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Report Name: Brazil Eliminates Soybean and Corn Import Duties

Country: Brazil

Post: Brasilia

Report Category: Agriculture in the Economy, Policy and Program Announcements, Oilseeds and Products, Grain and Feed

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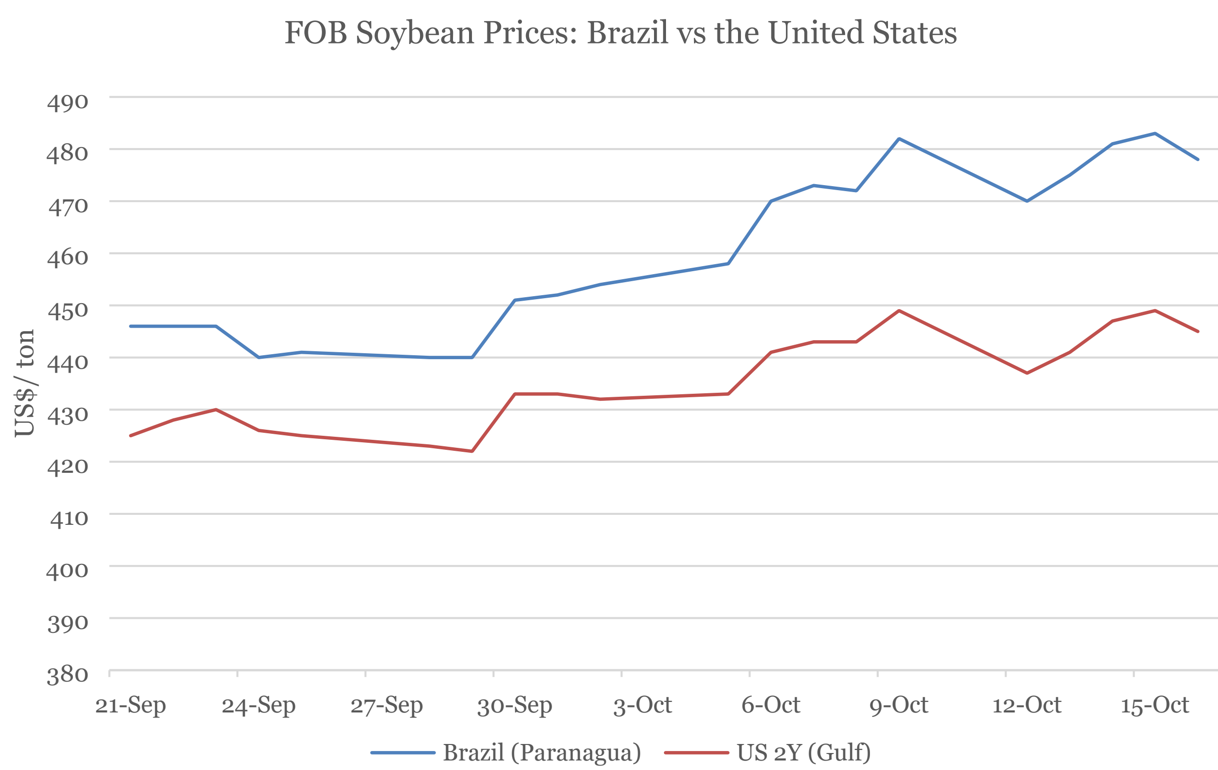
Report Highlights:

On October 16, Brazil announced that it would suspend the import tariffs on corn, soybeans, soy meal, and soy oil from countries outside the Mercosur trade bloc. The tariff on corn and soy imports from outside Mercosur is currently eight percent, six percent for soy meal, and 10 percent for soy oil. Post anticipates that the decision will be published in the Brazilian Federal Register in the next couple of days and will come into force the same day. The import tariff waiver will apply to soybean and soy products until January 15, 2021, and for corn imports until March 31, 2021. The waiver will apply to all incoming imports with no quota. Post sees several hurdles to substantial imports from the United States due to current price spreads and several regulatory and logistical challenges.

On October 16, Brazil announced that it would suspend the import tariffs on corn (HS 1005.90.10), soybeans (HS 1201.90.00), soy meal (HS 1507.10.00), and soy oil (HS 2304.00.10) from countries outside the Mercosur trade bloc. The tariff on corn and soy imports from outside Mercosur is currently eight percent, six percent for soy meal, and 10 percent for soy oil. The measure was adopted by the Executive Management Committee (Gecex) of the Chamber of Foreign Trade (Camex), but to become official it must be published in Diário Oficial. It was not published on Monday, October 19, though Post anticipates that it will be published on Tuesday, October 20. Once in force, the import tariff waiver will apply to soybean and soy products until January 15, 2021, and for corn imports until March 31, 2021. The waiver will apply to all incoming imports with no quota. These import waivers follow on a 400,000 duty-free TRQ for rice established on September 9, 2020.

Potential for Imports

About a week prior to the decision being announced, Post contacts indicated that traders were evaluating the potential for purchases from North America, but that prices did not work for purchases. This is despite about a $20-25 discount that U.S. beans have on Brazilian supplies.



Source: International Grains Council (IGC)

Brazil's internal soybean prices, which is what crushers pay to source the product domestically, are almost at parity with prices at ports. For example, according to the University of Sao Paulo's Center for Advanced Studies of Applied Economics (CEPEA) BOVESPA price index, the port of Paranaguá values

- which reflect prices at the CBOT along with premiums - are just above the average price elsewhere in the state of Paraná. On October 16, the price for a 60-kilogram sack of beans was R$ 159.44 in Paranaguá, and R$ 157.80 per 60-kilo sack in Paraná. As such, U.S. soybeans may remain too expensive to make sense for Brazilian importers given the U.S. FOB price and ocean freight costs.

Potential U.S. exports to Brazil are also up against several regulatory and logistical challenges. The first stumbling block is the asynchrony of approvals of genetically modified corn and soybean varieties between the United States and Brazil. According to data from the International Service for the Acquisition of Agri-Biotech Applications (ISAAA), there are at least nine commercially available biotech varieties of both corn and soybeans approved for cultivation in the United States, which are not currently approved in Brazil. As grains are not sorted by varieties prior to export, any potential Brazilian importer would need to submit a special approval request to the National Technical Commission on Biosecurity (CTNBio). There are only two CTNBio meetings scheduled for the rest of 2020, and each request, if submitted, would have to be considered on case by case basis.

In addition, Brazil's bulk grain and oilseed port terminals are set up specifically to handle exports, and reverse engineering the setup is time and resource-intensive. Moreover, for soybeans, most of the crush plants are in the interior of the country, far from the ports, which raises costs and therefore is a limiting factor.

Rationale Behind the Decision

The government stated that the decision to remove the duties was made in order to help reduce food prices, which are up 50 percent year-on-year for some products. Record high prices for soybeans and corn have pushed up food prices, which is in turn fueling inflation. Inflation in September hit 0.64 percent - the highest value for the month of September since 2003. Inflation is turning into a political headache for the government, as it grapples with the impact of the coronavirus on the economy.

High prices for grains are also hurting the profit margins of the poultry and pork sectors, which rely on both grains for animal feed. The animal protein association (ASBIA) had requested last month that the government eliminate tariffs to offset the rising costs of feed. Soybean meal and corn account for 70 percent of the cost of production of chicken and pork, which ASBIA has argued has pushed up product prices and affected competitiveness of the sectors. Domestic prices of chicken and pork have been passed on to Brazilian consumers. Note that due to the significant depreciation of the domestic currency, the real (BRL) since the beginning of the year, Brazilian exports of pork and poultry are actually more competitive, price-wise, in the international market.

It should be noted that there is potential for the tariff-free time frames to be extended, particularly for corn. The Brazilian press has noted that originally the Ministry of Economy was considering dropping corn imports through June 2021, when second-harvest corn would come online. However, the Ministry of Agriculture pushed back against the proposal.

Attachments:

No Attachments.