

Voluntary Report – Voluntary - Public Distribution

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Report Name: New Opportunities for American Wheat Exports as Brazil Implements Duty-Free Quota

Country: Brazil

Post: Brasilia

Report Category: Grain and Feed

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Report Highlights:

On November 5, 2019, Brazil announced its decision to finally implement a long-sought duty-free tariff-rate quota (TRQ) for 750,000 metric tons (MT) of wheat imports from non-Mercosul countries. The measure was approved by Brazil's inter-ministerial Foreign Trade Chamber, based on a proposal by the Ministry of Agriculture, Livestock, and Food Supply (MAPA). The quota represents 10 percent of Brazil's wheat imports in MY 2018/2019 (October 2018-Novemembr 2019) and just 6.2 percent of Brazilian wheat consumption in the same period, according to production, supply, and distribution statistics from the U.S. Department of Agriculture (USDA). Outside of the TRQ, Brazil is expected to apply the 10-percent Mercosul common external tariff for all wheat imports coming from outside of the trade bloc.

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History of the TRQ

When Brazil joined the World Trade Organization (WTO) in 1995 as an original member, it committed to establish a permanent duty-free wheat TRQ for 750,000 MT annually. The next year, Brazil notified the WTO of its intent to withdraw the concession, triggering negotiations with other WTO members for adequate compensation under Article 28 of the General Agreement on Tariffs and Trade. However, Brazil never formally withdrew the TRQ from its schedule of concessions, and periodic negotiations between the United States and Brazil failed to resolve the issue for more than 20 years.

On March 19, 2019, President Trump and Brazil's new president, Jair Bolsonaro, announced in a joint statement that Brazil would finally open the 750,000 MT duty-free TRQ. On November 5, 2019, the Brazilian Foreign Trade Chamber, known as CAMEX, approved an inter-ministerial decree to open the TRQ for an indefinite period. Then, on November 13, 2019, Brazil published CAMEX Resolution #10 in its *Diario Oficial* (similar to the U.S. Federal Register), formally creating the TRQ by amending Brazil's list of exceptions to the Mercosul common export tariff. (See Annex 1 of this report.) The resolution added to the exception list two wheat tariff codes (1001.19.00 and 1001.99.00) and created the annual duty-free quota for 750,000 MT of imports. The language of the resolution also clarified that countries with whom Brazil already has a trade agreement will not be permitted to participate in the quota. In other words, the Mercosul member countries (Argentina, Paraguay, and Uruguay) that already have duty-free access for wheat exports to Brazil, will not be permitted to use the new TRQ volumes. Brazil then published Directive #44 on November 18, 2019, establishing the regulations governing allocation of the quota to wheat importers. (See Annex 2 of this report.)

Sources in the Brazilian government have indicated that they are still pursuing a presidential decree to make the TRQ permanent. The CAMEX decree was purposely designed without an end date so it could be quasi-permanent, but a presidential decree is a stronger way to reinforce the quota's permanence. Brazil pursued the CAMEX route first to get the quota established as quickly as possible, as government sources have indicated that a presidential decree could still take months to clear all legal and bureaucratic hurdles.

Market Implications of the TRQ

Brazil is a net importer of wheat, producing around 5 MMT annually, compared to consumption of roughly 12 MMT in the country each year. That means imported wheat makes up roughly half of Brazil's domestic consumption, which places Brazil among the world's top five largest wheat importers. With the opening of the TRQ, Brazilian millers now have reliable access to competitively priced non-Mercosul wheat from suppliers around the world. The new quota is open to all wheat-exporting

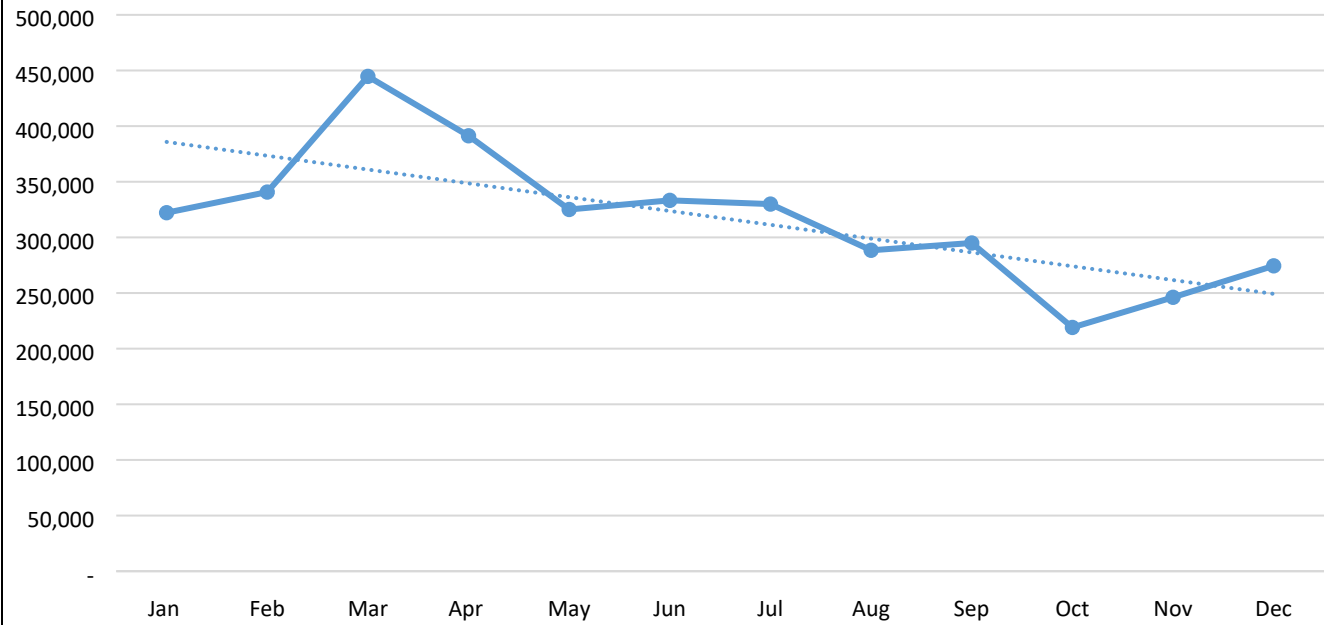
countries that do not already have duty-free access for wheat to the Brazilian market (i.e., non-Mercosul countries). The Brazilian wheat millers association, Abitriço, expects the TRQ will boost imports from the United States, Canada, and Russia. Estimates are that the annual value of the TRQ will be roughly US\$189 million and could increase exports of U.S. wheat to Brazil by US\$70 million annually.

Argentina is typically Brazil's largest supplier of wheat, generally responsible for roughly 85-90 percent of Brazil's imports. Traditionally, the bulk of Argentine exports to Brazil have come early in the calendar year, as Brazilian supplies from the past harvest run low before the new crop comes online starting around August. Conversely, the largest exports of U.S. wheat to Brazil have come later in the calendar year, especially in years when the Brazilian crop has experienced losses due to adverse weather. Brazil has periodically dropped the 10-percent Mercosul common export tariff in years when larger wheat supplies were needed, usually as a result of crop failures in Brazil and/or Argentina. In years when the wheat duty was eliminated (most recently in 2013 and 2014), U.S. wheat exports to Brazil soared.

Post's contacts in the milling industry have applauded the opening of the TRQ and hailed it as a new opportunity for Brazilian mills to acquire wheat from a variety of sources. Some millers were very enthusiastic about the opening on the TRQ, noting that they have been waiting years for Brazil to make this move. They caution that the volume of non-Mercosul imports will depend on the price, quality, and competitiveness of wheat supplies around the world. However, many believe the opening of the TRQ is a healthy move for the market, increasing competition and lowering prices for Brazilian consumers. They also note that the TRQ will serve as a mechanism to limit the prices that Argentine exporters charge to Brazilian millers. Generally, post's industry contacts do not believe the TRQ alone will push non-Mercosul imports to historic levels, but they do expect that it could increase those purchases. Moreover, they indicate that Mercosul wheat will dominate the Brazilian market until the off-season starts later in the year, around July or August.

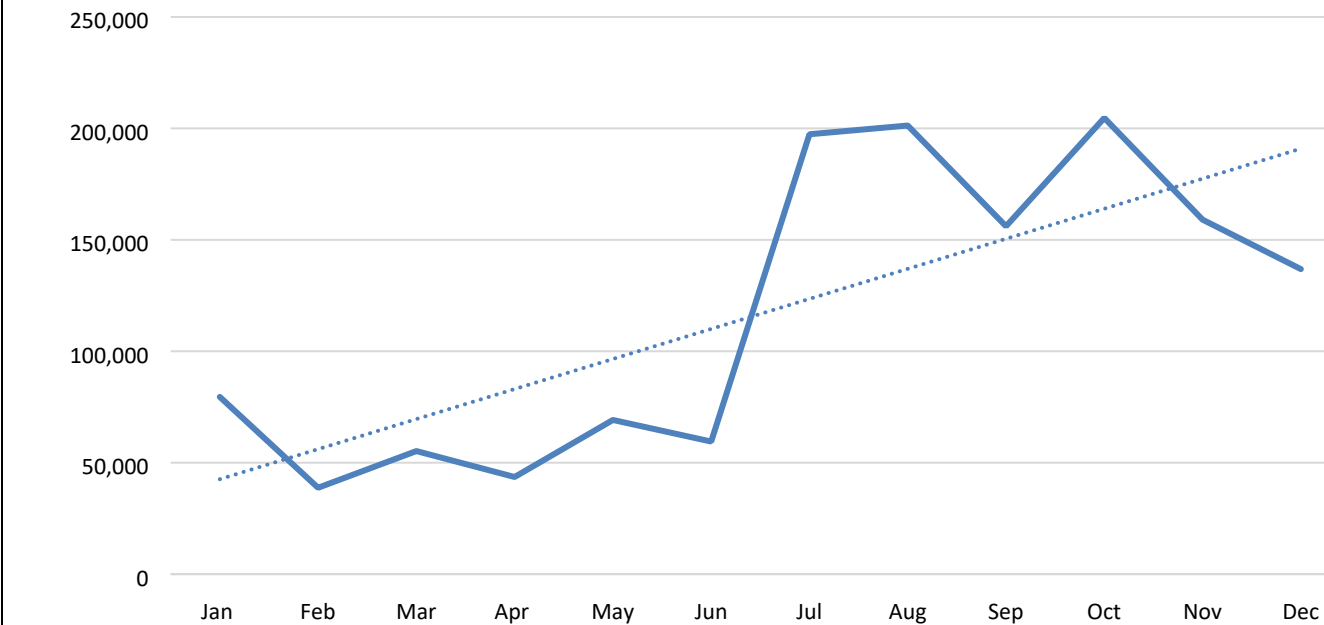
Even with the TRQ in place, Argentina will continue to supply the largest share of Brazilian wheat imports by far, while the United States and other non-Mercosul countries should be able to make inroads in some regions and segments of the Brazilian milling industry. Post expects U.S. wheat exported through the Gulf of Mexico will be particularly competitive. This is especially true for millers in Brazil's northeast region, which have typically imported most of the U.S. wheat that enters Brazil. Argentine wheat has never been very competitive in northeast Brazil. Wheat millers in the south and center-south regions are more likely to purchase domestic supplies or import from Argentina, due to geographic convenience and lower prices. Moreover, wheat shipments from non-Mercosul countries, including the United States, are subject to a marine tax that is not charged to imports from Mercosul members. The 25-percent tax applies to freight and unloading charges at Brazilian ports, giving Argentina competitive advantage over non-Mercosul suppliers.

Seasonality of Brazilian Imports of Argentine Wheat
2013-2018 Average (Metric Tons)



Data Source: Brazilian Foreign Trade Secretariat (SECEX)

Seasonality of Brazilian Imports of U.S. Wheat
2013-2018 Average (Metric Tons)



Data Source: Brazilian Foreign Trade Secretariat (SECEX)

Administration of the TRQ

Directive #44, published by Brazil on November 18, 2019, lays out the rules governing allocation and use of the TRQ. It establishes two tranches of the quota: 600,000 MT (80 percent) for wheat importers responsible for at least 2 percent of imports over the last three years, and the remaining 150,000 MT (20 percent) for all smaller importers (with possible reallocation to larger importers, depending on utilization of the quota). Both tranches are available from November 18, 2019, to November 17, 2020.

Industry contacts were not surprised by these regulations, as they are similar to the rules applied during previous periods when the Brazilian government lowered the wheat tariff to zero. Post's sources report that the rules generally seem both clear and fair, giving the bulk of the quota to traditional importers while also allowing other mills to access the benefits of the quota with smaller import quantities or to try out wheat with various characteristics, from diverse regions.

Import licenses for the smaller importers under the 150,000 MT tranche of the quota will be allocated on a first-come, first-served basis. Each of these companies will be allocated a maximum of 15,000 MT initially, but they may apply for more than one license if there are still available quantities under the 150,000 MT tranche of the quota. This is an important provision, as 15,000 MT is too small of a quantity for most cargo ships. Government contacts also noted that they designed this tranche to allow a larger number of small importers (as many as 10) to take advantage of the duty-free quantity. They also noted that smaller mills could work together to each obtain a license and then share cargo space on a single ship to fill the vessel and cut down on freight costs.

In late November 2019, the Brazilian Ministry of Economy published on its website the list of large importers that are eligible to import under the 600,000 MT tranche. As specified in the language of Directive #44, these companies were responsible for at least 2 percent of wheat imports between October 2016 and September 2019. Many companies on the list have been frequent buyers of U.S. wheat. The list of importers includes:

- Anaconda Industrial e Agricola de Cereais S A
- Bunge Alimentos S/A
- Cargill Agricola S A
- COFCO International Graos e Oleaginosas Ltda.
- Correcta Industria e Comercio Ltda.
- Gavilon do Brasil Comercio de Produtos Agricolas Ltda.
- Grande Moinho Cearense SA
- J Macedo S/A
- M Dias Branco S.A. Industria e Comercio de Alimentos
- Moinho Canuelas Ltda.
- Moinho Pacifico Industria e Comercio Ltda.
- Moinho Paulista SA
- Moinhos Cruzeiro do Sul S A
- Moinhos de Trigo Indigena S A Motrisa
- Ocrim S A Produtos Alimenticios

The directive includes a provision that requires large importers use their portion of the quota under the 600,000 MT tranche by May 31, 2020. Any unused portions of the large tranche will be reallocated starting June 1, 2020, in accordance with the rules for the smaller tranche (i.e., among small/new importers and/or larger importers that have already exhausted their allotment). Importers have 90 days from the issuance of their license for the allocated wheat to enter Brazil. Any licensed volumes not imported within 90 days will be subject to reallocation. Government sources indicate that these deadlines were established so that regulators can ensure interested importers use the full 750,000 MT annual quota volume prior to its expiration on November 17, 2020.

Annex 1 of this report contains an unofficial English translation and the original Portuguese language version of CAMEX Resolution #10, establishing the wheat TRQ.

Annex 2 of this report contains an unofficial English translation and the original Portuguese language version of Ministry of Economy Directive #44, establishing criteria governing allocation of the wheat TRQ.

Annex 1 – Text of CAMEX Resolution Establishing the TRQ

Unofficial English Translation

Official Diary of the Union

Posted on 11/13/2019 | Edition: 220 | Section: 1 | Page: 57

Agency: Ministry of Economy / Foreign Trade Chamber / Executive Management Committee

RESOLUTION No. 10, NOVEMBER 12, 2019

Amends the Brazilian List of Exceptions to the Common External Tariff of the Southern Common Market - Mercosul.

THE EXECUTIVE OFFICIAL COMMITTEE FOR THE MANAGEMENT OF THE FOREIGN TRADE CHAMBER, in view of the deliberation of its 164th meeting, held on November 5, 2019, in the use of the powers conferred upon it by Article 7, item IV, of Decree No. 10,044 of October 4, 2019, and having regard to the provisions of Decisions No.58 of December 16, 2010, and No. 26 of July 16, 2015, of the Council of the Common Market of Mercosul, in Resolutions No 92 of September 24, 2015, and No. 125, of December 15, 2016, of the Foreign Trade Chamber, resolved:

Article 1. The Brazilian List of Exceptions to the Common External Tariff, as set out in Annex II of Resolution No. 125 of the Foreign Trade Chamber, of December 15, 2016, include the ad valorem rates of Import Tax for products classified under the codes 1001.19.00, 1001.99.00 and 8901.90.00 of the Mercosul Common Nomenclature, as detailed in the table below:

| Tariff Code | Description | Tariff % |
|-------------|---|----------|
| 1001.19.00 | Others | 0 |
| 1001.99.00 | Others | 0 |
| 8901.90.00 | Other vessels for the transport of goods or for the transport of persons and goods 14BK | 14BK |
| | Ex 001 - Craft exclusively for the transport of goods 0BK | 0BK |

§ 1. The reduction referred to above in this article, referring to codes 1001.19.00 and 1001.99.00 of the Mercosul Common Nomenclature, is limited to an annual quota of 750,000 (seven hundred and fifty thousand) tons.

§ 2. Imports from countries with which Brazil has a trade agreement that establishes free trade for wheat shall not enjoy the quota established in paragraph 1.

§ 3. The rates corresponding to the above codes of the Mercosul Common Nomenclature shall be marked with the graphic sign #, as long as the said tariff reductions are in force.

Article 2. The Foreign Trade Secretariat of the Ministry of Economy shall issue a complementary rule, to establish the quota allocation criteria referred to in Article 1.

Article 3. This Resolution shall enter into force two business days after its publication.

MIGUEL RAGONE DE MATTOS
Chairman of the Substitute Committee

Original Portuguese

DIÁRIO OFICIAL DA UNIÃO

Publicado em: 13/11/2019 | Edição: 220 | Seção: 1 | Página: 57

Órgão: Ministério da Economia/Câmara de Comércio Exterior/Comitê-Executivo de Gestão

RESOLUÇÃO NO 10, DE 12 DE NOVEMBRO DE 2019

Altera a Lista Brasileira de Exceções à Tarifa Externa Comum do Mercado Comum do Sul - Mercosul.

O COMITÊ EXECUTIVO DE GESTÃO DA CÂMARA DE COMÉRCIO EXTERIOR, tendo em vista a deliberação de sua 164ª reunião, ocorrida em 5 de novembro de 2019, no uso das atribuições que lhe confere o artigo 7º, inciso IV, do Decreto nº 10.044, de 4 de outubro de 2019, e considerando o disposto nas Decisões nº58, de 16 de dezembro de 2010, e nº 26, de 16 de julho de 2015, do Conselho do Mercado Comum do Mercosul, nas Resoluções nº92, de 24 de setembro de 2015, e nº125, de 15 de dezembro de 2016, da Câmara de Comércio Exterior, resolve:

Art. 1º Ficam incluídos na Lista Brasileira de Exceções à Tarifa Externa Comum, de que trata o Anexo II da Resolução nº125 da Câmara De Comércio Exterior, de 15 de dezembro de 2016, as alíquotas ad valorem do Imposto de Importação para os produtos classificados nos códigos 1001.19.00, 1001.99.00 e 8901.90.00 da Nomenclatura Comum do Mercosul, conforme discriminados na tabela abaixo:

| NCM | Descrição | Alíquota % |
|------------|--|------------|
| 1001.19.00 | Outros | 0 |
| 1001.99.00 | Outros | 0 |
| 8901.90.00 | - Outras embarcações para o transporte de mercadorias ou para o transporte de pessoas e de mercadorias | 14BK |
| | Ex 001 - Embarcações exclusivamente para o transporte de mercadorias | 0BK |

§ 1º A redução de que trata o caput deste artigo, referente aos códigos 1001.19.00 e 1001.99.00 da Nomenclatura Comum do Mercosul, está limitada a uma quota anual de 750.000 (setecentos e cinquenta mil) toneladas.

§ 2º As importações provenientes de países com os quais o Brasil possua acordo comercial que estabeleça o livre comércio para trigo não poderão usufruir da quota estabelecida no parágrafo 1º.

§ 3º As alíquotas correspondentes aos códigos acima, da Nomenclatura Comum do Mercosul, ficam assinaladas com o sinal gráfico #, enquanto vigorarem as referidas reduções tarifárias.

Art. 2º A Secretaria de Comércio Exterior do Ministério da Economia editará norma complementar, visando estabelecer os critérios de alocação da quota de que trata o Art. 1º.

Art. 3º Esta Resolução entrará em vigor dois dias úteis após sua publicação.

MIGUEL RAGONE DE MATTOS
Presidente do Comitê Substituto

Annex 2 – Text of Directive Governing Allocation of the TRQ

Unofficial English Translation

Official Diary of the Union

Posted on 11/19/2019 | Edition: 223 | Section: 1 | Page: 126

Agency: Ministry of Economy / Special Secretariat for Foreign Trade and International Affairs /
Secretary for Foreign Trade

Directive No. 44, NOVEMBER 18, 2019

Establishes criteria for allocation of import quota, determined by Resolution No. 10 of the Executive Management Committee of the Foreign Trade Chamber, of November 12, 2019.

THE SUBSTITUTE FOREIGN TRADE SECRETARY OF THE SPECIAL SECRETARIAT FOR FOREIGN TRADE AND INTERNATIONAL AFFAIRS OF THE MINISTRY OF THE ECONOMY, in the use of the powers conferred upon it by items I and XXIV of Art. 91 of Annex I to Decree No. 9,745, of April 8, 2019, and having regard to Resolution No. 10 of the Executive Management Committee of the Foreign Trade Chamber, of November 12, 2019, resolves:

Article 1. Item XXVIII of Art. 1 of Annex III of SECEX Directive No. 23 of July 14, 2011, published in Official Diary of the Union, of July 19, 2011, shall be effective with the following changes:

"XXVIII - Resolution No. 10 of the Executive Management Committee of the Foreign Trade Chamber, of November 12, 2019, published in the Official Diary of the Union of November 13, 2019:

| Code (HTS) | Description | Tariff (%) | Quantity | Validity |
|-------------------|--------------------|-------------------|-----------------|----------------------------|
| 1001.19.00 | Others | 0% | 750,000 MT | 11/18/2019 - 11/17/2020 |
| 1001.99.00 | Others | | | |

a) A share of 600,000 metric tons, corresponding to 80% (eighty percent) of the global quota, shall be distributed according to the proportion, in kilograms, of imports of the product together for both codes, in relation to the total quantity imported by Brazil of this product, from October 2016 to September 2019, and will include the companies that have imported, during the research period, quantity equal to or above 2% (two percent) of the total;

b) The remaining amount of 150,000 tons, corresponding to 20% (twenty percent) of the global quota, will support imports from companies not covered by subparagraph a, as well as those companies that have exhausted the portion originally distributed to them, and will constitute a technical reserve to meet unforeseen situations, subject to the following criteria:

1) the examination of Import License (IL) requests will be performed by order of registration with SISCOMEX;

- 2) each company will initially be granted a maximum quota of 15,000 metric tons of the product, and each importer may obtain more than one IL, provided that the sum of the IL quantities is less than or equal to the threshold initially established;
- 3) after reaching the maximum amount initially established, new concessions for the same company will be conditioned to the effective dispatch for consumption of the goods of the previous concessions and the amount released will be, at most, equal to the already cleared portion;
- 4) if the quota referred to in subparagraph b is found to be exhausted, the Undersecretary for Foreign Trade (SUEXT) shall suspend the issuance of ILs, and those unauthorized applicants shall receive an informational message regarding the exhausted quota;
- c) Imports from countries with which Brazil has a trade agreement establishing free trade for wheat shall not be eligible for the quota shares set out in subparagraphs a and b;
- d) the validity for shipment and dispatch contained in the IL issued under the quota shall be jointly limited to 90 (ninety) days, and its extension is forbidden;
- e) the portion of the quota referred to in subparagraph a shall be used by the contemplated companies by May 31, 2020; and
- f) the balance of the unused quota within the term mentioned in subparagraph e, as well as the balance resulting from cancellations, expirations, and license substitutions, carried out from June 1, 2020, will be redistributed to the portion of the quota to be referred to in subparagraph b.

Article 2. This Directive shall enter into force on the date of its publication.

LEONARDO DINIZ LAHUD

Original Portuguese

DIÁRIO OFICIAL DA UNIÃO

Publicado em: 19/11/2019 | Edição: 223 | Seção: 1 | Página: 126

Órgão: Ministério da Economia/Secretaria Especial de Comércio Exterior e Assuntos Internacionais/Secretaria de Comércio Exterior

PORTARIA Nº 44, DE 18 DE NOVEMBRO DE 2019

Estabelece critérios para alocação de cota para importação, determinada pela Resolução do Comitê Executivo de Gestão da Câmara de Comércio Exterior nº 10, de 12 de novembro de 2019.

O SECRETÁRIO DE COMÉRCIO EXTERIOR, SUBSTITUTO, DA SECRETARIA ESPECIAL DE COMÉRCIO EXTERIOR E ASSUNTOS INTERNACIONAIS DO MINISTÉRIO DA ECONOMIA, no

uso das atribuições que lhe foram conferidas pelos incisos I e XXIV do art. 91 do Anexo I ao Decreto nº 9.745, de 8 de abril de 2019, e tendo em consideração a Resolução do Comitê Executivo de Gestão da Câmara de Comércio Exterior nº 10, de 12 de novembro de 2019, resolve:

Art. 1º O inciso XXVIII do art. 1º do Anexo III da Portaria SECEX nº 23, de 14 de julho de 2011, publicada no D.O.U de 19 de julho de 2011, passa a vigorar com as seguintes alterações:

"XXVIII - Resolução do Comitê Executivo de Gestão da Câmara de Comércio Exterior nº 10, de 12 novembro de 2019, publicada no D.O.U. de 13 de novembro de 2019:

| CÓDIGO NCM | DESCRIÇÃO | ALÍQUOTA DO II | Quantity | Validity |
|-------------------|------------------|-----------------------|-------------------|-------------------------|
| 1001.19.00 | Outros | 0% | 750.000 toneladas | 18/11/2019 - 17/11/2020 |
| 1001.99.00 | Outros | | | |

a) uma parcela de 600.000 toneladas, correspondente a 80% (oitenta por cento) da cota global, será distribuída de acordo com a proporção, em quilogramas, das importações do produto, em conjunto para ambos os códigos, realizadas pelas empresas interessadas, em relação à quantidade total importada pelo Brasil, desse produto, no período de outubro de 2016 a setembro de 2019, e contemplará as empresas que tenham importado, no período pesquisado, quantidade igual ou superior a 2% (dois por cento) do total;

b) a quantidade remanescente de 150.000 toneladas, correspondente a 20% (vinte por cento) da cota global, amparará importações de empresas não contempladas na alínea "a", bem como as empresas contempladas que tenham esgotado a parcela a elas originalmente distribuída, podendo constituir, ainda, reserva técnica para atender a situações não previstas, observados os seguintes critérios:

- 1) o exame dos pedidos de LI será realizado por ordem de registro no SISCOMEX;
- 2) será concedida inicialmente a cada empresa uma cota máxima de 15.000 toneladas do produto, podendo cada importador obter mais de uma LI, desde que a soma das quantidades informadas nas LI seja inferior ou igual ao limite inicialmente estabelecido;
- 3) após atingida a quantidade máxima inicialmente estabelecida, novas concessões para a mesma empresa estarão condicionadas ao efetivo despacho para consumo das mercadorias objeto das concessões anteriores e a quantidade liberada será, no máximo, igual à parcela já desembaraçada;
- 4) caso seja constatado o esgotamento da cota de que trata esta alínea "b", a SUEXT suspenderá a emissão de LI, e aqueles pedidos não autorizados receberão mensagem informativa para o importador sobre a cota esgotada;

c) as importações provenientes de países com os quais o Brasil possua acordo comercial que estabeleça o livre comércio para trigo não poderão usufruir das parcelas das cotas estabelecidas nas alíneas "a" e "b";

d) a validade para embarque e para despacho constante das LI emitidas ao amparo da cota será, em conjunto, limitada a 90 (noventa) dias, vedada a sua prorrogação;

e) a parcela da cota a que se refere a alínea "a" deverá ser utilizada, pelas empresas contempladas, até o dia 31 de maio de 2020; e

f) o saldo da cota não utilizado no prazo mencionado na alínea "e", bem como o saldo decorrente de cancelamentos, vencimentos e substituições de licenciamentos, realizados a partir do dia 1º de junho de 2020, serão redistribuídos para a parcela da cota a que se refere a alínea "b"." (NR)

Art. 2º Esta Portaria entra em vigor na data de sua publicação.

LEONARDO DINIZ LAHUD

Attachments:

No Attachments.