



# The International Financial Crisis and Brazil in the Doha Development Round

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# Agenda

- International trade Policy in Brazil since 1980's
  - Fear of imports and lack of efforts in exports
  - New economic context
- Foreign trade and national development
- Trade Policy making and participation from private sector
- Brazil's interaction in the Doha negotiations and the G-20
- Reactions to the international financial crisis
  - National policies
  - Doha negotiations

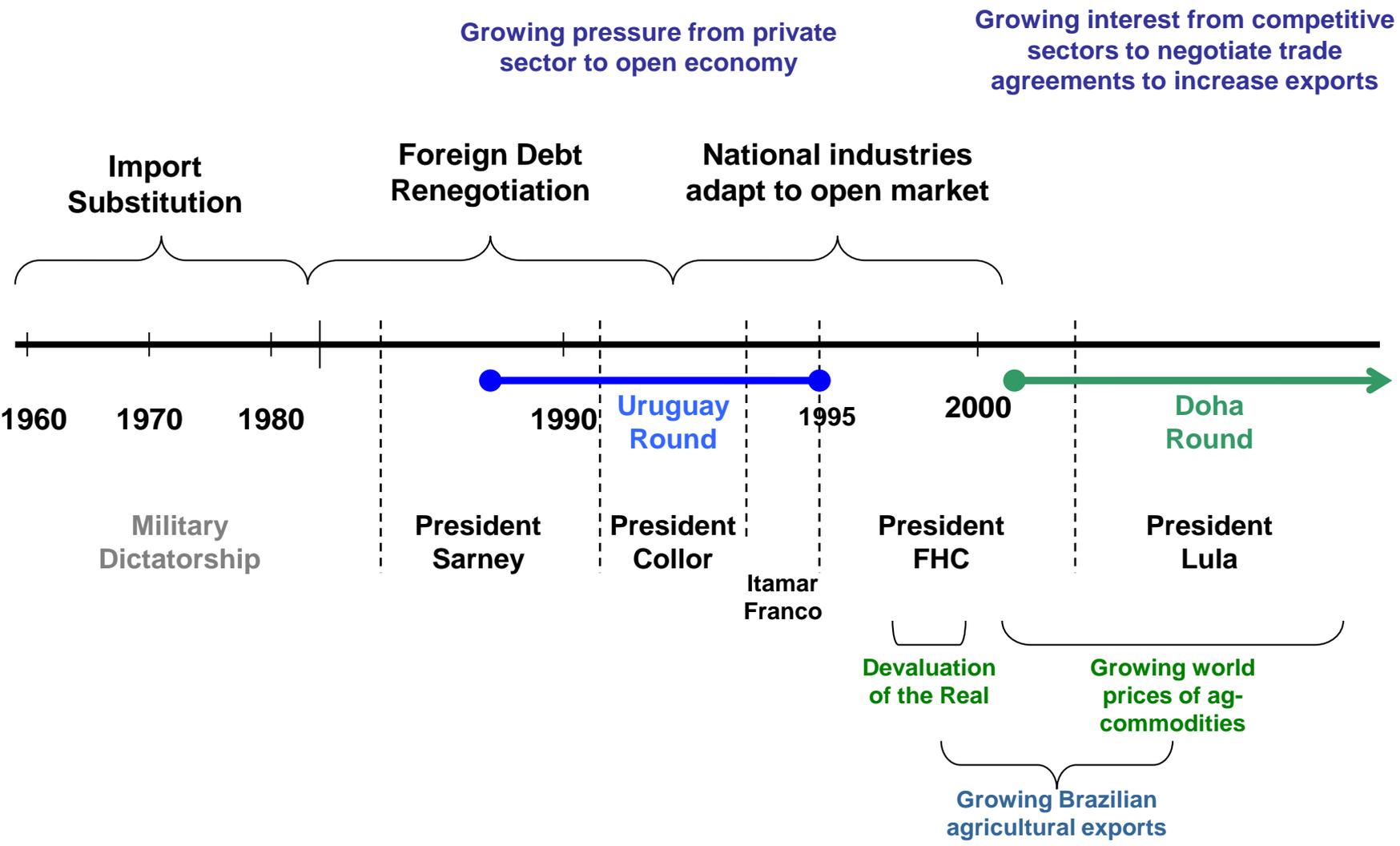
# International Trade Policy in Brazil since 1980's

- Brazil's trade policy was of 'import substitution' from 1960's to 1980's
  - Applied higher tariffs for industrial products, acting as protection to sectors that were in development
  - Used lower tariffs only for items that were not produced nationally or where production scale was insufficient for national demand ('*ex-tarifário*')
  - Government subsidies for key sectors considered 'strategic'
- Growing criticisms of this policy during the 1980's-90's
- Development of specific sectors able to compete internationally
- Demands for more advanced technologies from developed countries (ex. business and home PC's had high tariffs)
- Package of opening market for various sectors was passed by President Collor (1992-92), elaborated during Sarney's presidency (1985-1990)
  - However, supportive and adaptation policies for industries were not implemented during the 1990's, resulting in much economic damage.

# Foreign trade and national development

- Foreign trade has traditionally had a small role in national development plans
- Only after 1999, when the Real currency devalued (from 1:1 Parity with the US dollar to 3:1) did exporting become an interesting activity
  - In agriculture especially: commodity prices rose during the period
- After growth in exports, new export promotion programs were implemented by the government
- Industrial sectors, where scale and competitiveness had not been reached, continued with additional protection, in line with demands from national industry groups
- Some sectors that experienced significant increase in exports, like agribusiness, clothing, mining, some machinery and capital goods, brought noticeable economic growth and created jobs. These cases were used to promote greater integration into the world economy.

# History of Trade Policy in Brazil



# Trade Policy making and participation from private sector

- Strategy formulation has traditionally belonged to the Ministry of Foreign Relations (Itamaraty)
- During end of 1980's and early 1990's the Ministry of Finance have had greater influence (due to importance of foreign debt to economy, need to renegotiate with lenders); President's office also applied varying levels of influence in policy formulation;
- Private sector and social groups became increasingly involved in trade negotiation talks in Brazil;
  - Stakeholders organized themselves to specify their demands and concerns to government (Itamaraty) through trade associations and social groups
  - Some large companies have easier access to dialogue with negotiators, while others communicate through studies, protests or media articles.

# Brazil's interaction in the Doha negotiations and the G-20

## Agriculture:

- Strong interest of government since beginning of the Doha Round
  - Creation of technical working group on agricultural issues
- Efforts of coalition building with other developing countries; perception of need for additional efforts beyond those of the Cairns group
- Creation of the G-20 together with India in the Cancun Ministerial
- Prepared proposals in the G-20 for applying limits to ag' subsidies and reductions in market access

## Industry:

- Close alignment with other developing countries demanding higher Swiss formula of tariff cuts in NAMA negotiations
- Disagreement with proposal for sectoral negotiations

# Brazil's Negotiation Demands in the DDR

Area	Priority	Demand	How far current Proposals meet this demand
<b>Agriculture</b>			
<b>Tariff cuts</b>	essential	Aggressive cuts. Minimal number of exceptions (Special and sensitive products; SSM)	Satisfies the demands for greater market access. The scope for exceptions (SP, SSM, etc.) allows for noteworthy limitation of market access to the developing markets.
<b>Subsidies</b>	essential	Significant reductions in global spending limits (Aggregate Measure of Support) for the developed countries.	Partially meets the national interests. Seeks to limit concentration of subsidies per commodity.
<b>Export Subsidies</b>	essential	Complete elimination of export subsidies by 2013.	Currently meets national interests.
<b>Industry</b>			
<b>Tariff cuts (NAMA)</b>	essential	Tariff cuts using Swiss formula with a higher coefficient, or a lower coefficient with more flexibility to apply lower cuts for 'sensitive' products.	Tariff cuts using Swiss formula index between 20 and 25 for developing countries, with varying levels of flexibilities. The option of selecting 14% of TL as sensitive offers the flexibility necessary to adapt the cuts to the national exceptions from the CET of Mercosur countries. Representatives of Brazilian industry have supported these proposals.
<b>Sectoral negotiations</b>	non-relevant	No interest in sectoral negotiations.	The failed attempts by developed countries to move forward with this in WTO is in line with national interest.
<b>Services</b>	negotiable	Allow countries to choose sectors to liberalize using the 'positive list'	Currently meets national interests.
<b>Intellectual Property</b>	non-relevant	Part of Coalition requesting inclusion of 3 IP items in modalities text (GI's, registry, genetic information in patents)	Implementation measures of IP issues are still to be clarified.
<b>Trade Facilitation</b>	non-relevant	Improvement in rules and orientation for facilitating trade	Currently meets national interests.

# Gains for Brazil from Doha Round

- While today it is widely accepted by Brazilian government and private sector that the national economy stands to gain from the Doha Round agreement, the few studies conducted show relatively small gains overall. [Studies by ICONE and MAPA point to strong gains for agriculture; while others (Polaski, 2009) show small ag gains and net consumer welfare loss to overall economy.]
- The effective reduction in ag' subsidies, together with export subsidy elimination by 2013 and tariff reductions would create larger markets for agricultural trade, inevitably creating more incentives for greater investments in Brazilian agriculture and logistical infrastructure to reduce export costs.

# Reactions to the international financial crisis

- Changes occurred only in trade policy: small changes in tariffs & support mechanisms to exporters:
  - Raised applied tariffs for certain steel products (back to original level from 2005);
  - Removed the automatic licensing mechanism for 60% of all imports (→ additional time and procedure required upon import), yet was quickly removed after pressure from foreign governments and after discussion with other ministries;
  - Simplified legislation relating to drawback procedure;
  - Expanded export financing lines and resources (through BNDES)
- No change in negotiation position or proposals
  - Formal position is to continue with modalities text on the table
  - No interest in sectoral negotiations in industry; rejects US proposal due to high efforts and time placed so far.

# Learnings from previous crisis

- Difficult to ascertain the learnings from previous crisis during multilateral trade negotiations:
- Economic crisis in early 1990's only partially influenced Brazilian trade policy formulation. Other factors had greater influence:
  - **Market opening policies implemented by President Collor's government;**
  - **Growing criticisms of import substitution policies from specific private sectors; and**
  - **Burden of foreign debt on Ministry of Finance.**
- Also, even if Brazilian trade negotiators sought to limit industrial tariff cuts, and avoid including new topics (like services and I.P.), their negotiating power was limited (together with other developing countries) due to the greater influence from the US and EU (i.e. QUADS) in the talks.

# Current Negotiating position in Doha

- Current strategy stated by government is to remain firm on existing proposals;
- All the effort placed so far by Brazil makes it resistant to change the overall modalities text structure of the negotiations;
- No indication of significant changes, except a few declarations by Itamaraty that Doha Round is no longer priority for Brazil and that more efforts will be placed in the EU-Mercosul negotiations and other bilaterals;
- Even though there is resistance from government ministries, some sectors are discussing possible outcomes of sectoral negotiations in industry.

# Conclusions

- Brazilian Government is tied to commitment of closing the Doha Round
  - Avoid imposing new trade barriers or other protectionist measures
  - Serious intention of signing a trade agreement soon (before end of Lula's presidency – till 2010)
  - Economic crisis has not changed negotiating position, while avoiding changes in existing modalities text
- Very limited space for negotiating options in current context:
  - New demands from developed countries (such as GATS or Gov't Procurement) would meet fierce opposition from Itamaraty (who want to continue with modalities text; may be an option of last resort, if other developing countries show agreement or approval).



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# *Thank you!*

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