

Brazil's Applied Tariffs Understated Its Overall Import Restrictiveness from 2001–2011

Caitlyn Carrico and Dylan Carlson (dylan.carlson@usitc.gov)

Brazilian importers face higher trade barriers than are indicated by applied tariffs alone. While applied tariffs fell overall in 2001–11, this trend may be misleading. Applied tariffs vary widely across products and may rise up to the ceiling set by bound tariffs agreed upon at the World Trade Organization (WTO). Nontariff measures (NTMs) add an additional layer of costs for importers, potentially restricting trade beyond the level of Brazil's bound tariff commitments. For U.S. exporters, Brazil's multilayered trade barriers, combined with the uncertainty inherent in its border measures, may restrict trade opportunities.

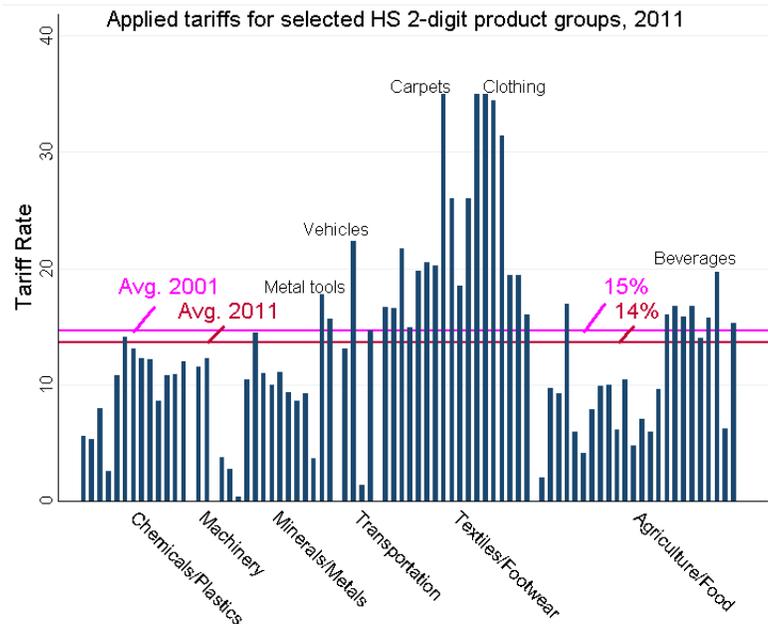
As applied tariffs decreased overall between 2001 and 2011, tariff variation between products increased.

■ During 2001–11, Brazil's simple average applied tariff fell from 15 percent to 14 percent, but tariff variation across products increased.¹

■ For the majority of products (77 of 96 HS 2-level product groups), applied tariffs fell by 1 to 5 percentage points. However, they increased across most textiles, apparel, and footwear products, rising to as high as 35 percent for carpets and clothing articles in 2011.

■ In 2011, tariffs were often highest for processed final goods and lowest for raw inputs. For example, applied tariffs for agricultural products were below average (live animals were lowest, at 3 percent), while food products were above average (beverage products were highest, at 20 percent).

■ Applied tariffs varied more widely within certain product groups. Among transportation products, for example, tariffs ranged from 2 percent for aircraft and aircraft parts to 23 percent for automobiles in 2011.



Like many developing countries, Brazil has a large gap between its applied and bound tariffs, leaving policymakers room to raise tariffs while still meeting WTO commitments.

■ The “overhang” is the amount by which a government can increase an applied tariff within the maximum bound tariff agreed on at the WTO.

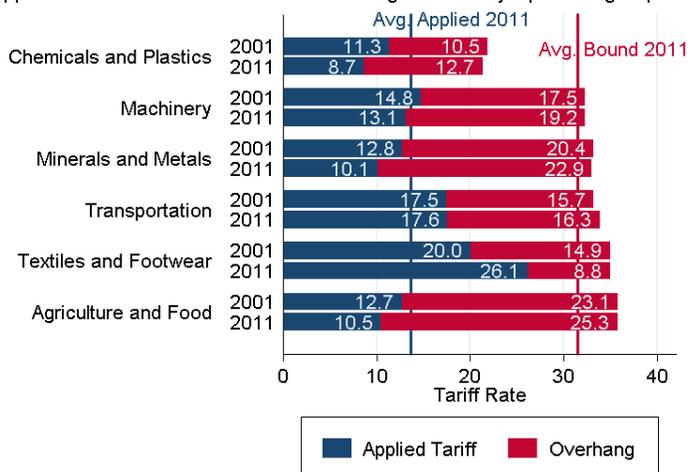
■ Brazil's average bound tariff was 32 percent in 2011, leaving an 18 percent overhang above its average applied tariff of 14 percent.

■ Reduced applied tariffs for most products, while inherently less restrictive, have given the government greater flexibility to raise tariffs in the future if it chooses.

■ Applied tariffs on textiles, apparel, and footwear rose between 2001 and 2011 within bound restrictions, eliminating the overhangs for certain products such as clothing.

■ In October 2012, Brazil's government unexpectedly announced that it was sharply increasing applied tariffs on 100 products—primarily chemicals, machinery, and metal products—accounting for \$1.39 billion in U.S. exports to Brazil in 2011.²

Applied tariffs and the bound tariff overhang for the major product groups



¹ All tariffs and other rates referred to in this briefing are simple averages of HS 6-level products for MFN partners. The analysis in this briefing used simple averages to compare policies across years without weighting averages toward dominant trade flows, which vary annually. A comparison of trade-weighted vs. simple averages yielded similar results. The rates described in this briefing are at the HS 2 level unless referring to one of the six major product groups or an overall average. Tariff data are from UNCTAD TRAINS.

² Global Trade Alert, *Measure #3710*, October 1, 2012.

In 2011, Brazilian NTMs included government procurement restrictions, nonautomatic licensing (a registration and approval process for certain imports), trade-restricting technical standards, and outright prohibitions.³ Estimated ad valorem equivalents (AVEs) of NTMs added to applied tariffs provide “total levels of protection” that can surpass bound tariffs. However, the levels at which NTMs restrict trade may not be clearly associated with applied or bound tariffs.

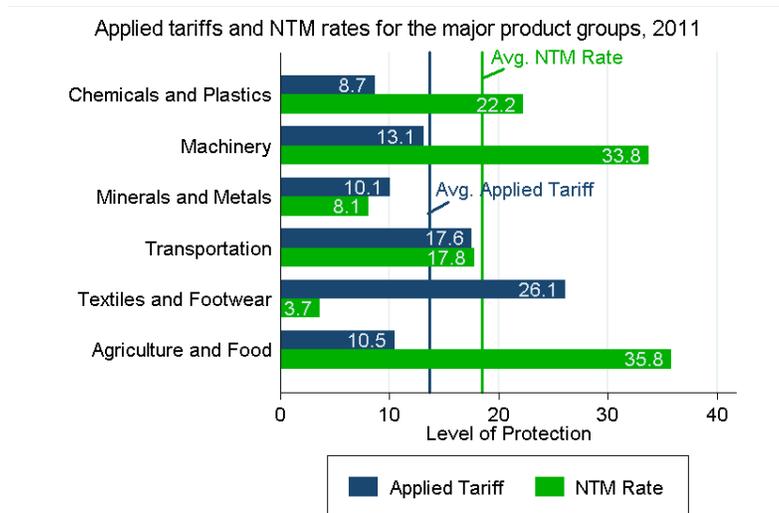
Brazil’s NTMs add levels of restrictiveness that vary across products and may far exceed the costs that importers face from applied tariffs alone.

■ This briefing uses AVEs—tariff-style percentages of unit cost—to estimate the overall effects of all NTMs by product type (the “NTM rate”). NTM rates are available only for 2008; they are used as a proxy for 2011 data for use with the most recent tariff data.⁴

■ Brazil’s diverse NTM policies have led to a wide range of NTM rates across products. While NTM rates averaged 19 percent, they ranged by product from 0 percent (several products across the major groups) to 92 percent (certain vegetable products).

■ Agricultural and food products had an average NTM rate of 36 percent, largely resulting from sanitary and phytosanitary measures as well as nonautomatic licensing. Machinery, which had an NTM rate of 34 percent, was restricted primarily by technical standards.

■ Textiles, apparel, and footwear was the major product group with the highest applied tariff, at 26 percent. However, it had the lowest NTM rate at 4 percent.



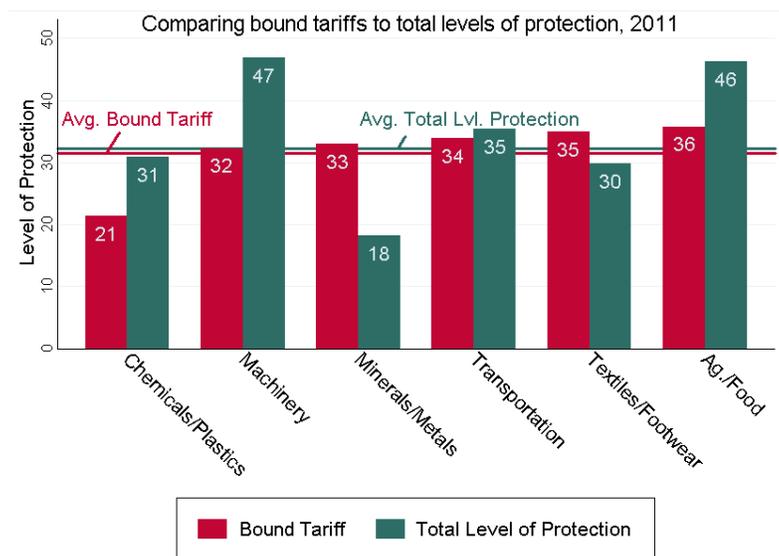
NTMs have boosted total levels of protection, providing a potential policy mechanism for restricting trade beyond bound tariffs. However, there is no significant correlation between bound tariffs and total levels of protection.

■ The NTM rate is added to the applied tariff to obtain a total level of protection. The average total level of protection was 32.2 percent in 2011, higher than the average bound tariff of 31.5 percent.

■ Strong variations in both NTM rates and applied tariffs contributed to higher variations in total levels of protection compared to bound tariffs. In 2011, bound tariffs ranged from 13 percent (fertilizers) to 48 percent (cereals). In contrast, total levels of protection ranged from 4 percent (paper pulp) to 98 percent (certain vegetable products).

■ In 2011, agricultural and food products and minerals and metals had similar bound tariffs (36 percent and 33 percent, respectively). However, the total level of protection for agricultural goods reached 46 percent, while minerals and metals had the lowest total level of protection at 18 percent.

■ Although varying widely, NTMs could be used as an alternative vehicle to applied tariffs for restricting imports beyond the levels of bound commitments.



³ WTO Secretariat, *Trade Policy Review: Brazil*, March 2009.

⁴ The NTM rates used here were estimated based on the effects of price control measures, nonautomatic licensing, quotas, prohibitions, monopolistic measures, and technical regulations on import restrictions. World Bank economists Kee, Nicita, and Olarreaga provided these rates to accompany their paper, “Estimating Trade Restrictiveness Indices,” *Economic Journal*, 2009. A recent European Commission (EC) report asserts that the number of trade-restrictive measures has grown since 2008 (EC, *Eighth Report on Potentially Trade Restrictive Measures*, October 2011). Since this briefing uses 2008 data as a proxy for 2011 NTM AVEs, the NTM rates and the associated total levels of protection may be understated.