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Report Name: Brazil Lowers Agricultural Tariffs to Fight Inflation

Country: Brazil

Post: Brasilia

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Report Highlights:

On Thursday May 12, the Government of Brazil (GOB) cut import tariffs for several categories of goods, focusing on food staples in an attempt to reduce consumer inflation. Import tariffs on beef, chicken, corn, wheat flour, wheat, cookies and bakery products were eliminated through the end of the year. As a result, there may be a slight uptick in specialty, high-priced beef imports from the United States. In addition, it is possible that wheat imports from the United States may rise marginally due to the lower tariffs. Overall, given the global demand and price dynamics, as well as depreciated value of the Brazilian real, Post does not anticipate that the lower import tariffs will significantly alter Brazil's agricultural trade dynamics.

Summary

On Thursday May 12, the Government of Brazil (GOB) cut import tariffs for several categories of goods, focusing on food staples to reduce consumer inflation. The decision was made by the Executive Management Committee (GECEX) of the Brazilian Chamber of Foreign Trade (CAMEX). The temporary import tariff reduction is in force from May 12 through the end of the year. Note that although the GOB zeroed out or reduced import tariffs for most food items, the import tariff on mozzarella cheese (HS: 0406.10) was raised back to its original tariff of 28 percent (due to pressure from the dairy sector). The reductions were as follows:

- Boneless and frozen beef (HS: 0202.30.00) – from 10.8% to 0%
- Edible parts of chickens, minced, offal and frozen (HS: 0207.14) – from 9% to 0%
- Wheat flour (HS: 1101.000) - from 10.8% to 0%
- Other wheats and mixtures of wheat and rye (HS: 1001.99) – from 9% to 0%
- Cookies and cookies (HS: 1905.31) – from 16.2% to 0%
- Bakery, pastry and biscuit insurance (HS: 1905.90) – from 16.2% to 0%
- Corn (grain) (HS: 1005.90) - from 7.2% to 0%

GECEX/CAMEX also authorized reduction of import tariffs on iron rods and bars from 10.8% to 4%, and on agricultural fungicide technical mancozeb from 12.6% to 4%, as well as on sulfuric acid - from 3.6% to 0% - which is used for making fertilizers.

Inflation Worries Motivate Temporary Reductions

Brazil has been battling persistent consumer inflation ever since the onset of the COVID-19 pandemic. In 2021, the country’s annual consumer price inflation index (IPCA) hit a six-year high of 10.06 percent. By April 2022, the 12-month IPCA hit above 12 percent. Last month saw the largest monthly jump in inflation in 26 years. According to the government statistics body IBGE, inflation is mostly driven by food and fuel prices. In April, food and beverage prices rose over two percent, while increase in transport costs was just below two percent. The inflationary pressures have been reinforced by the disruption in commodity trade and supply chains on the account of the Russian invasion of Ukraine.

The Brazilian government has adopted a wholesale approach to fighting inflation. In May 2022, the Brazilian Central Bank (BC) has increased the Brazilian federal funds rate to 12.75 percent, the highest rate since February 2017. Meanwhile, the May import tariff cut is the second such temporary reduction this year. On March 22, Brazil temporarily eliminated the import tariff on ethanol as well as five other agricultural products (coffee, margarine, cheese, spaghetti, sugar, and soybean oil). At the time, the GOB noted that the rising costs of these items have been exerting pressure on inflation in Brazil. At the time, economists calculate the impact from the first tranche of reductions to cost the Brazilian government around R$ 1 billion (~$200 million) in revenues. This latest round of tariff cuts is estimated to further cut into the government revenues by R$ 750 million (~$150 million).

Import Tariffs Unlikely to Impact Trade Dynamics for Brazil

Post anticipates that the lower import tariffs are unlikely to significantly alter Brazil's agricultural trade dynamics. Brazil's agricultural exports surpassed $100 billion in 2021, while its agricultural imports were just over $13 billion. Brazil's agricultural imports are relatively low in part because Brazil's simple average WTO bound tariff rate for agricultural products is over 35 percent. However, Brazil is also an agricultural powerhouse producer, and is able to supply its domestic demand for nearly every major agricultural commodity with domestic production.

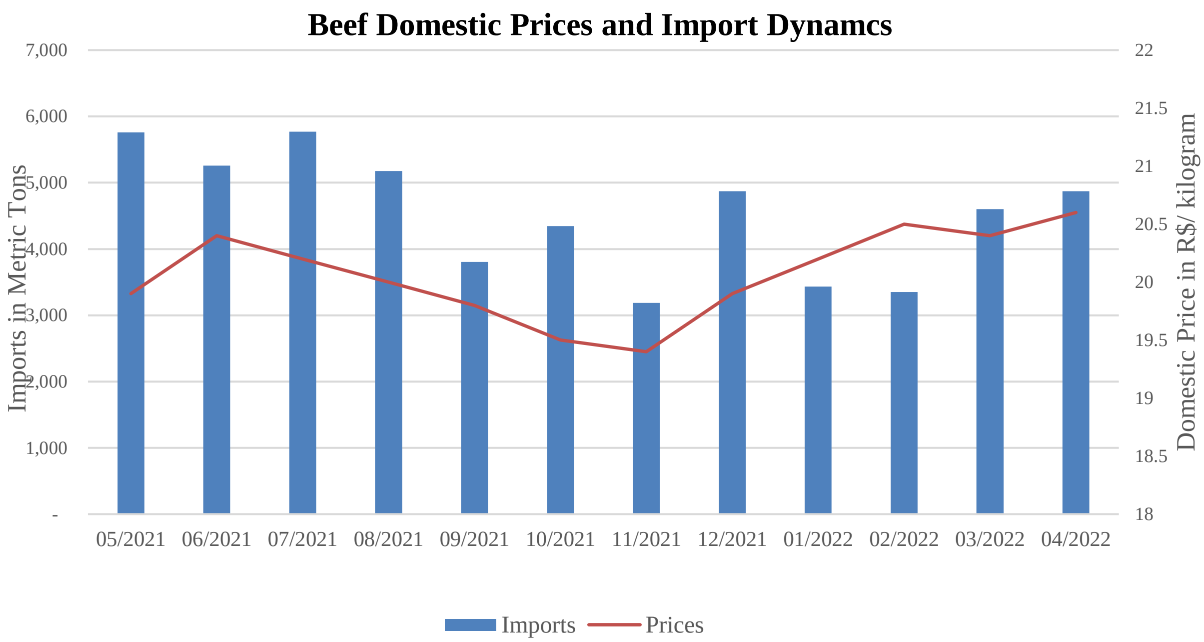
Finally, over the last two years, imports into Brazil have faced two significant challenges. Since the onset of the COVID-19 pandemic, the Brazilian real lost over 70 percent of its value, depreciating from below R$4 to the U.S. dollar, to well above R$5.5 to the U.S. dollar by mid-February 2022. The steep depreciation of the domestic currency fueled an agricultural commodity export boom, while also making imports an expensive proposition. In addition, the COVID-19 pandemic has disrupted global shipping logistics. As a result, Brazil has struggled to secure shipping vessels and container ships in adequate volumes. Both factors are expected to continue to be challenges going forward. In addition, the current increase in global demand for agricultural commodities means that Brazil will face stiff competition from other markets for agricultural commodities.

Livestock and Poultry

Brazil is a relatively minor importer of poultry and beef as it meets the vast majority of its consumption needs with domestic production. For poultry, Brazil is the global leader in exports, estimated at 14.86 million metric tons (MMT). Meanwhile Brazil imports just 5,000 metric tons (MT) of chicken meat, with 80 percent coming from Mercosur member Argentina and the remaining 20 percent being shipped from Chile. Both Argentina and Chile have a free trade agreement with Brazil allowing for duty free trade. Note that U.S. chicken meat does not have sanitary authorization (i.e., a bilateral agreement) to enter the Brazilian market. Post does not anticipate that lower tariffs on poultry imports will produce any impact on overall volume of imports into Brazil.

Brazil is also a global leader in beef exports. USDA estimates that Brazil will ship 2.6 MMT of carcass weight equivalent (CWE) of beef this year, while imports will come to about 62,000 MT CWE. In 2021 Brazil imported just 0.8 percent of all its domestically consumed beef. Brazil's main suppliers of beef are the neighboring countries of Paraguay, Argentina, and Uruguay, which account for over 98 percent of total imports. Beef exports from these markets benefit from lowers transportation costs, as well as Mercosur's duty-free import regime. Brazil also imported beef from Australia, Japan, and the United States. The United States exported 60 tons of beef to Brazil, which represented 0.13 percent of total Brazilian beef imports in 2021, worth US$ 680,000.

Post anticipates that beef imports may see a slight boost because of the zeroed-out tariffs, as most growth for imports is concentrated in the high-quality gourmet and special cuts. Considering the Brazilian market prices of beef and the volumes of beef imports, as shown in the graph, one notices an alignment between the two variables. Import volumes follows the price trends, with a 2-month delay.

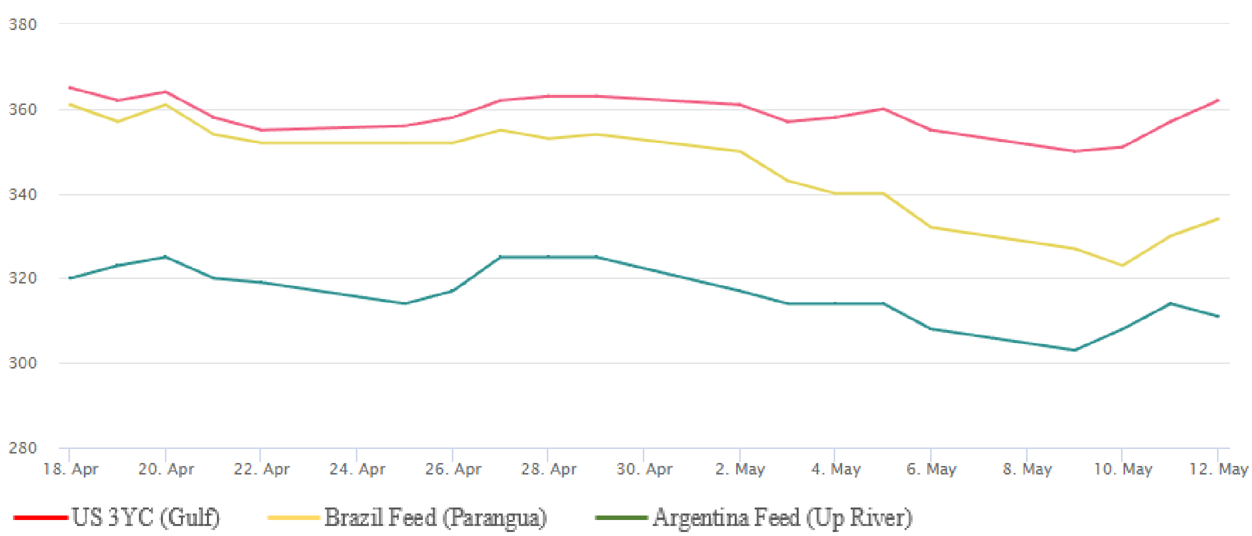


Source: SECEX for import volumes, CONAB for prices. Chart OAA Brasilia

Corn

Brazil is a relatively minor importer of corn globally. For 2021/22 MY, Post estimates corn imports at 2 MMT, less than five percent of the volume that Brazil is projected to export, or 44.5 MMT. Brazil's large domestic livestock and poultry industries are concentrated in the southern states. Although corn is a major crop produced in the south, the domestic production volume is not enough to supply all their feed. As such, Mercosur members Argentina and Paraguay dominate import shipments to Brazil, each accounting for roughly half of the volume supplied last season.

Corn Prices (US$ / ton)



Source: International Grains Council

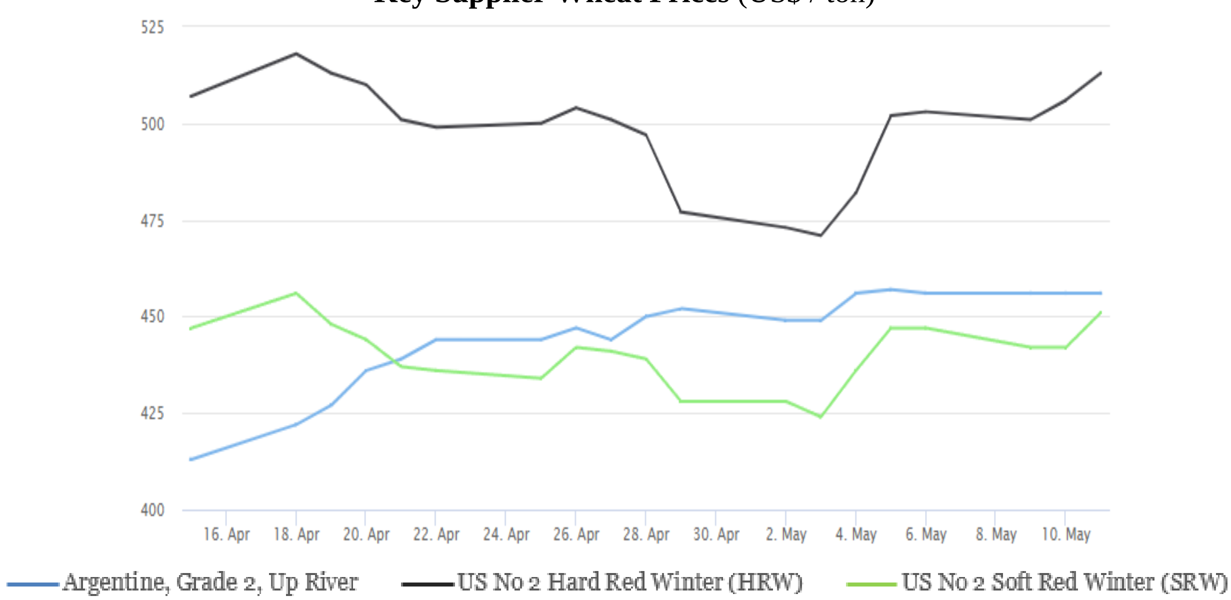
Over the last two years Brazil's domestic corn prices soared on smaller than initially anticipated harvests and the commodity export boom out of Brazil. In response to skyrocketing prices and many complaints from the livestock industry, the Brazilian government suspended import tariffs for corn and soybeans from countries outside the Mercosur trade bloc from October 16, 2020 to March 31, 2021, with no quota limiting the duty-free volume. However, the lower import tariffs did not produce much of an effect due to price and logistics obstacles for shipping corn from non-Mercosur suppliers. Similarly, given the current global demand and high corn prices, it is unlikely that Brazil corn imports will experience a boost because of the current decrease in lower duties.

Wheat

Imported wheat typically accounts for more than half of Brazil's domestic consumption, making Brazil the fourth-largest global wheat importer. Over the last five years, Brazil imported between 6 and 7 million metric tons of wheat annually. Imports are typically comprised of about 90 percent wheat, and 10 percent of wheat flour. Over the last two seasons, Brazil saw a decrease in import demand on the account of an uptick in production, coupled with a steep devaluation of the domestic currency. As the Brazilian real depreciated, dollar-dominated wheat imports became more expensive and reduced mills' willingness to make large purchases unless necessary to meet demand.

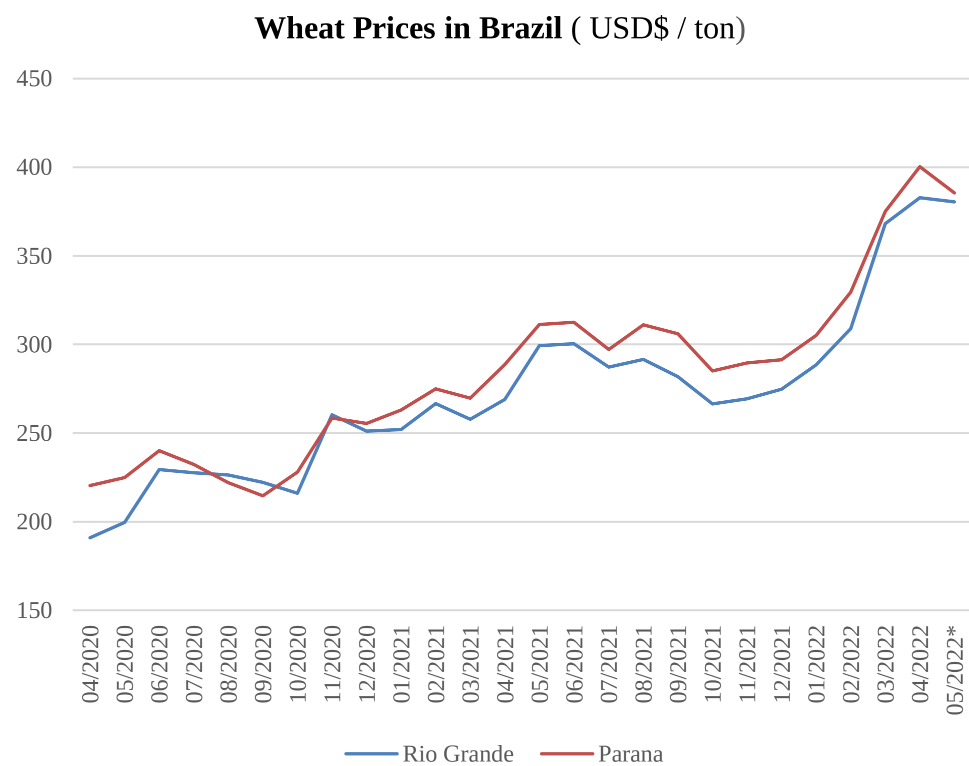
Notably, most of Brazil's wheat and wheat flour imports are duty-free purchases from Mercosur-neighbor Argentina, which supplied over 70 percent of Brazil's wheat imports in 2020/21. Uruguay and Paraguay were responsible for about 6 percent each of Brazil's imports, while the United States accounted for 5 percent of Brazil's imports. The United States saw a substantial bump in wheat shipments to Brazil in 2019/20 season at least in part due to Brazil's implementation in November 2019 of an annual duty-free tariff-rate quota (TRQ) for 750,000 MT of non-Mercosur wheat imports. Two factors are likely to drive an increase in wheat imports from North America. First, the harvest in South America has wrapped up, and there is not much left to ship. In addition, given that Argentine wheat prices are now above the price of U.S. Soft Red Winter wheat, it is possible that imports from the United States will see an uptick due to zeroed out tariffs pending availability of American supply.

Key Supplier Wheat Prices (US$ / ton)



Source: International Grains Council

Another important factor will be wheat prices in Brazil. Given that Argentine and U.S. wheat prices have soared from the already expensive $300-$400 per ton (depending on type of wheat) in January, to $400-$500 per ton in May, it is unlikely that lower tariffs will provide an incentive for the Brazilian mills to significantly step-up purchases, unless prices in Brazil keep pace. According to the University of Sao Paulo's Center for Advanced Studies in Applied Economics (CEPEA), wheat prices in Brazil have renewed record levels every month for the last six months. However, Brazilian prices in the first two weeks of May in Parana and Rio Grande do Sul waivered at around $380 to $385 per ton. Despite prices hitting domestic records, they remain below the prices seen for the Argentine and U.S. wheat.



Source: CEPEA data, chart Post Brasilia

According to the Brazilian Association of Biscuit, Pasta and Industrialized Bread & Cake Industries (ABIMAPI), in 2021 Brazilian consumers purchased 4.8 million tons of various wheat processed products such as biscuits and pasta. According to data from the Secretariat of Foreign Trade (SECEX), last year Brazil imported just 10,145 tons of cookies and biscuits (HS codes: 1905.90 and 1905.31). As such, the reduction in tariffs is unlikely to trigger a significant enough increase in import volumes to impact domestic prices. In March 2022, ABIMAPI warned that end-consumer product prices will rise in the coming weeks and months because of the global price spike of wheat and wheat flour. ABIMAPI noted that flour makes up 70 percent of the cost of pasta, 60 percent of industrialized breads and cakes, and 30 percent of cookies.

Attachments:

No Attachments.