Brazil

Type: Dynamic Growth Market; High Volume, High Market Share

Brazil is an important market for U.S. agricultural equipment, despite an array of protectionist trade measures. Brazil is a major producer, consumer, and exporter of a wide range of agricultural products. U.S. agricultural equipment exports to Brazil nearly tripled between 2009 and 2014. The Brazilian market has weakened since 2012, as a result of sharply lower grain prices, a depreciating currency, and a weak domestic economy. Year-on-year exports decreased by 29 percent from 2012 to 2013, and fell again by 6 percent from 2013 to 2014. Nevertheless, the fundamentals of Brazil's agricultural economy remain strong and the country will continue to be a major market for U.S. agricultural equipment.

U.S. Exports*:
1

Export Growth*:
5

U.S. Import Market Share:
53.0%

*Note: Ranking based on a comparison of U.S. exports to five large dynamic growth markets: Brazil, China, Russia, South Africa, and Ukraine.

ITA expects that U.S. exports of agricultural equipment to Brazil will decline in 2015, and quite possibly in 2016 as well. Exports of equipment to produce grain, oilseeds, and other commodity crops, as well as parts and components, will be especially weak. The livestock sector will likely benefit from falling feed prices and other favorable market conditions, however, and exports to this sector are likely to enjoy modest growth.

Overview

Brazil is a dynamic growth market for U.S. agricultural equipment exporters. The volume of U.S. exports has been high, and growth rapid, for much of the past decade. Shipments from the United States account for 53 percent of the Brazilian import market. Brazil has a large and diverse agricultural economy with considerable scope for mechanization. That said, the country's protectionist trade policies hinder stronger and more sustained growth in U.S. exports.

Brazil was the United States' fourth-largest export market for agricultural equipment in 2014, worth $485 million. This is down 6 percent from $517 million in 2013, and even more from a record high of $729 million in 2012. There are a variety of reasons for the decline in U.S. exports. From January 2011 to January 2014, the Brazilian real declined by nearly 50 percent relative to the U.S. dollar[40], effectively cutting the purchasing power of Brazilian importers in half. World grain prices, after peaking in 2011-2012, have fallen significantly, which has reduced farmers' ability to invest in equipment. Slowing growth in the Chinese market has impacted Brazilian commodity exports as well.

Despite recent setbacks, as the fifth largest country in the world by area, the sixth largest by population, and seventh largest economy, Brazil remains an important market for agricultural equipment. It is a globally significant producer, consumer, and exporter of commodities including red meat, soybeans, sugar cane, and poultry. Large amounts of land are still available for agricultural cultivation in the cerrado (savannah) regions of the country.[41] Nearly 15 percent of the country's labour force is employed in agriculture.[42] All these facts are indicative of the significant further

Brazil: Major Products

- Red Meat (24.3 percent)
- Grains, oilseeds and other row crops (19.7 percent)
- Sugar Cane (18.5 percent)
- Poultry (14.4 percent)
- Dairy (7.9 percent)

(Percentage share of the top 20 commodities produced in 2012, by value; Source: U.N. Food and Agriculture Organization.)

opportunity for mechanization that characterizes the Brazilian agricultural equipment market.

Equipment for producing grain, oilseeds, and other commodity row crops represented nearly 28.5 percent of total U.S. agricultural equipment exports to Brazil in 2014. This sector has experienced significant volatility over the past three years. In 2012, when commodity prices were at their peak, U.S. exports to Brazil in this sub-sector reached almost $285 million. In 2013, however, U.S. exports of the same products dropped to only $72 million, with the steepest losses occurring in large-horsepower tractors, combine harvesters, and agricultural implements. The sub-sector actually recovered somewhat in 2014, with exports rising to $138 million.

Parts and components account for more than half of all agricultural equipment exports to Brazil. This is a disproportionately large share, compared to 33 percent parts and components for global U.S. agricultural equipment exports. Parts exports to Brazil were worth $244 million in 2014 and accounted for 50.4 percent of total exports to the country.

The large role parts play in U.S. agricultural equipment exports to Brazil reflects the major manufacturing operations located there. For example, John Deere manufactures high-horsepower tractors in Catalão, Montenegro, and Horizontina. CNH-Industrial's New Holland division manufactures tractors, combine harvesters, and sprayers at facilities in Rio Verde, Curitiba, Piracicaba, and Sorocaba. Other agricultural equipment companies with manufacturing operations in Brazil include AGCO, Agrale, Caterpillar, Komatsu, and Valtra.[43]

Exports to the livestock sector represented 4.3 percent of total exports in 2014, worth $21 million. Red meat is a signature Brazilian commodity, and beef exports remain one of Brazil's economic strengths.[44] This sector probably will continue to grow with the worldwide decline in feed prices and continued U.S. and European Union sanctions on the Russian Federation.

U.S. exports to the fresh produce sector declined 11 percent in 2014, to $46 million. Agricultural sprayers accounted for less than one percent of total exports, worth $4.4 million, and exports of 40-100hp and less-than-40hp tractor segments were negligible in the Brazilian market, accounting for less than 0.1 percent of agricultural equipment exports.

Despite overall negative trends in year-on-year exports, Brazil will remain an important market for U.S. agricultural equipment exports for the foreseeable future. From 2009 to 2014, U.S. exports increased at an annual rate of 21.7 percent. While Brazil's slowing economy will limit growth of overall domestic food consumption, the country's large population continues to provide a market for processed food and beverage products and their inputs.[45]

Market Access/Trade Barriers[46]

The Brazilian market poses a number of significant challenges, and doing business in Brazil requires a thorough knowledge of local practices. Brazil has a democratic and federal system of government, like many other advanced ecnomies. Transparency in government remains a concern, however, and jurisdictional power between federal and state entities can be difficult to navigate.

As a result, many agricultural equipment manufacturers have developed robust in-country networks of partnerships and subsidiaries to manage these challenges.[47] For more information on doing business in Brazil, consult ITA's "Doing Business in Brazil: 2014 Country Commercial Guide for U.S. Companies," www.buyusainfo.net/docs/x_1919553.pdf

Tariffs

Brazilian trade policies are generally protectionist and are intended to foster domestic industry by managing inputs and outputs. As a member of MERCOSUR (the "Southern Common Market" made up of Argentina, Brazil, Paraguay, Uruguay, and Venezuela), Brazil maintains a Common External Tariff (CET) schedule for products originating outside of the common market. For exports originating from Most-Favored-Nation (MFN) markets, rates vary widely from zero to 35 percent, with an average applied rate of 13.5 percent in 2012.[48] Brazil's WTO bound tariff rates are 35 percent for industrial products, and can reach 55 percent for certain agricultural products.[49] The government is given broad latitude to increase or decrease tariffs to achieve desired policy goals. Such wide disparities in applied and bound rates contribute to significant uncertainty in projecting total costs of exports to Brazil.

Indirect-Taxation

Numerous nontariff barriers present challenges to U.S. exporters of agricultural equipment, as well. Brazil's federal and state tax codes are complex and give preferential incentives to locally manufactured products. Tax rates on certain imports can effectively double the actual cost of goods. A 25 percent merchant marine tax levied on ocean freight originating outside of MERCOSUR nations can be particularly challenging for importers of large capital equipment.[50]

Standards & Technical Regulations

A variety of Brazilian government agencies issue technical regulations for agricultural machinery. Like the United States, Brazil regulates products for occupational health and safety reasons, as well as for environmental protection. Technical regulations generally are published in the Diário Oficial da União (the Official Gazette, equivalent to the U.S. Federal Register) and given a period of time for comments and public hearings. When a technical regulation is believed to impact international trade, Brazil's National Institute of Metrology, Quality, and Technology (INMETRO) is responsible for notifying the WTO to allow parties to comment.[51]

Major Trade Events

Domestic

Big Iron Farm Show
Fargo, North Dakota
bigironfarmshow.com

Farm Progress Show
Boone, Iowa
farmprogressshow.com

International Production and Processing Expo
Atlanta, Georgia
ippexo.org

The Irrigation Show & Education Conference
Long Beach, California (2015)
www.irrigation.org/IrrigationShow/

World Dairy Expo
Madison, Wisconsin
www.worlddairyexpo.com

International:

Agri-Show
Ribeirao Preto, Sao Paulo, Brazil
www.agrishow.com.br/en/

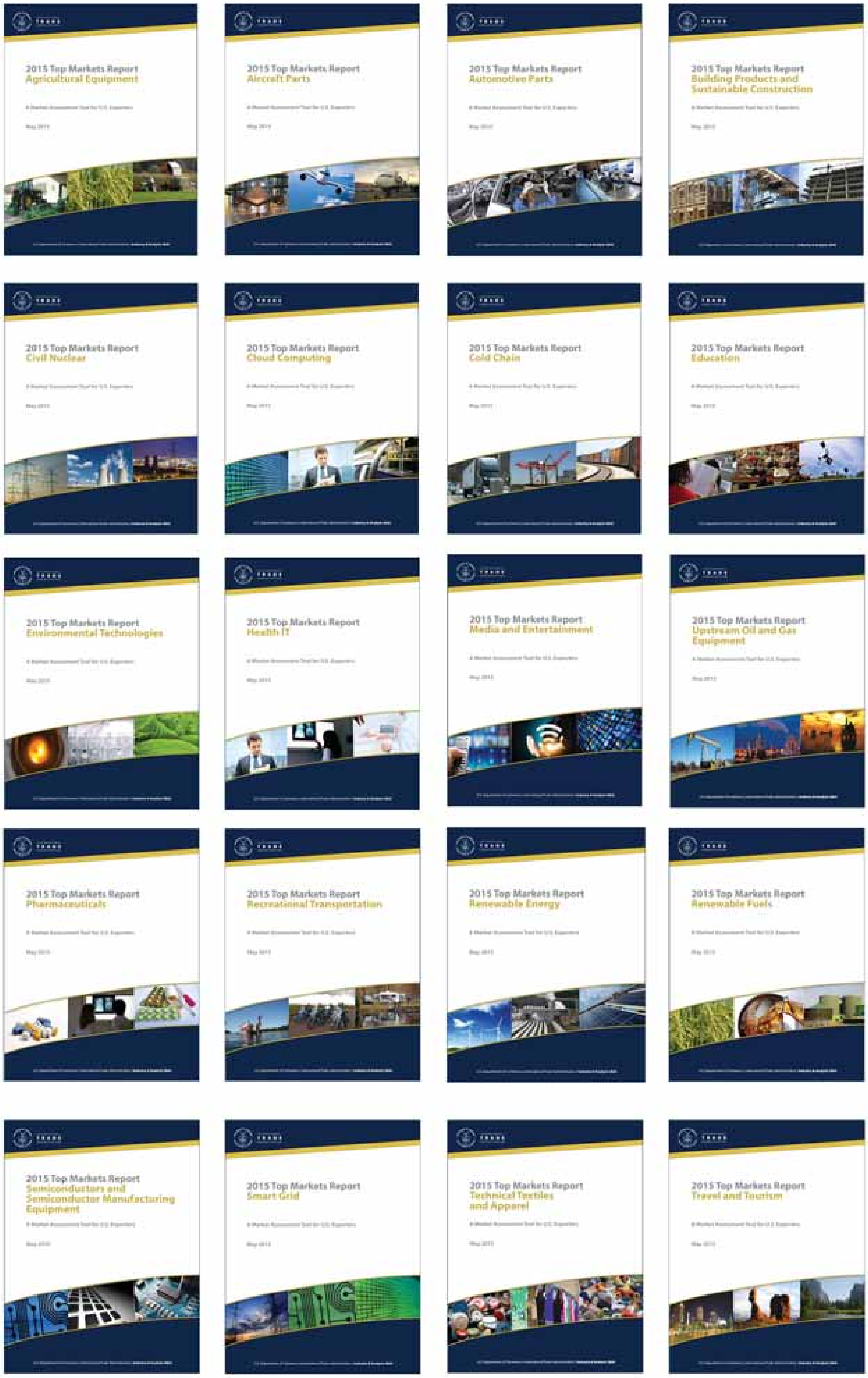
International: Expodireto Cotrijal,
Não-Me-Toque, Rio Grande do Sul, Brazil
www.expodireto.cotrijal.com.br

Intellectual Property Rights

While the country has made progress in the enforcement of intellectual property rights, Brazil has remained on the USTR Special 301 Watch List for the last 9 years. With respect to exports, Brazil is noted primarily for its high levels of counterfeiting and piracy in sectors such as information and communication technology, pharmaceuticals, and agrochemical products.[52] While concerns over the theft of intellectual property are not as common in the agricultural equipment sector as they may be in other sectors, exporters should be aware of this classification and take steps to protect themselves.

Infrastructure

Infrastructure remains a challenge for exporters of large or extremely bulky equipment. Lack of good roads in rural areas can add significant cost to farm production, resulting in diminished purchasing power among end-users.[53] Poor roads and limited railroad capacity increase freight costs and must be factored into doing business in Brazil.[54] This is particularly relevant to the agricultural equipment sector, which is primarily clustered in rural and lesser developed areas. Disparities between lesser and more developed regions can have a significant impact on transporting big-ticket items, particularly in the agricultural equipment sector.



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