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## **Brazil**

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### **Economic Impact of the Brazilian Trucker Strike**

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**Report Highlights:**

On May 21, 2018, hundreds of thousands of Brazil's nearly 2 million truck drivers began an 11-day strike to protest high diesel prices, a move that slowed Brazil's economy, crippled transportation-dependent industries, and caused estimated losses of US\$ 1.75 billion to Brazil's agricultural sector. A month after Brazil's longest trucker strike (and one of the country's most effective strikes in history), transportation and logistics challenges still persist for Brazil's exporters, as shipments of Brazilian commodities are still delayed, supply chains are still experiencing bottlenecks, and debate and uncertainty about Brazil's transportation policies and prices continue to plague the agricultural sector.

## **Background**

On May 21, 2018, hundreds of thousands of Brazil's nearly 2 million truck drivers began an 11-day strike to protest high diesel prices, a move that slowed Brazil's economy, crippled transportation-dependent industries, and caused estimated losses of US\$ 1.75 billion to Brazil's agricultural sector. Truck drivers parked their rigs along roads across the country, refusing to make deliveries of cargo and creating roadblocks on more than half of Brazil's 500 busiest highways. Within a few days, the effects of the strike were widespread and painful, as gas stations ran out of fuel, drivers waited for hours in lines for what small fuel supplies remained, supermarket shelves began to empty and some stores rationed perishable products, and airports began cancelling flights as fuel supplies dwindled. Virtually all segments of Brazil's agricultural sector were affected in some way, but livestock and poultry operations were particularly hard hit by feed delivery disruptions, idled slaughterhouses, export stoppages, and ultimately the culling of tens of millions of animals.

A month after Brazil's longest trucker strike (and one of the country's most effective strikes in history), transportation and logistics challenges still persist for Brazil's exporters, as shipments of Brazilian commodities are still delayed, supply chains are still experiencing bottlenecks, and debate and uncertainty about Brazil's transportation policies and prices continue to plague the agricultural sector. The truckers' rebellion was particularly painful for Brazil because the country lacks extensive rail and waterway infrastructure to transport goods, instead relying on trucks to carry more than 90 percent of all freight (excluding crude oil and iron ore). Additionally, Brazil's limited road infrastructure meant that it was easy for striking truckers to create massive bottlenecks by setting up roadblocks along major roads, many of which are only one lane in each direction. Unlike the United States, where many agricultural goods are transported to export terminals by railways or river barges, Brazil's farmers are dependent on trucks to move their goods within the domestic market and to ports for sale to the international market.

The effects of the strike were wide-ranging, especially as gas stations ran out of fuel, supermarket shelves began to empty of fresh foods, and ports ran low on commodities to load for export. At the Port of Paranaguá in the state of Paraná, one of the main soybean routes was interrupted. At the beginning of the strike, authorities warned that the blockage obstructed the arrival of a thousand soybean trucks per day in the terminal. According to the Sao Paulo State Supermarket Association (APAS), Brazilian retailers lost R\$1.3 billion due to shortages of perishable items. In Sao Paulo alone, supermarkets losses were estimated at R\$400 million.

## **Causes**

The strike was spurred by rapidly rising fuel prices (diesel prices were up 43 percent since July 2017), combined with the effects of the Brazil real continuing to weaken against the U.S. dollar. Last year, Brazil's state-controlled oil company, Petrobras, changed its pricing policies allow daily fluctuations of fuel prices pegged to the international oil market and scrapped subsidies that had kept domestic fuel prices lower. Most Brazilian truck drivers are largely self-employed and daily increases in fuel costs had begun to cut deeply into their incomes. Brazilian citizens of all economic classes supported the truck drivers, and by the eighth day of the strike, 87 percent of the population approved of the strike and sympathized with what many saw as another example of the injustice of government taxes, according to

one public opinion poll by Brazilian firm Datafolha. However, the same firm on June 11 published results of a separate opinion poll that showed that 69 percent of Brazilians thought the trucker strike was harmful for the Brazilian economy. The survey also showed that Brazilians want more control of gas and fuel prices.

Even before the strike, high fuel prices were affecting the competitiveness of Brazilian agricultural exports. Brazil's transportation lobby, the National Confederation of Transport, estimated that before the strike Brazilian diesel prices were about 15 higher than in the United States, and argued that diesel fuel in Brazil was more expensive than in similarly developed countries such as Mexico and Russia. Roughly half of the Brazilian fuel price paid by consumers goes to government taxes. A study by the College of Agriculture at the University of Sao Paulo (ESALQ) found that farmers were paying an average of 9.05 reais (US\$ 2.42) more per ton than early 2017 to transport oilseeds and grains from Mato Grosso to the Port of Santos in Sao Paulo. ESALQ estimated that in 2017, the cost to move Brazilian agricultural goods around the country reached 120 billion reais, with 87.5 percent going to transportation costs. Diesel prices at the pump in the major agriculture-producing states of Mato Grosso, Sao Paulo, and Paraná increased by 13-15 percent between January 2017 and May 2018, according to the ESALQ study.

### **Resolution**

As the strike dragged on Brazilian President Michel Temer authorized intervention by military and federal police to clear roadblocks and begin escorting some trucks to their destinations, especially rigs carrying fuel to airports and other strategic locations. Desperate to jumpstart the country's economy, Brazilian officials met with the leaders of several trucker unions, but a deal with union leaders to temporarily cut fuel prices was rejected by large numbers of independent truckers, who used social media apps to coordinate their response and garner public support for the continued strike.

On the ninth day of the strike, the Brazilian government agreed to reduce diesel prices by 0.46 reais per liter, hold prices stable for 60 days, reduce tolls for large trucks, and suspend or eliminate some taxes in an effort to coax drivers back to the roads. The measures largely worked, with most truckers returning to the road and deliveries of food, fuel, and medicine beginning to flow again, albeit at a slower, more unreliable pace. Still, the concessions reportedly cost the Brazilian government 9.5 billion reais (US\$ 2.48 billion) and contributed to the resignation of the Petrobras CEO. Market analysts have revised upward Brazil's budget deficit for the year, now estimated at R\$151 billion (US\$ 40 billion), up more than R\$12.5 billion (US\$ 3.3 billion) from the previous month's estimate due to the increased cost of fuel subsidies agreed to under negotiations to end the strike.

### **Effects**

Although goods of all kinds, including agricultural products, started flowing again by the beginning of June, the strike left lasting scars on the Brazilian economy. Forecasters are estimating total losses of between US\$ 25-30 billion to Brazil's economy as a result of the strike. Brazil's National Confederation of Agriculture and Livestock (CNA) estimated losses to the agricultural sector due to the trucker strike at 6.6 billion reais (about US\$ 1.75 billion). CNA also estimated that it could take Brazilian agricultural producers 6 months to a year to recover fully from the effects of the strike. Brazil's central bank released its June report and cut projected 2018 GDP growth to 1.6 percent.

One of the Brazilian government's concessions to end the strike, a minimum freight rate guaranteed to truckers, is continuing to wreak havoc on the agricultural industry. The policy, which was implemented by presidential decree on May 30, was immediately criticized by a number of transportation-dependent industries, chief among them agriculture. CNA argued that the policy is unconstitutional and completely upends logistics for agricultural producers, many of whom have already concluded marketing contracts for 2018 crops. CNA reports that soy and corn producers and traders are already paying an additional R\$ 500 million (US\$ 132 million) for transportation every day, for a total of more than R\$ 10 billion (US\$ 2.65 billion) so far. Analysis by CNA forecasts that the policy is increasing freight rates by approximately 50-150 percent throughout the country, with Brazil's powerhouse agricultural region in the interior of the country being hit the hardest.

CNA and other players in the agricultural sector have challenged the measure in court through more than 50 lawsuits. Brazilian Supreme Court Justice Luiz Fux has been trying to mediate a solution satisfactory to both the transportation sector and the agricultural and industrial sectors dependent on those services. In the meantime, he suspended the pending lawsuits and left in effect the minimum freight rate table published on May 30 by the National Agency for Terrestrial Transportation (ANTT). President Temer has said he will abide by the court's decision, truck drivers have threatened to strike again if the minimum price policy is invalidated. ANTT has publically estimated that judicial proceedings will continue through at least early August. Count Justice Fux confirmed that a new round of negotiations on this topic is scheduled for August 27, after the Supreme Court recess.

The Brazilian Ministry of Agriculture (MAPA) has warned that the lack of certainty over truck freight rates has hindered transportation of commodities to the ports and subsequently caused shipping delays. Nearly two weeks after the end of the strike, MAPA Minister Blairo Maggi told reporters, "There are a lot of products waiting for transportation. We should be moving 450,000 tons of goods to ports every day, but we are not." He also noted that the situation has affected forward sales of agricultural commodities since traders cannot accurately price the contracts without knowing how much will need to be spent on transportation. CNA argues that since the policy went into effect, productivity of Brazil's agricultural sector has slowed by half, as producers have slowed the volume of shipments they are sending to ports while they wait for a resolution.

Meanwhile, the number of ships waiting to load at Brazilian ports has continued to grow. According to shipping agency Williams, the number of ships berthed and loading in mid-June was about 40 percent lower than the same period last year, while the ship line-ups had grown to be about 60 percent larger than 2017, with as many as 70 ships waiting, according to some industry sources. CNA estimated that the shipping delays have cost about R\$ 135 million (US\$ 36 million) in demurrage charges for ships that have been delayed in loading at Brazilian ports.

Moreover, the problems created by continued uncertainty about the policy are expected to worsen as Brazil's second-crop corn harvest progresses. Brazil's second-crop corn is currently less than 10 percent harvested, but limited silo capacity in the country means that commodities must generally start flowing to the ports as it comes out of the ground. With a record soybean crop this year and slow delivery to the ports in June, Brazilian corn will be forced to compete with soy for transportation and storage capacity, and freight rates are expected to rise as more Brazilian corn comes onto the market.

## **Impact on the Agricultural Sector**

### **Livestock**

Swine and Poultry: The most significant losses from the strike were born by the chicken and pork production sector. Shortages of fuel and animal feed affected farms and feedlots, while slaughterhouses idled their production lines when transportation to the ports was cut off and refrigerated warehouses filled to capacity. Analysts estimated a loss of R\$4 billion (US\$ 1.05 billion) in exports, with 120,000 metric tons of chicken and pork meat not exported because of the strike. The Brazilian Association of Animal Protein reported that the strike caused the closure of 137 poultry plants and 30 swine slaughterhouses, forcing 220,000 industry workers to go on temporary leave. As feed rations ran low, some poultry operations were only feeding birds once every 48 hours, considered starvation rations, according to MAPA Minister Maggi. Particularly worrisome for the world's largest exporter of chicken was the fact that poultry operations were forced to cull an estimated 70 million birds (about 7 percent of Brazil's flock of 1 billion birds), bringing the level of chicks on breeder farms down to their lowest levels in a decade. Minister Maggi called on President Temer during the strike to ensure security forces were escorting trucks of feed rations to poultry farms. By mid-June, all affected processing plants had resumed operations, according to the Brazilian Association of Animal Protein. However, the disruption in supply was expected to cause a spike in Brazilian chicken prices as the sector could take more than 2 months to fully recover. Wholesale prices for frozen chicken in Brazil were up more than 40 percent. Moreover, Rabobank revised downward their forecast of the Brazilian poultry sector to an estimated 3 percent decline for the year (down from a forecasted 2-percent expansion).

Cattle: The trucker strike came at a very unfortunate time for the beef sector. With the beginning of winter in Brazil, cattle on pasture begin to lose weight and needed to be sent to slaughter, but the strike forced the closure of virtually all of Brazil's more than 100 cattle slaughterhouses. Most of the losses in the beef industry occurred not through the mortality of animals on farm, but rather through estimated lost exports of R\$ 620 million (US\$ 164 million). More than 40,000 metric tons of beef were unable to reach ports, and the domestic market saw an uncalculated amount of beef spoiled on the road as an estimated 3,750 refrigerated trucks sat idle during the strike, according to meatpacking trade association ABIEC. The industry calculates total losses to the sector could reach R\$ 8 billion (US\$ 2.1 billion). ABIEC noted that 90 percent of animal protein production was interrupted. On a positive note for beef producers, some analysts expect beef prices to rise in response to lower chicken meat volumes.

### **Dairy**

Dairy producers across Brazil were severely affected by the transportation paralysis, with news media depicting dire scenes of the disposal of hundreds of millions of liters of milk by farmers who could not store their perishable products. The discarded milk alone was valued at more than R\$ 1 billion (US\$ 260 million). Milk supply in Brazil is expected to decline 9 percent year over year in the second quarter of 2018 as a consequence of the strike. Moreover, production will take a while to recover and will likely drop 6 percent year-over-year in the third quarter. Market analysts evaluate that milk prices paid to producers are expected to peak in the third quarter of 2018. Following 12 months of low profitability, farmers and processors were forced at a particularly difficult time to absorb the losses caused by the May strike.

### **Grains and Oilseeds**

When the strike began in late May, Brazil's soybean harvest was nearly finished and the harvest for

second-crop “*safrinha*” corn was just beginning. The largest producing area for both of these crops is Brazil’s center-west region in the interior of the country, located very far from points of export in Brazil’s southeast and north arc regions. Loading at some of Brazil’s largest soybean-exporting ports, including Santos, Paranagua, Rio Grande, and Santarem, ground to a halt during the strike, as on-port stocks emptied and roadblocks kept trucks from delivering commodities for export. Most export terminals ran out of soybeans for shipment about 8 days into the strike, with soybeans reportedly arriving to the Port of Paranagua in Paraná state on the afternoon of the tenth day when trucks were able to reach the port complex for the first time since the strike had begun. Trucks reportedly unloaded more than 40,000 tons of soybeans at the port in the first 24 hours after the strike concluded. The Port of Santos, Latin America’s largest port, was also idled when trucks could no longer make deliveries. Cargo transported by rail were unaffected by the strike, but this makes up only a small portion of exports from the Port of Santos.

Brazil’s soybean crushers association, ABIOVE, reported that all 63 of Brazil’s soy-crushing facilities came to a standstill during the strike due to a lack of supplies. The Mato Grosso Institute for Agricultural Economics (IMEA) reported that the corn harvest stalled out as fuel supplies in the state ran low.

The aftermath of the strike and uncertainty about the minimum freight rate have stifled forward sales for soybeans, with traders complaining that they are unable to accurately set prices for futures contracts without a reliable estimate of transportation costs. As of late June, some of the country’s largest grain traders have virtually stopped buying soybeans and corn for export, even though IMEA reported that about one-third of Mato Grosso’s *safrinha* corn is still unsold. Grain and oilseed traders are also reportedly delaying picking up commodities from farmers’ storage facilities while they angle to avoid paying rapidly rising freight rates and wait to see what happens to the government’s minimum transportation price policy. This could be a major problem for a country whose agricultural producers have a lack of on-farm storage and will be faced with tough decisions of where to place *safrinha* corn.

Brazil’s National Association of Cereal Exporters estimated that as of mid-June, about 10 million tons of soybeans were paralyzed in the interior of the country while more than 50 vessels were waiting to be loaded at ports. CNA reported that exports of at least 6.8 million tons of soybeans and soybean meal have been delayed due to surging freight prices under the government’s minimum price policy. Meanwhile, the number of trucks arriving at the Port of Santos was down more than 20 percent from a month earlier, despite abundant soybean supplies in the country ready for export. At the Port of Paranagua, truck volume was down more than 10 percent and while the port has been receiving enough soybean volume to load waiting vessels, it has not been able to begin rebuilding its 1.5 million metric tons of on-port stocks, which were completely depleted during the 11-day strike. This makes the port particularly vulnerable if there is a second truck driver strike if the government’s minimum freight rate policy is rescinded.

The backlog of ships at Brazil’s ports are not merely waiting to load commodities for export; they are waiting to unload cargoes of agricultural inputs, especially fertilizer needed by Brazil’s farmers for the wheat planting currently underway, as well as preparing fields for soybean planting, which will commence in a few months. CNA estimated that about 35 ships are currently lined up and waiting to unload fertilizer at Brazilian ports, more than half at the Port of Paranagua in the state of Paraná in southern Brazil. According to Brazil’s Fertilizer Blenders Association, 60 percent of fertilizer deliveries

have been delayed as a result of the backlog.

### **Sugarcane and Ethanol**

The strike began just as the harvest kicked off in the world's largest sugarcane-growing regions, Brazil's center-south. Progress on the sugarcane harvest slowed as fuel supplies dwindled and at least 220 sugar mills were forced to close, according to trade group Forum Nacional Sucreoenergetico. Meanwhile, UNICA, Brazil's Sugar Growers Association, reported that 150 sugar mills closed in the state of Sao Paulo alone, where 60 percent of Brazil's sugar and ethanol production occurs. The state of Sao Paulo produces about 150,000 tons of sugar and 100 million liters of ethanol daily, and the sugar industry in that state suffered losses in revenue of about US\$ 48 million daily during the strike. The disruption caused international sugar futures to rise as sugar exports were unable to reach the ports. Once fuel supplies began flowing again, harvest and crushing operations were able to quickly get back up to speed. Losses in the sector are calculated at R\$ 740 million (US\$ 196 million). However, this calculation does not include lost/delayed sales of ethanol stored at the mills for exports or use in the domestic market, as no data of this type has been released. Brazil is the world's largest exporter of sugar, with more than 20 million tons exported in the previous season.

### **Coffee**

Brazil is the world's largest coffee grower and exporter, and the trucker strike hit just as the country's main Arabica harvest was commencing, which caused international Arabica futures prices to increase by about 2 percent. According to Brazil's Coffee Exporters Council (CeCafe), the strike affected issuance of export certificates and delayed shipments, but CeCafe noted that most sales were already concluded and overall exports for the season are expected to remain at roughly the same levels estimated before the strike. According to the Brazilian Coffee Industry Association, coffee producers lost an estimated R\$ 70 million (US\$ 18.5 million) per day during the protests, while CeCafe estimated export losses and extra port costs of R\$ 560 million (US\$ 148 million).

### **Seafood**

Brazil's seafood industry was affected by a disruption of deliveries between producers and processing centers, according to trade group Peixe BR. The state of Paraná is Brazil's largest producer of fish, raising more than 100,000 tons of tilapia last year, while the state of Sao Paulo has seen rapid growth of the industry, producing more than 65,000 tons of tilapia last year. These two states' aquaculture sectors were the hardest hit, according to Peixe BR. At one point during the strike, a large, multi-commodity agricultural cooperative in southern Brazil, was forced to halt tilapia processing operations when truck drivers blocked roadways and cut off supplies for processing, as well as the route for distributing the final product.

### **Fruits and Vegetables**

As a result of the strike, many of Brazil's wholesale markets saw supplies of fresh products dwindle and spoilage of other products in cases where usual customers were unable to make routine purchases. The Sao Paulo Warehouse Company (CEAGESP), Latin America's largest and the world's third-largest wholesale market, reported losses of nearly R\$ 100 million (US\$ 26 million) of fruits, vegetables, and nuts, including imported products. During a normal day, CEAGESP would normally see about 1,800-2,000 trucks come and go from the market with fresh and perishable products. However, during the strike this was reduced to less than 100 trucks per day. In addition to losses of perishable products, the prices of remaining products soared because CEAGESP prices serve as a reference for states in Brazil.

**Supermarkets**

The Brazilian Supermarket Association (ABRAS) reported total losses of R\$ 2.7 billion (US\$ 712 million) due to the truckers strike. In addition to losses with fresh, frozen, and perishable products, ABRAS reported shortages of other consumer goods that could not be delivered to stores. According to the Sao Paulo State Supermarket Association, in Sao Paulo alone supermarkets losses reached R\$ 400 million (US\$ 105 million).