



# Grain Trade Policy

August 4, 2004

## Brazil

### Summary

Brazil is a net corn exporter, but a net importer of wheat, rice and pulses. Argentina is the major supplier of grains to Brazil, followed by Paraguay and Uruguay. According to official U.S. export data, Brazilian grain imports from the United States were valued at \$145.4 million in 2003. Exports of most U.S. grains to Brazil declined significantly in 2003, but a dramatic increase in rice exports resulted in a 33.6 percent overall increase in grain exports from the previous year.

### Market Access

#### Tariffs

Brazil's applied rates are the MERCOSUL Common External Tariff (CXT) rates. However, each MERCOSUL country has an exception list, or a list of products for which the import tariffs are different from the CXT. For products on the exception list there is a schedule by which the tariff for that product will converge with the CXT over a set period of time. The CXT rates, including the higher tariffs on the exception list, in almost all cases are lower than Brazil's WTO final bound rates, which for many agricultural products are in the 35-55 percent range. It is difficult to compete with Argentina, which has zero-duty access. U.S. grains are most competitive in the Northeast due to a freight advantage.

**Brazilian Grain Import Tariffs**

HS #	Description	Final Bound Tariff	Applied Tariff
0713	Pulses	20-35%	10%
1001	Wheat	55%	10%
1002	Rye	55%	8%
1003	Barley	55%	10%
1004	Oats	35-55%	8%
1005	Corn	35-55%	8%
1006	Rice	55%	10-12%
1007	Sorghum	35-55%	8%

Tight supplies in Brazil and throughout Mercosul along with rising prices led the Minister of Agriculture to announce in early August 2003 a reduction in the Common External Tariff (CXT) for rice to 4 percent, down from the previous 11.5 percent on paddy rice and 13.5 percent on milled rice. The tariff came into effect the first of October and expired the last day of December 2003. However, at the request of Mercosul members, the quantity was limited to 500,000 tons, of which paddy accounted for 400,000 tons and milled rice 100,000 tons on a rough basis, or about 68,000 tons on a milled basis.

The CXT for wheat is 10.0 percent, while corn and sorghum face an 8.0 percent tariff. The tariffs on non-MERCOSUL rice are 10.0 percent for paddy, 11.5 percent for brown, 12.0 percent for semi-whitened and polished rice, 10.0 percent for HS1006.30.19 and HS1006.30.29, and 11.5 percent for broken.

### **Other Miscellaneous Taxes and Charges**

In addition to the Common External Tariff (CXT), Brazil also charges a Merchant Marine Renewal Tax (AFRMM), a 25-percent surcharge on the cost of freight for imports of all products, which further discourages U.S. exports to Brazil. However, this tax has been waived for imports to the North/Northeast regions of Brazil in order to stimulate development.

As of May 1, 2004, U.S. exporters will also face a higher COFINS and PIS tax. Funds generated through the COFINS tax go toward social programs. These two taxes total 9.25 percent, up from 3.25 percent of the imported grain's value. The tax is to be collected at customs when the imports are registered. It is not yet clear if Mercosul members will have to pay these taxes. Brazilian mills belonging to cooperatives can obtain a 70 percent refund of the tax when grain is sourced domestically, but no refund is available for imports, thereby increasing the comparative price by 6 percent.

### **Tariff Rate Quotas (TRQs)**

Brazil has very few tariff rate quotas (TRQs) in the agricultural sector. One TRQ included in Brazil's Uruguay Round commitments is a 750,000 mt quota for wheat with a final bound rate of zero as of 1995. This TRQ has never been implemented and theoretically is in the process of being re-negotiated by Brazil under Article XXVIII (Modification of Schedules). However, this issue has not been raised since late-1996.

### **Sanitary and Phytosanitary Measures**

The Office of Agricultural Protection (SDA), Ministry of Agriculture, Livestock, and Food Supply (MAPA), is responsible for enforcing sanitary and phytosanitary (SPS) regulations governing the import of plants and animals, and their products. The Department of Plant Health and Inspection Services (DDIV), under SDA, is responsible for enforcing regulations governing the import and export of plants and their products, as well as alcoholic beverages, wine, beer, and juices.

On January 1, 1996, DDIV adopted the harmonized phytosanitary standards of the Southern Cone Phytosanitary Committee (COSAVE), which is composed of Argentina, Chile, Brazil, Paraguay, and Uruguay. COSAVE provides general standards, but each COSAVE member country conducts bilateral negotiations with third country suppliers to establish phytosanitary agreements. Since DDIV is implementing COSAVE standards in stages, U.S. exporters of wheat, rice and corn will frequently face difficulties at Brazilian ports when new regulations are implemented. DDIV often provides short notice prior to implementing new regulations without following the WTO-60 day notice requirement. APHIS/PPQ and DDIV have entered into two agreements to facilitate the trade of plants and their products between the United States and Brazil. Ministerial Directive number SDA 212, of November 19, 1998 allowed the resumption of imports of U.S. Hard Red Winter wheat, after nearly two years of negotiations. This Directive was revoked by Normative Instruction Number 12, of November 23, 2000, which included other classes of U.S. wheat (SRW and HRS), but implementation of this Directive came only on March 15, 2001 after the completion of a pest risk analysis for *Anguina tritici* by Brazilian officials in the United States. On October 28, 2002 Brazil put a ban on U.S. wheat, citing the possible presence of the weed seed Canadian thistle. APHIS/PPQ has been working closely with the Brazilian Plant Health officials and shipments of some types of U.S. wheat have entered the country without further problems. U.S. Durum and Hard White wheat remains restricted.

### Domestic Support

Brazil maintains agricultural support prices for many commodities, and the prices often vary by region, variety, and timing of the crop. The minimum prices for corn for the 2003/04 crop year ranged regionally from R\$13.50/60kg to R\$16.50/60kg. Rice minimum prices are more variable, due to greater differences in varieties and planting methods, and range from R\$10.12/60kg to R\$20.70/60kg.

In an effort to encourage wheat production and reduce dependence on imports, the Minister of Agriculture increased the minimum price for wheat in 2003 and maintained higher prices for non-traditional growing regions. The 2003 minimum price for wheat in the three southern states of Rio Grande do Sul, Santa Catarina, and Parana was R\$400/ton, while Mato Grosso do Sul, Mato Grosso, Goias, Sao Paulo, Minas Gerais, Bahia and the Distrito Federal enjoyed a higher minimum price of R\$450/ton.

## **U.S. Non-Party Agreements**

### *MERCOSUL*

The Southern Common Market (MERCOSUL, in Portuguese) was implemented on January 1, 1995, between Brazil, Argentina, Uruguay, and Paraguay. As part of MERCOSUL, the four countries have implemented a Common External Tariff (CXT) for all imports from outside the block. In general, a zero-duty applies to nearly all trade in agricultural products among the four MERCOSUL partners.

Bolivia and Chile are also now associate members of MERCOSUL and receive a preferential tariff rate of 60 percent of that applied to non-MERCOSUL members.

### *MERCOSUL-Andean Pact*

MERCOSUL has completed a “block to block” trade agreement with the Andean Pact (CAN, in Portuguese). Under the MERCOSUL-CAN agreement, member countries agreed to liberalize 80 percent of the tradable products between the two blocks, reducing to zero at the end of 10 years. Products considered “sensitive” (such as wheat for the CAN) will have their tariffs reduced in 15 years. This agreement may be finalized in October 2004.

### *MERCOSUL-European Union*

These two blocks have signed a framework agreement with the intent of pursuing a trade agreement. In November 1998, the two blocks formally agreed to begin discussing the specific modalities of the negotiations. The time line envisioned for these discussions (negotiations and implementation) is lengthy. Agriculture will be the most sensitive sector in these negotiations. MERCOSUL suspended negotiations on July 21, 2004, because it considered the offer made by European Union to be very poor. However, a Ministerial level meeting has been scheduled for the end of August 2004 to resume negotiations.

### *BRAZIL and Other Countries*

Brazil has new SPS agreements with other emerging economies, such as China. Other bilateral agreements are planned with Mexico, India, and Russia.

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