to USD
 - USD has gotten weaker in world markets

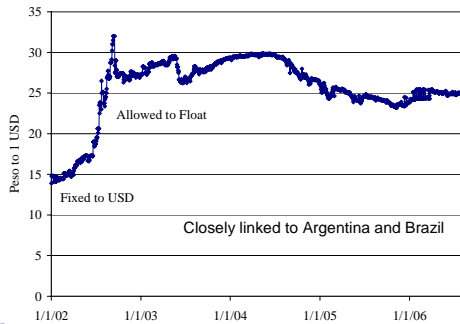


Euro





Uruguayan Peso



Summary

Country	Mean	StDev	CV
Argentina	2.99	0.39	12.91%
Brazil	2.55	0.50	19.75%
Chile	633.66	72.49	11.44%
Honduras	17.03	1.49	8.78%
Uruguay	25.55	3.94	15.42%
Euro	0.88	0.11	12.38%



What happens when a currency strengthens?

- Farmer profits are reduced because prices are higher in the world market.
 - They cannot easily protect against exchange rate risk.
- Debt is more expensive
 - Hard to hedge against exchange rate risk
 - Farmers use less imported fertilizers, etc.
 - Old debt becomes more expensive.
- Exports weaken.
 - Farmers seek to have the government intervene.
- Price of domestic food can get higher.
 - Social unrest among urban poor who are a large voting bloc.
 - Compulsory voting exists.
- Cash is needed to buy land and inputs.
 - Credit is unavailable.



Chile

- Bordered by a desert in the north, Andes Mountains in east, Pacific Ocean in west and icebergs and water in the south.
- Central Valley is similar to California
 - Orchard and horticulture crops are increasing
- Climate very adaptable for dairy
 - Could triple production on same acreage with changes in pasture grazing systems
- Committed to free trade over a long horizon
- Subsidies exist for fertilizer and sugar beet
 - Challenged by other countries
- Copper is leading export





Argentina

- Beef is an important part of their culture
 - World's largest beef consumer
 - Soybeans are more profitable
 - Pastures are being torn up for soybeans
 - Irreversible investments
 - Require 100k more cows to maintain beef consumption without prices increasing
 - Government banned beef exports in March 2006 to prevent domestic prices from rising.
- Forced price freezes on over 200 foods in 2006
 - Worried about price inflation
- Almost 50% of the economy is underground
 - Difficult to get receipts! And tax revenue.
 - Lots of corruption

ACCC
Agriculture & Community College
Congressional Member

KSTATE RESEARCH & EXTENSION



Feria de Matadores



Uruguay

- Largest beef exporter to the US
 - 75% of their beef is exported
 - 2nd largest beef consumers in the world
 - Sophisticated traceability
 - Kosher beef is big export in US food service industry.
 - Replaced Canada's exports to US
 - Certification of entire country's beef industry under USDA Process Verification system
 - Unique relative to other countries
- Land prices have seen '1986' lows and '1981' highs in a three year period
- Many EU investors bought agricultural land.



Uruguay



Tropic of Capricorn

Same latitude as Central Texas



Modern dairy in Uruguay



Brazil

- World's leading coffee, citrus juice, beef, broiler, sugar and tobacco exporter
 - Biosecurity is an issue with beef
- Second in soybean, soybean meal, soybean oil, and turkey exports
- Third in cotton and pork exports
- Also exports tropical fruits and vegetables
- Sugar and ethanol production well documented
- High interest rates; some of the highest in the world
 - 15% or more



Brazil



Honduras

- Poorest country in Central America
- Hurricane Mitch destroyed the country in 1998
 - Worse than Hurricane Katrina
- 3rd largest textile exporter to the US
- Long time friend of the US
 - We have an air base there
 - 2nd largest Peace Corps contingent in the world
 - USAID has a large presence
- Important supplier of melons to the US
- Long-time relationship with Kansas State





General Comments

- Most land sales are done in cash
 - Who has cash to buy land?
 - Clear property titles are hard to get
- “Good” labor is hard to find
 - Culture of theft
- Exchange rates are big issue
- Infrastructure such as roads, etc. are poor
- Agriculture has little clout in elections
 - Government knows farmers will get by
 - Tax laws are designed to generate revenue from agriculture
- Some backlash exists against foreign ownership of land
- Solid managerial skills are needed
 - Heavy rains wash nutrients to bottom of soil bed
 - Lack of drainage ditches
 - Fungicides, fertilizers, and insecticides are needed
 - Difficult to find managers



My thoughts?

- Look very carefully
 - Study motivation of those telling you to invest
 - Understand why exchange rates matter and what is happening to exchange rates
 - Understand the difficulty of exiting
 - Learn to live with debt
 - Understand your management skills
 - Ability to work with turnover and work ethic
 - Understand the level of corruption
 - Be prepared for the work needed to get clear property titles



What traits are needed?

- Desire to be a pioneer
 - Daniel Boone personality helps
- Ability to live with volatility
- Internal knowledge that you may need to walk away from debt
- True desire to live without wealth transfers
- Ability to manage labor
- Education to live with heavy rains and violence
- Strong back and muscles
- Instability in prices (some opportunities; lots of risk)
- Desire to not “own everything”
- Live with “malaise”



Tips for “Making it Work”

- Lots of cash
- Marry into local community
 - Learn language and culture
- Rent land as opposed to buying it
 - Easier to exit; little liquidity in land
- Do as much work as you can yourself
- Desire to do manual labor
- Ability to deal with credit syndicates
 - Save your money abroad in bank accounts
- Understand what you can do to manage risk

