

Brazil Strategy for Farming Equipment Machinery Manufacturers

According to a recent report in Forbes Magazine, an acre of land costing \$60 in 1998 is already worth at least \$700 per acre 7 years later, and land values continue to appreciate. Meanwhile, premium cropland in the American Midwest goes for \$4 000 to \$5 000 per acre despite lower (albeit subsidized) profits than those achieved on Brazilian cropland.

While China is known to be a manufacturing hub, and India is taking a foothold in the service industry's back room operations, Brazil is emerging as an "agricultural superpower", in the words of former U.S. Secretary of State Colin Powell. It is no wonder that Brazil has become the world's largest exporter of beef, soybeans, coffee, orange juice, sugar and chicken in the past few years.

According to a recent Credit Suisse First Boston study, total production costs in Brazil's heartland are just \$162 per acre, compared to costs of \$235 per acre in the U.S. heartland. This is an added reason why both American and European farmers are flocking there to buy under priced farmland promising high returns/profit margins.

With this influx comes a need for farming machinery and related equipment which can be met by imports from American manufacturers. A clear example of this farming boom is noted in the western Bahía town of Luis Eduardo Magalhaes, where a Deere dealership sold 388 tractors, combines and planters costing between \$28 000 and \$340 000 each last year alone.

Although the transformation of land in Brazil is still in its early stages, the country can easily add another 420 million acres of farm crop capacity by converting underutilized pasture land. Brazil has opened up an immense amount of farm land in the past 5 years yet only 5% of its land is devoted to crops, compared to the 19% for the U.S.

The arrival of foreign farm investors, the need for modern technology and equipment, and access to financing are leading to what is being called the *land rush* in Brazil.

Opportunities for Brazil

- Land prices approximately 1/5th of those in the U.S., low production costs.
- Growing market for farming machinery and equipment.
- Extensive farmland development currently underway.

BG Consulting Inc.

Source: "The Great Brazilian Land Grab" featured in *Forbes*, July 25, 2005.