



Agriculture investment in Brazil.

Prepared in March 2021 for Danish Farmers Abroad

1. Background information.

Very few Danish agricultural investors have found their way to Brazil, which offers great opportunities for Danish investors.

Brazil is the lowest cost major agricultural producer in the world of especially soya and corn partly due to low land prices and partly due to efficiency and low production costs. The infrastructure is OK although there is always room for improvement. There are plentiful professional skills to draw on and the labor is cheap.

Agriculture is "big business" in Brazil enjoying both status and attention and agricultural production remains a very important part of the Brazilian economy.

2. Politics & economics.

Like the case of Donald Trump, most people on our latitudes consider the current President Bolsonaro a disrupter and psychopath, but like Trump, he has actually shaken up - well and truly - here and there where it was needed, including liberalizing regulations on agricultural permits.

Brazil is far better off on economic growth and other key economic metrics than its large neighbour Argentina, and where Argentina stands out as chronically sick, things are far better in Brazil on all important metrics: - Figure 1 & 2 in Annex No 1 show economic growth in recent years in the two major Latin American countries.

The Brazilian currency.

According to currency trader jargon, the Brazilian currency = Reais has "fallen out of bed". "This is a great advantage for Danish investors who want to invest in agriculture in Brazil.

The main reason for the low Reais is that interest rates are record low. The Central Bank's base rate is only 2% and by the end of 2020 inflation is 2.91%. – In contrast, inflation in Argentina in 2020 was 36% compared to the previous year. The Central Bank's interest rate is lower than the inflation, and this has obviously put negative pressure on the Brazilian Reais which seems deeply undervalued. Figure 3 in annex No. 1 shows that the Reais has fallen 25% against EUR in the past 12 months. - See more about this at: <https://www.worldbank.org/en/country/brazil/overview>

4. Investment premise

- Protein crops – soya & corn.
- Other high value crops such as fruits, avocado, various nuts and much more.
- Trees – Eucalyptus, Teak and other .
- Animal production.
- Upstream activities such as abattoirs, Freeze facilities, food processing and logistics.

This article aims to clarify the possibilities for cultivation of the big "cash crops" = soya & corn, mainly for investors who want to invest in agricultural land which seems an obvious investment.

In addition, the target is investment in land in northern tropical Brazil, where new areas are still being opened. "We are not talking about attacks on forests, but about the cultivation of the plateau – "the cerrado" that has come into production over the last 30 years. These plateaus have a rain season and a drought season which alternates from region to region and can only be cultivated by the application of modern agri science. The original vegetation are hardy bushes with small scattered trees here and there. With no water about 6 months of the year those plateaus, at an altitude ranging from 600 to 850 meters above sea level, have been uninhabited due to lack of water.

5. About foreign investment in agriculture land – or original "cerrado" with agriculture potential.

A front end decision is to invest in already cultivated land - or in original "cerrado" land suitable for cultivation – or possibly a combination.



Whether it is one or the other, the investor must be keenly aware of what is what about the land and the strength of the legal title. It is not uncommon that a property in production for years still has some legal title weaknesses despite the fact that all necessary permits exist.

The legal framework:

Investing in Brazil :

Any investment must be made through a Brazilian company. The idea that a foreigner, or a foreign company, invests directly in land is stillborn.

Whether it is a foreign person or a foreign company investing, the investment must be channelled through the Brazilian National Bank. Later injections of loan capital must also be cleared through the Central Bank. - This ensures that loans and capital can be repatriated later. – There is a double taxation agreement exchanged between Denmark and Brazil.

Foreign investment in agricultural land.

There is the limitation that foreign investment in agricultural land must not exceed 50 so-called "Rural modules". Without separate congressional approval. – Such a module can range from 30 to 70 ha. depending on the geographical area. Keeping to the lower limit, up to 1 500 hectares can be immediately invested. (without congressional approval) which is a very small farm after Brazil standards.

Gross area is not the same as the net cultivation area as any farm (except old farms in southern Brazil) must have set aside reserve left with the original vegetation. The reserve share varies slightly from state to state, but is typically 20/30% of the total area. – At the bottom of Annex No 1 are details about the investment procedure to be observed and followed rigorously.

For a foreign investor, there are different ways to scale the investment and fully legally acquire larger areas.

Let's say the investor has found an attractive 5,000-hectare property with a willing seller an obvious option is to buy the first 1,500 hectares. with a fixed option on the purchase of the remaining 3,500 hectares upon obtaining congressional approval, and in the meantime lease the same 3,500 hectares for a very reasonable price. The limitation requiring Congressional approval makes sense as Brazil wants to prevent sovereign acquisitions from states like China, Saudi and others with the aim to buy cheaply giant areas, as has happened in Africa.

A Danish investor who wants to buy 5,000 to 15,000 hectares shouldn't have any material problems with congressional approval.

5. Briefly about geography and agriculture conditions.

Southern Brazil is largely cultivated. - In the regional states Bahia and Goias there may still be some limited good quality soil opportunities, but otherwise the possibilities are in states Mato Grosso, Tocantins, southern Piauí and Maranhão. Special attention should be paid to rainfall and rainy season length. In general, western areas such as Mato Grosso and Tocantins, as well as western Bahia, have more rain and longer rain period than the eastern areas, but it fluctuates locally. – See map inserted as Figure No. 4 in Annex No. 1.

On the high plains in states in question soya, corn and cotton are typically grown as the big cash crops. In normal years, approximately 3.6 to 4.2 tons of soya per ha. is harvested and approximately 8.5 tons of corn per hectare on fully run-in soil i.e. land that has been cultivated for 7 years or more. Soya is sold for export to large international grain traders such as Bunge and Cargill where there is no doubt about the payment. Corn is sold in the domestic market. Some areas support two crops per season while others can only supply two crops if the second 2 crop has a short cycle. - There is extensive use of external service providers with their own machines that minimize investment in machinery.

The production of soya and corn as main crops with things like millet, beans and other as number two crops are very transparent productions that are easy to "bench mark" against the results in the local area. However, soil and climate can support Cotton it has in recent years been a good business. - Of interest can also be combined operation with cattle and crops.

The few Danish investors who are already established will often be interested in expanding the ownership circle to obtain larger farms and better critical mass as well as co-operation synergies.



6. Investment examples and land prices.

A run-in farm with set aside reserve, all documents in order, and a well-documented operation on the high plains is traded at about USD 5,000 per hectare for the productive area and USD 1,000 per hectare for the reserve area. This price typically includes buildings and facilities but not machines. If there is silo capacity, it will typically be priced separately.

Looking instead at an uncultivated area to be opened prices are approximately USD 1,000 per hectare depending on location and soil quality and opening cost including the application of about 5 tons of lime per hectare. and nutrients for the first crop cost about USD 1,200 per hectare. The first year's crop should be seen as soil improvement but hopefully result in "break even". The second year should result in a modest operational profit which increases fast year on year up to year 7 when the soil is fully run in and has reached its maximum yield. - As can be seen, when opening land there is a significant revaluation of land assets.

A good model is to invest in a partially run-in farm where there are still areas to be opened. This model secures a known cash flow and still has a revaluation gain from opening additional land.

7. The Danish Government investment agency IFU is back in Brazil with substantial investment funds.

After a few years out of Brazil because the country was no longer considered "worthy needy," the IFU has been back in Brazil since 2015.

Agricultural investment in Brazil is a focus area for the IFU in the country, but IFU has hardly any propositions due to the absence of Danish investors which is doubly strange if there is support from the IFU. At the beginning of 2021 IFU has only 3 active projects in this giant country and IFU aims to increase the number of projects.

8. Support from the Danish Embassy in Brazil

The embassy has a consultancy department which supports Danish investors and the department has been of great help to Danish owned Fazenda Brazildan LTDA, who is a member of Danish Farmers Abroad in connection with various regulatory matters. In addition, the Embassy can assist Danish investors with a Business Center which can be used as a platform to establish the investment through the early stages.

9. Local competences.

There are plenty of excellent skills available ranging from skilled employees at all levels, professional independent agricultural advisors, collaboration opportunities with agricultural universities and laboratories and what you would expect of professional skills in such a large agricultural country.

10. Concrete projects.

Fazenda Brazildan knows the local area in southern Piaui very well with contact with properties for sale and in dialogue with an investment company with substantial agriculture investments in South America there is access to networks in Western Bahia and in Mato Grosso where the group cultivates about 22,000 hectares.

11. marts 2021

Peter Hauch – Fazenda Brazildan LTDA

See annex No. 1 below.

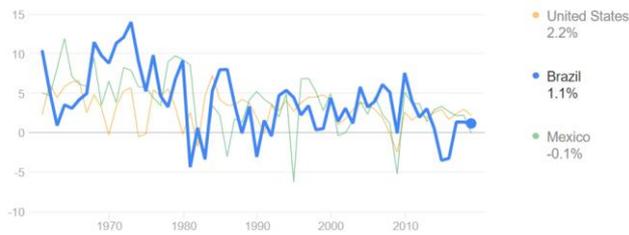


Annex No. 1.

Figure No. 1. – GDP growth in Brazil

Brazil / GDP growth rate

1.1% annual change (2019)

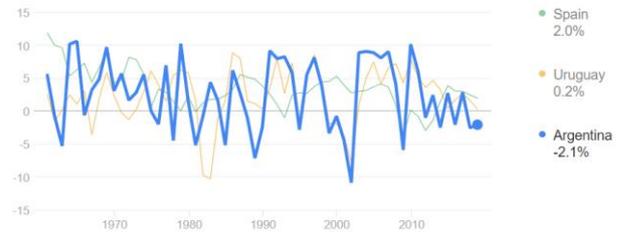


Sources include: World Bank

Figure No. 2. – GDP growth in Argentina.

Argentina / GDP growth rate

-2.1% annual change (2019)



Sources include: World Bank

Figure No. 3. – Brazil Reais the latest 12 months.

1D 5D 1M 1Y 5Y Max

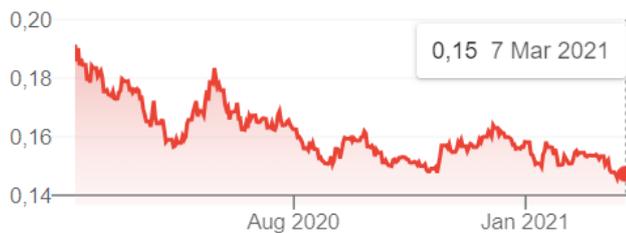


Figure No. 4. – Brazil Regional states



About investment in agriculture land in Brazil.

1. Make sure that the land in question has solid historic ownership in the land register. – Here a sharp local lawyer who can check not only the seller's title with also the title of previous owners is useful.
2. Ensure that the area falls within the areas that can be approved for agricultural purposes and, for example, is not subject to some form of conservation.
3. A conditional purchase agreement is drawn up and submitted to the government agency INCRA which registers all ownership – local as well as foreign – and INCRA pre-approves the foreign investor as the owner of the property in question.
4. In the case of wholly or partly uncultivated land, a statement must be made by the government body INTERPI which ensures that local interests are not trampled underfoot such as a local family who have had a small herd of cattle in the uncultivated area for ages.
5. Once these things are in place things are ready to go ahead with the next stage of the purchase and payment itself, but here there is a difference between whether the land is cultivated, uncultivated or partially cultivated. In the case of uooncultivated land for cultivation, the existence of a cultivation permit and the authorisation to remove the original bushland are essential and full payment should not be released before all approvals are secured.

While it may seem complicated it is in fact uncomplicated if done correctly and the bureaucrazy – however awkward - protects the foreign investor.
