

PC EM FOCO

Monitoring Brazil's Trade Policy

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May 2012 - Summary

Introduction

The release of information in early April, by the Finance minister, of a broad set of new measures within the Plano Brasil Maior (PBM), is one more demonstration of the Brazilian government's hyperactive efforts to mitigate the negative impact of the loss of competitiveness on Brazilian industrial performance. In addition to the package, there have been a number of other initiatives designed to increase protection for domestic production and increase national content in the production chains.

The new measures are, once again, a patchwork quilt of varied colors and patterns. Expansion of credit by the Treasury to BNDES, accompanied by increased subsidies for official programs, payroll tax relief initiatives for the more labor-intensive sectors, increased protection for domestic production – particularly in the form of a one percentage point increase in the PIS/Cofins tax charged on imported products – and the new automotive regime are the most noteworthy components of the new package. In addition, there is a variety of programs designed for specific sectors, with various incentives. There are also measures recycled from prior packages – already announced, but not yet implemented. >>

Among the initiatives not included in the PBM, is the federal government's effort to obtain Senate approval for reform of the system for charging the interstate ICMS on imported products. The objective of this reform is to eliminate tax incentives granted by some Brazilian states on imports, that are undermining the competitiveness of domestic products and which have been the target of increasing complaints from the industrial sector.

Along the lines of increased protection, one can also see a growing number of dumping investigations, the start of a process to impose safeguards on the wine sector and a set of measures designed to increase the strictness of customs procedures and compliance of imported products with technical standards and regulations. In addition, release is pending of a list of 100 products whose import tariffs are expected to rise, according to what has been agreed within Mercosul.

The automobile industry continues to merit special attention with regard to Brazilian industrial and trade policies. The new regime for the sector – Inovar-Auto – provides for the concession of tax benefits to national producers, conditioned on compliance with local content requirements and technological research activities and spending. It will run from 2012 through 2017. In addition, the sector was the target of a trade dispute between Brazil and Mexico that ended with changes in the quota distribution system and restriction of the value of Brazilian imports of Mexican automobiles eligible for tariff exemption.

Until a short time ago, exchange rate appreciation seemed to be, from the perspective of the economists close to the government, the major, if not the only, factor responsible for industry's difficulties and for what was quickly and without much criteria, identified as a process of deindustrialization. More recently, even

these economists began to recognize the existence of other factors of a structural nature that might be contributing to poor industrial performance, both in the domestic market and abroad. There were problems of competitiveness, intra and inter-industry weaknesses of different degrees, and systemic problems, such as the high tax burden – recognized by the president herself. Finally, the topic of low and sluggish industrial productivity reappeared in the debates.

Since the significance of noncyclical factors in the recent performance and future prospects of industry has been accepted, one can suppose that the issue of industrial competitiveness and productivity will return to the forefront. Although this may be true with respect to public debate of this issue, the panoply of successive measures launched by the government for the purpose of defending Brazilian industry follows an “emergency” rationale that justifies anything, including the disregarding of the medium-term impacts of the short-term measures. Even measures focused on attacking a structural problem – the high cost of social charges to industry - are included in the ad hoc government menu, implying high Treasury subsidies and increased industrial protection.

It is possible that this combination of subsidies, exemptions and protection will alleviate the short-term situation of some companies or industries. But this is a costly policy, from various points of view, and not only from the tax perspective. After all, as shown by a recent Secex study, the largest exporters are also the largest importers. And an enormous portion of Brazilian imports is made up of inputs, raw materials and intermediate and capital goods. In other words, they are imports by the productive sector itself for its production needs. Therefore, these “emergency” measures are not neutral in relation to medium and long-term objectives, such as increasing industrial productivity and competitiveness.

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