

Viewing cable 05BRASILIA3026, SLOW GOING ON BIOTECH, BUT MONSANTO LOOKING AT

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UNCLAS SECTION 01 OF 02 BRASILIA 003026

SIPDIS

SENSITIVE

TOFAS 166
STATE PASS USTR
STATE FOR WHA/BSC, EB, AND E
USDA FAS FOR ICD/CKRAMER-LEBLANK
USDA FAS/FAA FOR AREA DIRECTOR JBAILEY
USDA FAS/ITP FOR PSHEIKH
USDA FNS FOR COLANDER
NSC FOR CRONIN
DEPT OF TREASURY FOR FPARODI
USDOC FOR 3134/USFCS/OIO/WH/EOLSON
USDOC FOR 4332/ITA/MAC/WH/OLAC/MWARD

E.O. 12958: N/A

TAGS: [EAGR](#) [KIPR](#) [BEXP](#) [ETRD](#) [BR](#) [CH](#) [IPR](#)

SUBJECT: SLOW GOING ON BIOTECH, BUT MONSANTO LOOKING AT
THE LONG-TERM

REF: Sao Paulo 100

¶1. (SBU) Summary. In early November, Monsanto executives blanketed Brazil as first CEO Hugh Grant and his management team visited the country, followed shortly thereafter by a week-long tour of the company's Growth Advisory Committee. Notwithstanding the problems that the firm has experienced in recent months regarding piracy of its biotech soybean and cotton seeds, Monsanto officials were bullish on Brazil. Given the country's recent upsurge in farm exports - along with its demonstrated potential for even greater agricultural growth - company executives felt that prospects for long-term expansion outweighed short term difficulties on biotech. Indeed, one high-level Monsanto official declared that "Brazil" was the answer to the question of how to satisfy China's continuing demand for agricultural imports. For its part, the GOB is taking a blase attitude to all this. While it is moving to tackle the piracy issue, efforts to improve its overall investment climate remain stalled. End Summary.

¶2. (SBU - Business Confidential) While Monsanto saw President Lula's signature of the biosafety law in March 2005 as a great step forward, translating this into progress on the ground has proven difficult. Specifically:

-- Reacting to continued sniping from Environment Minister Marina Silva (a vocal biotech opponent), to date Lula has not issued the necessary presidential decree to implement the biosafety law. In the absence of such a decree, a vigorous debate has arisen regarding the legal status of decisions taken by CTNBio, the chief action agency for the statute. (Even without the decree, however, the law clearly legalizes the sale, cultivation and commercialization of Roundup Ready soybean seed.)

-- State of Parana Governor Roberto Requiao continues to ban the shipment of genetically-modified products through the key southern Brazil port of Paranagua - though state officials are looking to construct new port facilities which would be permitted to handle biotech goods.

-- The company is engaged in a court dispute with the local Patent Office (INPI) regarding the expiration date of its Brazilian patent on Roundup-Ready soybeans. (See ref tel). Meanwhile, Embrapa, the GOB's highly-regarded agricultural research agency, is vigorously working to come up with its own competing seed varieties.

-- Although the National Technical Commission on Biosafety (CTNBio) approved importation of Monsanto's Bollgard (BT) cotton seeds in March, the seeds must complete one year of variety testing prior to commercialization. Monsanto's licensee, a joint venture of DeltaPine and Grupo Maeda, expects commercialization to begin in the 2006/2007 crop year. (This requirement had previously been two years before the Ministry of Agriculture reduced it to one; the Ministry used a loophole in the law allowing for only one year of testing if the biotech trait was placed in an already approved conventional strain).

-- In the case of Monsanto's Roundup Ready cotton seeds, company officials do not expect approval for commercial use for several years, since it is not as far along in the approval process.

¶3. (U) While the process for approval of biotech cotton seeds is burdensome, Monsanto has not characterized it as problematic. The company's chief concern is that the use of pirated BT and Roundup Ready seeds is increasing while it remains locked out of the legitimate biotech cotton seed market. The lack of effective border controls makes it extremely difficult for the GOB to prevent the smuggling of such seeds from Argentina and Paraguay. FAS reporting notes that some sources are estimating that as much as 30 percent of the upcoming cotton crop could be illegally planted with biotech seed - perhaps as much as 25,000 to 30,000 hectares.

¶4. (SBU) However, FAS also notes that the Ministry of Agriculture has pledged to disqualify growers who use illegal seed from government support programs and step up

surveillance at the country's 14 or so delinting plants. Product grown from pirated seeds could be detected relatively easily at this stage of the processing chain, thereby 1) providing a deterrent to planting illegally, and 2) allowing the company to proceed with judicial remedies against those who nonetheless use such seeds. The question is whether the GoB will seriously undertake the effort. The first test will likely come when the current crop is harvested and sent to the delinting plants, sometime around next August.

¶5. (SBU) Overall, given the squeeze cotton growers currently face from the plunging dollar (more than one-third of their crop is exported) the GOB has been keen to facilitate the commercialization of legal biotech cotton seeds. Some estimate that use of such seeds could reduce production costs by 15 percent.

¶6. (SBU - Business Confidential) In addition to the piracy problem, Monsanto officials echoed many of the complaints of other foreign investors doing business in Brazil: i.e., the GOB's byzantine tax regime, cumbersome bureaucracy, non-transparent judicial system, inadequate commitment to IPR protection, and outdated transportation infrastructure. Were the Brazilian government to take steps to improve the investment climate, we were told, Monsanto would be disposed to pour billions into the country. Company executives declared that soybean and cotton seed would be just a drop in the bucket, as Monsanto could begin to undertake research in such diverse areas as pesticide management, fertilization practices and seed inoculants. Brazil, they said, is the next great agricultural frontier, and with China's demand for food imports only likely to increase, the company could help the country become a long-term supplier of agricultural commodities to Beijing.

Chicola