

The impacts of TTIP on Brazil

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SUMMARY AND CONCLUSIONS

The World is facing a significant transformation process supported by new paradigms: revolutionary innovations in all fronts, new information technologies, huge and speedy mobility of capital, invention of risky financial tools, and globalization of production. The impacts of these phenomena on trade and trade activities are strong and drastic, leaving no much time for the postponement of decisions.

The trading system is facing serious challenges caused by these transformations: a mounting difficulty in concluding a 15 years old multilateral negotiation at the WTO, the multiplication of preferential agreements (PTAs), and the necessity to re-invent trade rules used to support global value chains.

With the difficulties encountered in the Doha Round to adapt the old trade rules to the new reality, the US and the EU decided to launch a new profile of PTAs, the mega-trade agreements, based in the TTIP (Transatlantic Trade and Investment Partnership) and the TPP (Trans-Pacific Partnership), enclosing half of World trade.

More than the reduction of tariffs, these mega-agreements aim to define a new structure and modalities for all kinds of non-tariff barriers to trade, along with new rules for important trade related issues such as investment, competition and new concerns as environment, climate, labor, food scarcity, animal welfare, private standards and a mounting consumer pressure.

Brazil, as a global but relatively small international trader, has opted for giving priority to the multilateral track, where it assumed it could influence the game and better defend its interests. However, the conclusion of the Doha Round is more difficult to achieve than expected.

In contrast, the majority of countries chose to pursue an alternative track: to increase their trade through negotiations of PTAs. This strategy, in one hand, creates new market opportunities, but in the other, results in the fragmentation of international trade regulation, creating conflicts and lack of transparency.

There is a new reality that must be confronted. The EU is changing its priorities from WTO and smaller PTAs to opt for a new challenge – a negotiation with its most controversial trade partner – the US. The creation of the TTIP is a revolutionary initiative to the trading system. It will surely benefit the two parts but, at the same time, will create an uncertain scenario for all other trade partners, because, due to its size, it will establish a new system of rules, probably in conflict with WTO because it will discriminate parts-in from parts-out of this PTA. New rules will occur in areas expanding WTO rules (WTO plus) as service and intellectual property, but also, with rules in new areas as environment, climate change, labor, investment and competition (WTO extra rules).

A study of the TTIP proposals, already on the table, demonstrates, quite clearly, that the main focus of this agreement will be on the elimination of non-tariff barriers and regulatory coherence. The most import proclaimed achievement will be the construction of the XXIst Century Trade System. For the outsiders, this brings the concern on the role to be played by the WTO.

The Project

The objective of this project is to analyze the effects for Brazil of the conclusion of TTIP. This is approached under different hypotheses: considering the effects on Brazil of a TTIP with the reduction of only tariff barriers between US and EU; introducing a partial reduction of non-tariff barriers; and, at last, with a complete reduction of these barriers. To finalize, an audacious alternative is assumed: a hypothetical participation of Brazil in the TTIP under a partial reduction of agricultural tariffs by the US and EU markets, and under a full liberalization of their agricultural markets.

The methodology used to estimate non-tariff barriers was presented in the Ecorys Project (2009) developed by Berden e Francois to the European Commission.

The results of the present project can be summarized in the following:

Simulation 1 – Impacts of the TTIP on Brazil

This simulation presents the impacts of the negotiation of the TTIP, between the EU and the US, to the Brazilian economy.

Three different hypotheses are proposed: (i) a full tariff reduction between US and EU; (ii) a full tariff elimination plus a 50% reduction of non-tariff barriers (NTB); and (iii) a full elimination of both tariffs and NTBs.

Results

When Brazil remains outside the TTIP, the country's exports are reduced as follows:

- (i) an exclusively tariff reductions in TTIP results in a reduction of 0,6% of Brazilian exports to the US and the EU, corresponding to a decrease of US\$0.4 billion;
- (ii) **a full tariff reduction plus a 50% NTB reduction, the most probable scenario, results in a bigger reduction of 5% of Brazil's exports, corresponding to US\$3.8 billion decrease;**
- (iii) a full liberalization of both tariff and NTBs for TTIP results in a drop of 10% of the exports, corresponding to a US\$7.8 billion decrease.

With the expected increase of trade flow between US and EU, the share of Brazil in the World trade will be reduced.

Regarding imports, when Brazil remains outside the TTIP:

- (i) a full tariff reduction between the US and the EU results in a decrease of 0,4% of Brazil imports from the US and the EU, corresponding to 0.3 billion;
- (ii) **a full tariff elimination plus 50% reduction in NTBs, the most probable scenario, results in a bigger reduction of 4% of imports, corresponding to a decrease of US\$3.1 billion;**

- (iii) a scenario of full liberalization of both tariffs and NTBs results in a decrease of 8% of imports, corresponding to US\$6.4 billion.

Despite the fact that Brazil does not suffer expressive losses in its trade balance with the negotiation of TTIP between the US and the EU, considering the first round effects presented by the simulation, the comparison shows the opportunities lost by Brazil by remaining outside the integration process. Furthermore, it is possible to assume that the TTIP will result in gains of competitiveness for its partners, while Brazil, by remaining outside of the agreement, will remain in its current level, which will cause further losses in the country's trade balance.

In the sectorial analysis, the simulation presents the following results for each sectorial GDP:

For the agricultural sector, the conclusion of the TTIP results in small losses to the majority of the agricultural sectors, with a slightly better scenario according to the level of liberalization of NTBs. One factor that should affect Brazilian agricultural exports to the EU is that any preferential tariff quotas offered by the EU to the US should affect other countries' market access to the EU, since the global tariff quotas will be shared by many partners, with the US benefiting from a larger share of such global quota. Regarding the NTBs, the results of the simulation show that Brazil will benefit from the elimination of NTBs between the two countries.

For the industry, the conclusion of the TTIP results in gains for a number of sectors and losses for others. This can be explained by the fact that the increase of trade flows and economic integration between the EU and the US will create some demand for exports from other countries as well.

When the elimination of non-tariff barriers between EU and US is taken into account, the negative impact to Brazil is more significant, regarding sectorial GDP and trade flows. More than tariffs, the trade gains of TTIP will be obtained through negotiations of non-tariff barriers including technical barriers, sanitary and phytosanitary measures, trade facilitation, among others, which are, nowadays, the real barriers to trade.

In summary:

Considering only the elimination of only tariff barriers in the TTIP, the simulation shows that the impacts to Brazil are negative, but not too significant, representing:

- (i) losses of around 1% in the GDP in 16 agrobusiness sectors from the 20 sectors considered.
- (ii) losses of around 1% in the GDP in 9 industrial sectors from the 21 considered.
- (iii) losses on the trade balance of 14 agrobusiness sectors from the 20 considered, mainly coffee, meat and meat products.
- (iv) losses on trade balance of 8 industrial sectors from 21 sectors considered, mainly leather products, non-metalic products and motor vehicles and components

In the hypothesis of tariff elimination and a 50% reduction on NTB, the results are:

- (i) losses of 1% to 3% in the GDP in 15 agrobusiness sectors from the 20 sectors considered.
- (ii) losses of 1% to 2% in the GDP in 14 industrial sectors from the 21 considered.
- (iii) losses on the trade balance of 14 agrobusiness sectors from the 20 sectors considered, mainly soya, animal feed, coffee, meat and meat products
- (iv) losses on trade balance of 8 industrial sectors from 21 sectors considered, mainly leather products, non-metalic products, motor vehicles and components and transport material.

Simulation 2 – Impacts of the participation of Brazil on the TTIP

This simulation presents the impacts to the Brazilian economy of a hypothetical participation of the country in the negotiations of the TTIP.

The hypothesis assumed for this participation are: (i) a full liberalization of both tariff and NTBs; and (ii) a 50% reduction of tariffs in agriculture for the US and the EU and a full liberalization of all other tariffs and NTBs; and (iii) a 50% liberalization of EU and US's agricultural sectors, 50% liberalization of Brazil's industry and services and a full liberalization of non-tariff barriers for all partners.

Results

When Brazil adheres to the TTIP, its exports present a significant increase:

- (i) a full liberalization of tariffs and NTBs for TTIP results in a strong increase of 126% of Brazilian exports, corresponding to a US\$95.4 billion raise; and
- (ii) with a more realistic 50% reduction of agricultural tariffs plus a full liberalization of all other tariffs and NTBs results in an increase of 102% of the country's exports, corresponding to US\$ 77.3 billion.
- (iii) **with a 50% reduction of EU and US agricultural tariffs, a 50% reduction of Brazilian industrial tariffs and a full liberalization of non-tariff barriers for all partners, the most probable scenario, Brazilian exports increase by 121 %, corresponding to US\$ 91.5 billion¹.**

In the TTIP, there is a very expressive increase in the exports of agricultural products, which explains the gains in the land value and the valorization of the Brazilian real.

Regarding imports, when Brazil participates in the TTIP:

- (i) full liberalization of tariffs and NTBs results in an increase of 54%, corresponding to a US\$43.1 billion rise in imports from the US and the EU.

¹ Values from Secex (US\$ F.O.B.) for 2012

- (ii) a 50% liberalization in agricultural tariffs and a full liberalization in other tariffs and NTBs results in an increase of 46,5%, corresponding to US\$37.2 billion.
- (iii) **a 50% liberalization in the agricultural sectors of the EU and US, a 50% liberalization in the Brazilian industrial sector and a full liberalization of non-tariff barriers for all partners results in a increase of 34.9%, corresponding to US\$27,9 billion².**

In the sectorial analysis, the simulation presents the following results for each sectorial GDP:

In a scenario of participation of Brazil in the TTIP, there are highly expressive gains for the majority of agricultural sectors in all three scenarios. This presents the greatest costs of opportunity of Brazil remaining outside the Trans-Atlantic integration process.

For the industry, when Brazil participates in the TTIP, there are losses and gains for the industrial sectors, explained by the impact of the exchange rate.

The audacious hypothesis of including Brazil as a part of the TTIP presents a substantial gain for agriculture, but as expected, losses for several industrial sectors due to the overvaluation of exchange rates and the consequent increase on industrial imports. To make this hypothesis viable, two important tasks are needed: the Brazilian industry must face an arduous work to improve its competitiveness, and the Brazilian Government should also play its role through active economic policies.

In summary:

- (i) gains from 3% to more than 4% in the GDP in 13 agrobusiness sectors from the 20 sectors considered;
- (ii) losses of 1% to 3% in the GDP in 19 industrial sectors from the 21 considered;
- (iii) gains on the trade balance of 13 agrobusiness sectors from the 21 sectors considered, mainly soya, animal feed, vegetal oils, coffee, meat and meat products;
- (iv) gains on trade balance of 8 industrial sectors from 21 sectors considered, mainly leather products, petroleum products; and
- (v) losses on the trade balance of paper and pulp, chemical, non-metalic products, motor vehicles and components, machinery and electronic products.

The conclusion of TTIP by EU and US will represent a serious threat to Brazil. Not only it will lose international market, but will be left behind in the negotiations of international trade rules, but it will lose its present role as relevant global rule maker, accepting a secondary role of passive rule taker.

In a time of global value chains, the integration of Brazil in these two major economies is fundamental to the survival of the industry.

² Values from Secex (US\$ F.O.B.) for 2012

The present research shows clearly that the negotiation of an agreement between Brazil and the EU, now in its final phase, is an important step forward and should be concluded rapidly, before the finalization of the TTIP negotiation.

But a second step should also be considered seriously – that of an agreement with the US. There is no “trade logic” of an agreement with the EU without an agreement with the US in the case of a successful TTIP.

With the TTIP, a new opportunity is open to Brazil. It is time to review the priorities and to re-evaluate losses and gains. The costs of Brazil’s isolation in the World because of the difficulties of Mercosul should be re-examined with care. It is time for action!

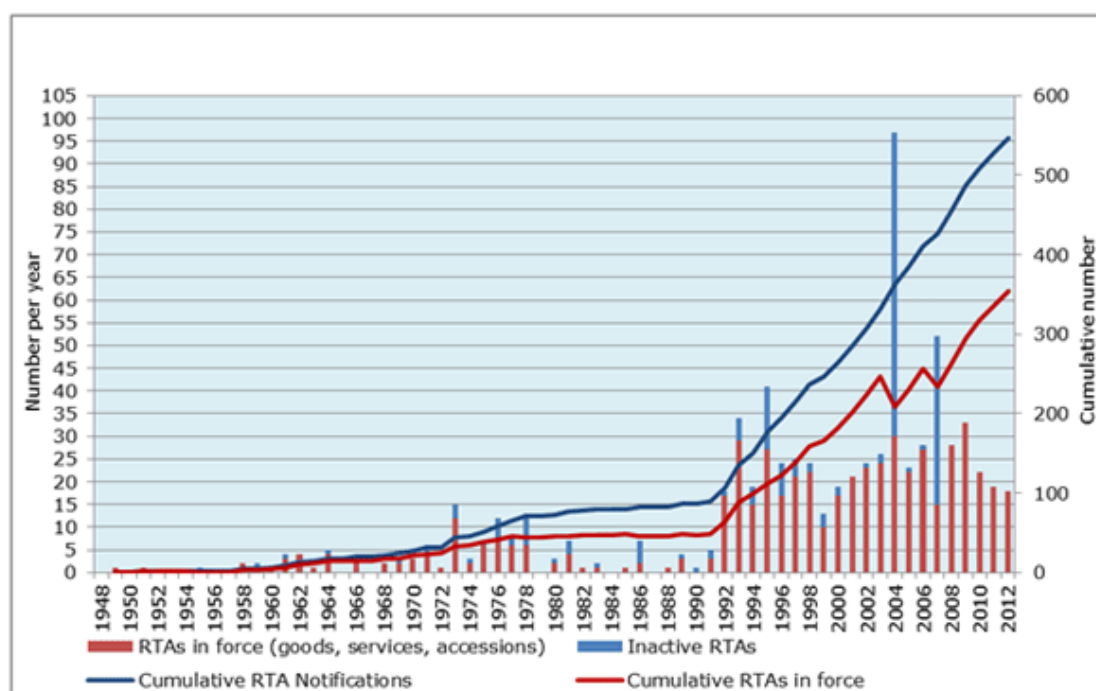
SECTION 1

I. INTRODUCTION

International trade is under a significant and complex change process. It represents a great challenge to Brazilian Foreign Trade Policy. The dead-lock in multilateral negotiations under the World Trade Organization's (WTO) Doha Round has lead major players in international trade, notably the United States (US) and the European Union (EU) to focus on the negotiation of preferential trade agreements (PTAs), where they could advance trade rules, lower trade barriers and promote integration with their partners, signaling the rules they want for the present century.

As the WTO graphic shows, there has been a huge increase in the number of Preferential Trade Arrangements (PTAs) in the past years, pointing to the importance that these agreements have acquired in the regulation of international trade flows. See Figure 1 below:

Figure 1 – Preferential Trade Agreements notifications (1948-2012)



Source: WTO Secretariat.

The first generation of PTAs had as objective the reduction or the elimination of tariffs in goods between its partners. This preferential access could either increase international trade flows, due to the market liberalization promoted by the agreement (trade creation) or to divert flows from more competitive players (trade diversion).

The following generation of PTAs has promoted, besides tariff reductions, the negotiation of rules on subjects not fully dealt by the multilateral system, establishing a relevant framework of trade regulation on the regional level, that affected not only the partners of the respective PTA, but also influenced multilateral negotiations.

The current generation of PTAs keeps the trends of the previous agreements, but in a deeper process. These deep-integration PTAs promote a greater coordination and harmonization between trade partners, facilitating the establishment of production chains on the regional level, contributing to the major phenomenon of trade in the 21st century: global value chains. The Transatlantic Trade and Investment Partnership – TTIP, between the EU and the US, and the Trans-Pacific Partnership – TPP, between the US, Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam are the most ambitious negotiations of these last generation PTAs.

This proliferation of PTAs, with rules that promote deep-integration between partners has an important effect in international trade flows, since countries that participate in these agreements have a wider market access, provided both by the reduction of tariff and non-tariff barriers, as well as harmonization of trade rules, trade facilitation, amongst others. On the other hand, countries that do not participate in any PTA tend to suffer loss in their share of exports to other countries, because products from preferential partners have a preferential access, and can be more competitive when enjoying the benefits conferred by the PTA.

For many years Brazil has prioritized multilateral negotiations in detriment of preferential ones. The rationale behind this option was that the country would have a greater bargaining power if negotiating in the multilateral forum together with other developing countries. But with the stalemate of the Doha Round, Brazil needs to change its strategy and reformulate its Trade Policy. Two are the priorities deserving a deep discussion: the participation of Brazil in new PTAs and the participation of Brazil in a world of global value chains. Immobilization will result in the isolation of Brazil in international trade.

This study will present simulations that show the costs of the isolation of Brazil. Considering that Brazil does not sign any PTA with significant trade partners, and the TTIP enter into force, the study will present the impacts of these agreements to the Brazilian productive sectors and its main macroeconomic variables.

The relevant questions that this Report will try to answer are the following:

- Where are the main trade interests of Brazil, considering the agricultural, industrial and services sectors?
- What are the level of tariff barriers and the kind of non-tariff barriers Brazil is facing toward these main partners?
- What are the impacts of the negotiations of TTIP on Brazil, or the effect of this agreement on Brazilian exports toward the US and the EU?
- If TTIP and TPP are redefining the trade rules system, can Brazil accept now the role of being just a rule taker instead of the role of a rule maker as Brazil played in the WTO?

These are the questions that this Report will try to answer.

II. TRADE PROFILE OF SELECTED TRADE PARTNERS

This analysis will begin with an overview of Brazil's imports and exports with the US and the EU, partners of the TTIP negotiations.

In 2012, Brazilian international trade flow registered US\$ 465,7 billion, which represented a decrease of 3.4 percent compared to the previous year, when the trade flow achieved was US\$ 482,2 billion (see Table 1).

Regarding Brazilian exports, it represented, in 2012, US\$ 242,6 billion, while its imports accounted for US\$ 223,1 billion. If compared to the previous year, in 2012 there was a retraction of 5.3 percent in the country's exports, while its imports presented a drop of 1.4 percent. Notwithstanding the decrease observed in the period, if one considers the volume of exports, the variation in comparison to 2011 presents a modest reduction of 0.3 percent.

Table 1 – Brazil: Trade Balance (US\$ billion)

	2008	2009	2010	2011	2012
Exports	197.9	153.0	201.9	256.0	242.5
Imports	173.2	127.6	181.7	226.2	223.1
Trade Flow	371.1	281.0	383.6	482.2	465.7

Source: SECEX/MDIC.

The main destinies of Brazilian exports are: China, with a share of 17.0% of all Brazilian exports; US with 11.1%, Argentina with 7.4%; the Netherlands with 6.2%; and Japan with 3.3%. The EU accounts for 20.1% of all Brazilian exports.

The main origins of Brazilian imports are: China, with a share of 15.4% of all Brazilian imports; US with 14.6%; Argentina 7.4% share; Germany with 6.4%; and Korea with 4.1%. The EU accounts for 21.4% of all Brazilian imports³.

Considering exports for the US and the EU, it is possible to infer that exports to the EU had a modest increase of, respectively, 5.4% in the past five years, while exports to the US had a decrease of 3.6% (see Table 2).

Table 2 – Brazil: Exports to the US and the EU (2008-2012)

	US		EU		Total	
	US\$ bi	% ¹	US\$ bi	% ¹	US\$ bi	% ¹
2008	27.4	9.4	46.4	14.76	197.9	23.21
2009	15.6	-43.1	34.0	-26.6	153.0	-22.7
2010	19.3	23.8	43.1	26.7	201.9	32.0
2011	25.8	33.7	52.9	22.7	256.0	26.8
2012	26.7	3.5	48.9	-7.7	242.6	-5.26

Source: SECEX/MDIC. ¹ %: Variation related to the previous year.

Regarding Brazilian exports, one can notice that the participation of the US (from 13.9% in 2008 to 11% in 2012) and the EU (from 23.4% in 2008 to 20.1% in 2012) were reduced by approximately 3 percent.

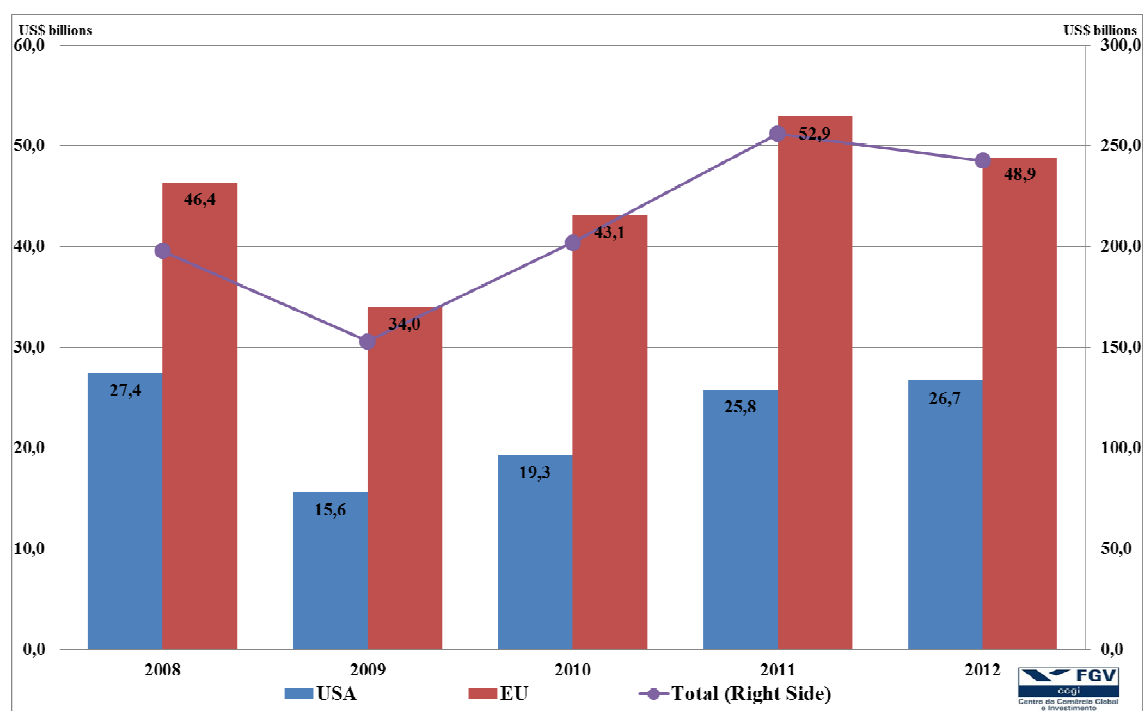
³ Cf. SECEX/MDIC.

Table 3 – Brazil: Share of Exports (%)

	US	EU
2008	13.9	23.4
2009	10.2	22.3
2010	9.6	21.4
2011	10.1	20.7
2012	11.0	20.1

Source: SECEX/MDIC.

Chart 1 – Brazil: Foreign Trade – Exports (2008-2012)



Source: SECEX/MDIC. Elaborated by CGTI.

Analyzing Brazilian imports in the period of 2008-2012, it is possible to realize that imports from US had an increase of 26.6% and imports from the EU had a growth of 31.8% (see Table 4).

Table 4 – Brazil: Imports from US and EU (2008-2012)

	US		EU		Total	
	US\$ bi	% ¹	US\$ bi	% ¹	US\$ bi	% ¹
2008	25.6	36.9	36.2	35.3	173.0	43.4
2009	20.0	-21.8	29.2	-19.2	127.7	-26.2
2010	27.0	35.0	39.1	33.9	181.8	42.3
2011	34.0	25.6	46.4	18.7	226.2	24.5
2012	32.4	-4.8	47.7	2.7	223.1	-1.4

Source: SECEX/MDIC. ¹ %: Variation related to the previous year.

It is worth to be noted that, the average share of these partners in Brazilian imports was maintained during the period of 2008 to 2012 (US: 14.9 – 14.5% and EU: 20.9 – 21.4 (see Table 5).

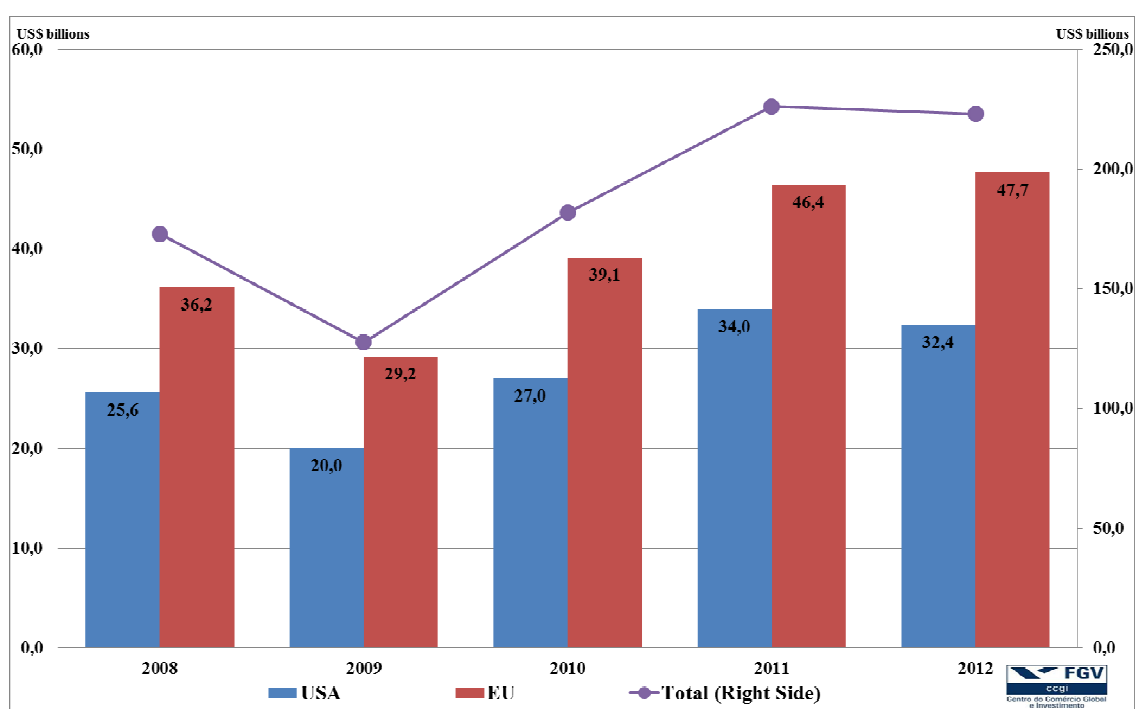
Table 5 – Brazil: Share of Imports (%)

	US	EU
2008	14.9	20.9
2009	15.7	22.9
2010	14.9	21.5
2011	15.0	20.5
2012	14.5	21.4

Source: SECEX/MDIC.

It is possible to infer that both imports and exports have increased since 2008. In 2009, the period of the worldwide economic crisis, it can be observed the retraction of trade with the trading partners here analyzed. Yet, in 2010, there was an economic upturn, and the trade flow was recovered (see Chart 2).

Chart 2 – Brazil: Foreign Trade – Imports (2008-2012)



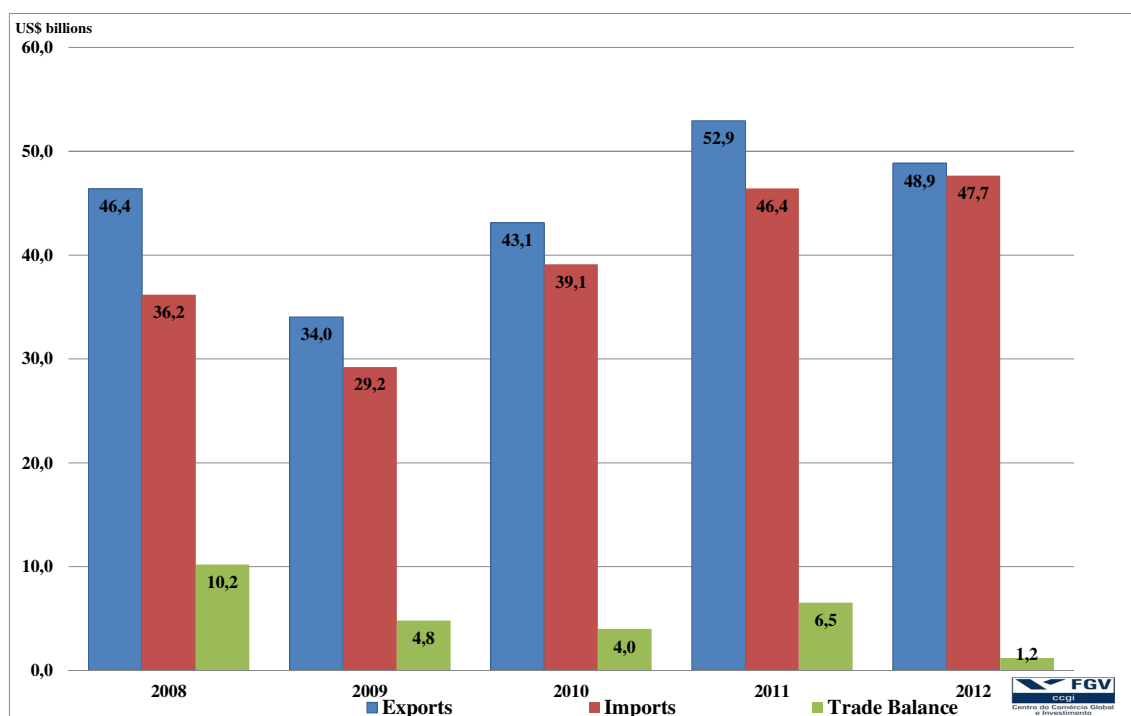
Source: SECEX/MDIC. Elaborated by CGTI.

II.1. Brazil-EU Foreign Trade

Although the EU remained Brazilian's major trade partner, the bilateral trade in the period of 2008-2012 demonstrates that the world economic crisis of 2008-2009 influenced both exports and imports from the EU. In 2010 and 2011, there was an increase in bilateral trade flows but in the following period there was another decline. Nevertheless, Brazilian's trade balance with the EU remains positive.

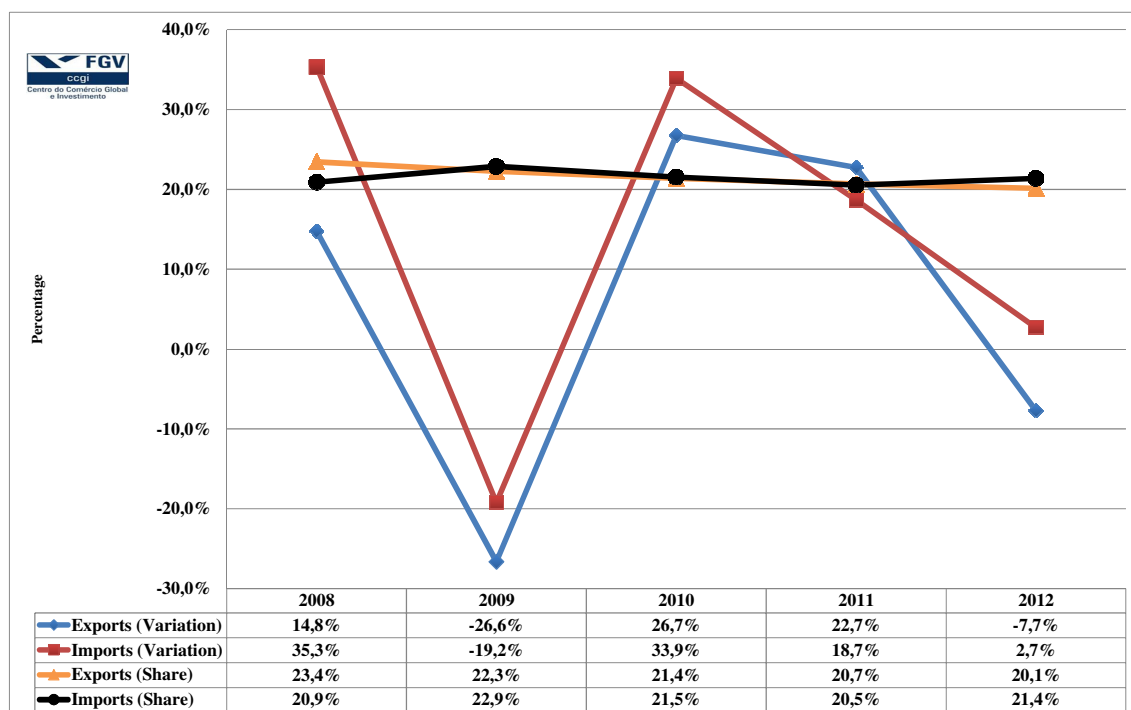
In 2012, Brazil was the 10th major origin of EU imports, having a share of 2.1% of European total imports, and its 8th major destiny of EU exports, with a share of 2.3% of European total exports. On the other hand, the EU is Brazil's first trading partner, accounting for 19.2% of its total trade flow in 2012 (see Chart 3 and Chart 4).

Chart 3 – Brazil-EU Foreign Trade (2008-2012)



Source: SECEX/MDIC. Elaborated by CGTI.

Chart 4 – Brazil-EU: Foreign Trade Variation and Share (2008-2012)



Source: SECEX/MDIC. Elaborated by CGTI.

Brazil exports to the EU are dominated by primary products, in particular agricultural products (43.5%), and fuels and mining products (28.4%), which corresponded, in 2012, to a share of 71.9% of its total exports to EU. Manufactures corresponded, in the same year, to 24.4% of Brazilian exports to the EU. The most exported manufactured products were: machinery and transport equipment (8.6%), chemicals (6.9%), and iron and steel (3.3%).

The information contained in Table 6 below sheds light on the fact that Brazilians exports are usually composed of approximately 40% of agricultural products (AMA) and 60% of non-agricultural products (NAMA). In 2012, Brazilian AMA products have obtained a 1.0% share of European market, making it the single biggest exporter of agricultural products to the EU, while its NAMA products have attained only a 1.3% market share.

Table 6 – Brazil: Exports to the EU (2008-2012)

SITC Rev.3 (UN,WTO/ITS) & AMA/NAMA** (WTO) Product Groups	2008		2010		2012		Share in EU Imports (2012)
	€ mi	%	€ mi	%	€ mi	%	
0000 – Total	35,855	100.0	33,238	100.0	37,09	100.0	2.1
1000 – Primary Products	24,967	69.6	23,509	70.7	26,664	71.9	3.5
1100 – Agricultural products (Food (incl. Fish) & Raw Materials)	15,085	42.1	13,87	41.7	16,144	43.5	12.0
1200 – Fuels and mining products	9,882	27.6	9,639	29.0	10,52	28.4	1.7
2000 – Manufactures	10,314	28.8	8,778	26.4	9,033	24.4	0.9
2100 – Iron and steel	1,504	4.2	850	2.6	1,243	3.3	4.6
2200 – Chemicals	2,177	6.1	2,125	6.4	2,55	6.9	1.6
2300 – Other semi-manufactures	1,751	4.9	1,477	4.4	1,404	3.8	1.7
2400 – Machinery and transport equipment	3,75	10.5	3,381	10.2	3,177	8.6	0.7
2410 – Office and telecommunication equipment	157	0.4	138	0.4	144	0.4	0.1
2420 – Transport equipment	2,193	6.1	2,117	6.4	1,789	4.8	1.7
2430 – Other machinery	1,399	3.9	1,126	3.4	1,244	3.4	0.8
2500 – Textiles	57	0.2	36	0.1	35	0.1	0.2
2600 – Clothing	39	0.1	25	0.1	13	0.0	0.0
2700 – Other manufactures	1,036	2.9	884	2.7	612	1.6	0.4
3000 – Other products	465	1.3	856	2.6	1,142	3.1	1.5
Agricultural Products (AMA)	13,569	37.8	11,848	35.6	14,219	38.3	14.0
Non-Agricultural Products (NAMA)	22,066	61.5	21,182	63.7	22,49	60.6	1.3
Other Products	221	0.6	208	0.6	381	1.0	2.2

Source: EU. *Brazil – EU Bilateral Trade and Trade with the World*. 2013.

In contrast, Brazilian imports from the EU consist mostly of manufactured products (83.6% in 2012), specially machinery and transport equipment (45%), and chemicals (22.2%). In goods, Brazil runs an overall trade surplus with the EU, but has a trade deficit in commercial services trade (see Table 7).

Table 7 – Brazil: Imports from the EU (2008-2012)

SITC Rev.3 (UN,WTO/ITS) & AMA/NAMA** (WTO) Product Groups	2008		2010		2012		Share in EU Imports (2012)
	€ mi	%	€ mi	%	€ mi	%	
0000 – Total	26,302	100.0	31,466	100.0	39,595	100.0	2.3
1000 – Primary Products	2,074	7.9	2,744	8.7	4,546	11.5	1.5
1100 – Agricultural products (Food (incl. Fish) & Raw Materials)	951	3.6	1,266	4.0	1,658	4.2	1.3
1200 – Fuels and mining products	1,123	4.3	1,478	4.7	2,888	7.3	1.7
2000 – Manufactures	23,145	88.0	27,511	87.4	33,113	83.6	2.5
2100 – Iron and steel	811	3.1	1,023	3.3	1,133	2.9	2.7
2200 – Chemicals	5,097	19.4	6,868	21.8	8,81	22.2	3.2
2300 – Other semi-manufactures	1,876	7.1	2,071	6.6	2,544	6.4	2.1
2400 – Machinery and transport equipment	13,589	51.7	15,351	48.8	17,829	45.0	2.5
2410 – Office and telecommunication equipment	974	3.7	887	2.8	931	2.4	1.2
2420 – Transport equipment	5,250	20.0	6,167	19.6	6,352	16.0	2.3
2430 – Other machinery	7,321	27.8	8,232	26.2	10,512	26.5	3.0
2500 – Textiles	212	0.8	217	0.7	269	0.7	1.5
2600 – Clothing	53	0.2	64	0.2	102	0.3	0.5
2700 – Other manufactures	1,506	5.7	1,904	6.1	2,418	6.1	1.6
3000 – Other products	611	2.3	663	2.1	797	2.0	1.5
Agricultural Products (AMA)	866	3.3	1,142	3.6	1,459	3.7	1.3
Non-Agricultural Products (NAMA)	24,851	94.5	29,601	94.1	36,759	92.8	2.4
Other Products	585	2.2	723	2.3	1,376	3.5	8.1

Source: EU. *Brazil – EU Bilateral Trade and Trade with the World*. 2013.

II.2. Brazil-US Foreign Trade

Regarding bilateral trade between Brazil and the US, it can be noted that, due to the economic crisis of 2008-2009, both imports and exports were reduced. Despite having registered an increase of flows in 2010, exports to the US were not yet recovered from the crisis, and Brazilian's trade balance still operates in deficit (see Chart 5 and Chart 6).

Chart 5 – Brazil-US Foreign Trade (2008-2012)

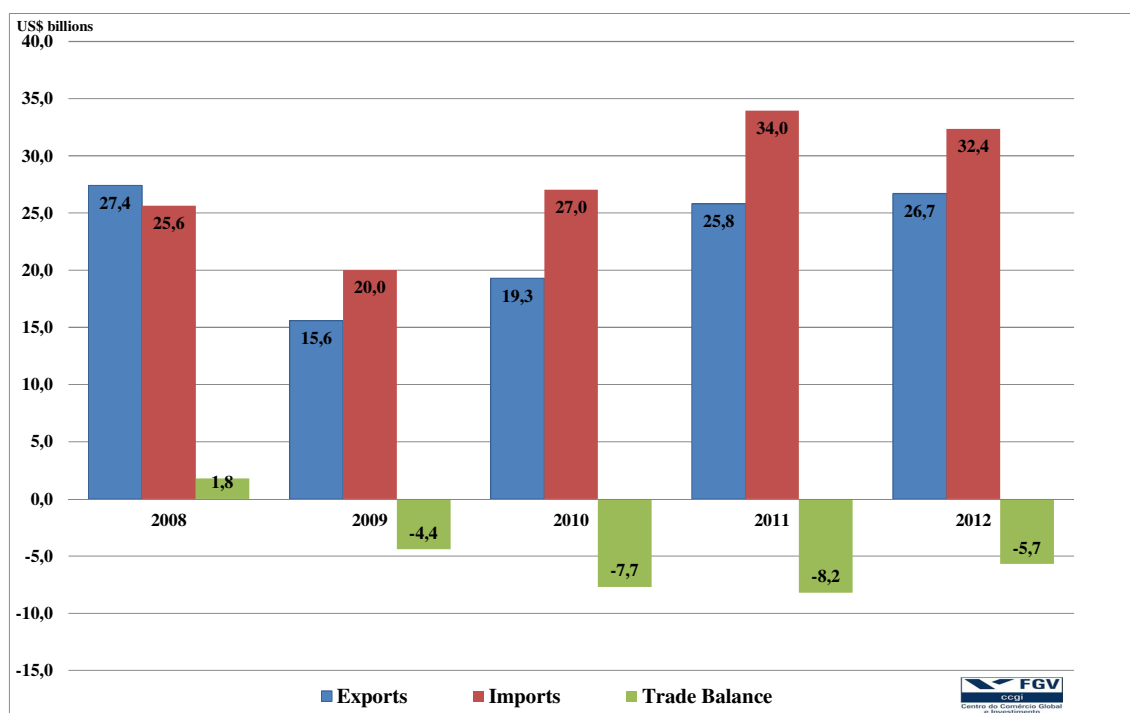
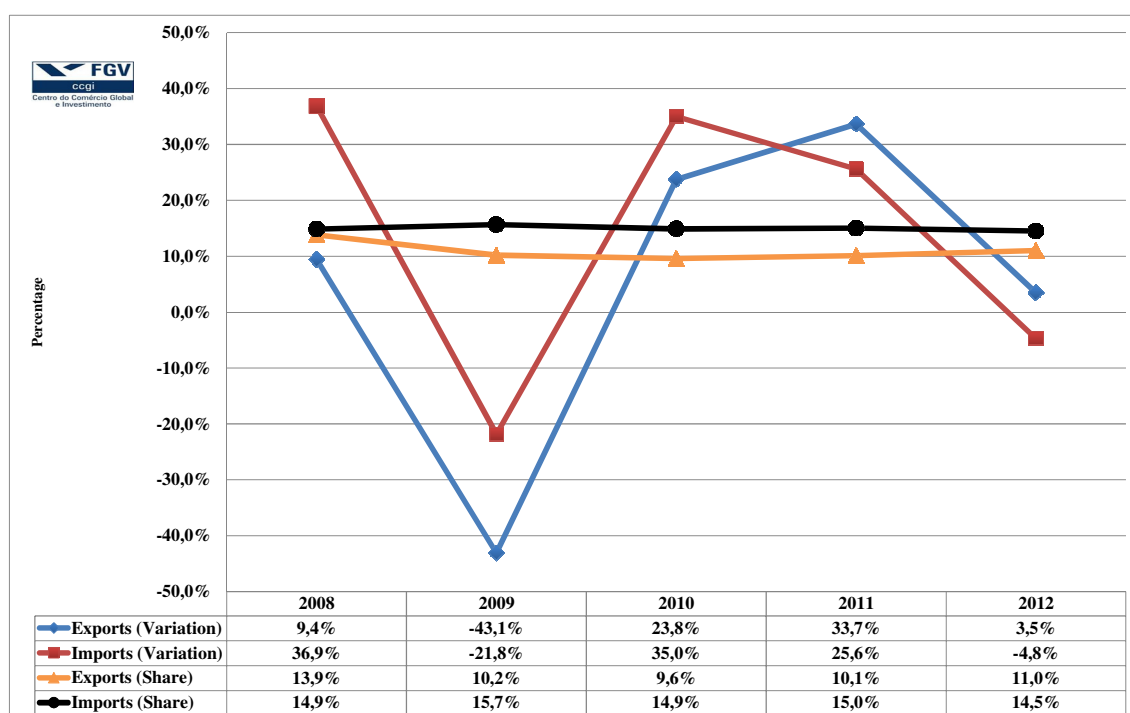


Chart 6 – Brazil-US: Foreign Trade Variation and Share (2008-2012)



Brazil was the US' 7th largest destiny of US exports in 2012, and accounted for 2.8% of overall US exports in the same year⁴. The main categories of Brazil's imports from the US in 2012 were machinery (\$7.7 billion), mineral fuel (\$7.2 billion), aircraft (\$6.1 billion), electrical Machinery (\$4.8 billion), and optic and medical instruments (\$2.2

⁴ USTR. *Brazil*. Available at: <<http://www.ustr.gov/countries-regions/americas/brazil>>.

billion). Brazil imports of agricultural products from the US totaled \$515 million in 2012. The main categories include dairy products (\$72 million), snack foods (\$21 million), and feeds and fodders (\$18 million).

Brazil was also the US' 15th largest origin of US imports in 2012, and the imports from Brazil accounted for 1.4% of overall US imports in the same period. On the other hand, the US the 3rd major origin of Brazil's imports, accounting for 14.6% of its total imports, and the 3th major destiny of Brazilian exports, representing 11.1% of Brazilian total exports⁵.

The five largest categories of Brazilian exports to the US in 2012 were mineral fuel and crude oil (\$9.4 billion), iron and steel (\$3.5 billion), machinery (\$2.7 billion), special other (returns and repairs) (\$1.9 billion), and beverages (\$1.5 billion). US Brazilian exports of agricultural products to the US totaled \$3.4 billion in 2012, making the country the 6th largest supplier of US agricultural imports. Leading categories include coffee (unroasted) (\$1.3 billion), tobacco (\$313 million), fruit and vegetable juices (\$242 million), and coarse grains (\$227 million).

III. TRADE BARRIERS

International trade flows may be restrained by different types of barriers: tariffs, technical barriers, sanitary and phytosanitary measures, trade defense instruments, rules of origin, etc. The multilateral trading system, during the GATT and WTO rounds of negotiations aimed to reduce such barriers, through the negotiation and reduction of bound tariffs in each country's schedule of concessions and through the creation of rules on non-tariff barriers, such as the Agreement on Technical Barriers to Trade, Agreement on Sanitary and Phytosanitary Measures, Agreement on Subsidies and Countervailing Measures, Anti-dumping Agreement and the Agreement on Rules of Origin. These agreements established rules on how non-tariffs barriers could be implemented by members, in order to reduce the use of measures that distorted international trade.

PTAs aim to reduce and restrain even further the applied tariffs and the use of measures that represent barriers to bilateral trade. Through the negotiation of rules in a series of themes, preferential partners can achieve a wider market access because exports face less barriers when entering the preferential market, thus increasing trade flows and economic integration.

In the TTIP, since US and EU tariffs are already relatively low, the main focus of negotiations will be the reduction and potential alimination of non-tariff barriers, specially technical, sanitary and phytosanitary barriers that represent the most relevant obstacles to bilateral trade.

This chapter will analyze the main trade barriers identified in the markets of the United States and the European Union, as well as the barrier identified in Brazil

⁵ Considering all EU members as a single partner.

III.1. Trade Barriers in the United States

In accordance with WTO Tariff Profile, the United States hold a simple average MFN tariff of 5.0% for agricultural products and a simple average of 3.3% for non-agricultural products, as shown in Table 11 below:

Table 11 – US Tariffs and Imports: Summary and duty ranges

Summary			Total	Ag	Non-Ag	WTO member since					1995
Simple average final bound			3.5	4.9	3.3	Binding coverage:			Total	100.0	
Simple average MFN applied		2011	3.5	5.0	3.3				Non-Ag	100.0	
Trade weighted average		2010	2.1	4.5	2.0	Ag: Tariff quotas (in %)					4.5
Imports in billion US\$		2010	1,832.4	83.6	1,748.8	Ag: Special safeguards (in %)					2.9
Frequency distribution		Duty-free	0 <= 5	5 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100	NAV	
		Tariff lines and import values (in %)									in %
Agricultural products											
Final bound		32.7	43.3	12.6	5.1	2.9	1.8	0.3	0.5	40.2	
MFN applied	2011	30.3	44.5	13.5	5.1	2.9	1.9	0.4	0.5	40.8	
Imports	2010	40.4	37.2	14.2	2.7	2.2	3.2	0.0	0.1	37.7	
Non-agricultural products											
Final bound		47.6	26.8	16.7	5.0	1.9	0.5	0.0	0	3.4	
MFN applied	2011	47.6	26.8	17.0	4.9	1.9	0.5	0.0	0	3.3	
Imports	2010	50.3	38.4	6.4	0.9	3.3	0.7	0.0	0	15.6	

Source: WTO, World Tariff Profiles – the United States, 2012.

However, group sectors analyzed separately show some peaks in US tariffs: simple average MFN applied tariff for dairy products is of 19.1%, for sugar and confectionery of 16.6%, and for beverages and tobacco of 15.4%, as Table 12 follows:

Table 12 – US WTO Tariff Profiles – Tariffs and imports by product groups

Product groups	Final bound duties				MFN applied duties			Imports	
	AVG	Duty-free in %	Max	Binding in %	AVG	Duty-free in %	Max	Share in %	Duty-free in %
Animal products	2.4	31.0	26	100	2.4	31.0	26	0.4	25.3
Dairy products	19.2	0.3	92	100	19.1	0.3	92	0.1	13.7
Fruit, vegetables, plants	4.8	23.3	132	100	4.9	20.1	132	1.2	25.5
Coffee, tea	3.2	53.5	24	100	3.2	53.5	23	0.5	75.9
Cereals & preparations	3.5	20.8	54	100	3.5	21.0	54	0.6	32.4
Oilseeds, fats & oils	4.2	27.6	164	100	4.5	24.0	164	0.3	38.7
Sugars and confectionery	16.9	2.9	123	100	16.6	2.9	123	0.2	5.1
Beverages & tobacco	16.3	27.0	350	100	15.4	27.3	350	1.0	52.2
Cotton	4.7	38.3	19	100	4.6	38.3	19	0.0	78.3
Other agricultural products	1.1	62.0	67	100	1.2	59.1	67	0.3	65.4
Fish & fish products	1.0	80.5	35	100	0.9	81.9	35	0.8	90.7
Minerals & metals	1.7	59.9	38	100	1.7	61.0	38	12.6	74.2
Petroleum	1.4	0	7	80.0	1.3	0	7	14.6	0
Chemicals	2.8	40.0	7	100	2.8	40.7	7	10.3	67.5
Wood, paper, etc.	0.4	91.8	14	100	0.5	90.2	14	3.5	92.6
Textiles	7.9	16.0	42	100	7.9	15.1	42	2.0	11.5
Clothing	11.4	3.4	32	100	11.7	2.8	32	3.9	0.8
Leather, footwear, etc.	4.3	38.4	56	100	4.0	38.9	56	2.5	19.7
Non-electrical machinery	1.2	66.3	10	100	1.2	65.0	10	13.8	82.1
Electrical machinery	1.7	48.8	15	100	1.7	48.4	15	13.4	66.6
Transport equipment	3.1	54.8	25	100	3.0	55.7	25	11.1	13.5
Manufactures, n.e.s.	2.1	49.6	46	100	2.3	45.1	46	6.9	73.0

Source: WTO, World Tariff Profiles – the United States, 2012.

When it comes to non-agricultural products, the United States applies low tariffs, with higher averages in some sectors, such as 11.4% for clothing and 7.9% for textiles.

The text below attempts to summarize the main barriers for exports to the US, identified by WTO Committees, Reports and Disputes, data provided by SECEX/MDIC and APEX-Brazil, the World Bank, Mercosur, USTR, the U.S. International Trade Commission and the EU.

Tariff Barriers:

- The United States adopts the Tariff Rate Quota (TRQ) regime for a variety of products since 1995. Amongst them are sugar, cotton, bovine meat *in natura*, tobacco, and some dairy products. There are claims that quotas are kept at a low level and other countries' TRQ such as Australia, Chile, Singapore, New Zealand and even Argentina and Uruguay are higher. Furthermore, a few countries receive larger amounts of available quotas while other partners are considered amongst "other countries" with a reduced quota share.
- Ethanol: The United States, for a long time, applied an additional tariff of US\$ 0.54 per gallon or US\$ 0.1427 per liter and a tariff *ad valorem* of 2.5%, in cumulative terms. This additional tariff is currently suspended but there is some concern that pressure is mounting for its return.
- Soybeans: the United States adopts tariff escalation measures, applying a tariff *ad valorem* of 19.1% for soy oil, which is considered to be harmful to the competitiveness of Brazilian products.
- Textiles and Apparel: The United States applies a hybrid tariff, being part *ad valorem* part specific. In general, the *ad valorem* tariff amount to at least 30%. However, some tariff lines such as wool have a 21% tariff *ad valorem* plus a tariff US\$ 0.529 per kilo.
- Fruit juices (orange, lemon and grape): The United States applies a higher tariff for Brazilian products than to other economies such as Jordan, the Caribbean, Chile, Singapore, and Australia, which benefit from preferential tariffs from their PTAs with the US.

Nontariff Barriers:

- The United States do not recognize Brazilian entities' assessment of conformity procedures resulting in many certification refusals of products such as in bovine meat *in natura*, chicken products, pork meat, and fruits sectors.
- In 1997, US introduced rules on the import of ruminant animals and products thereof from all European countries based on concerns about Bovine Spongiform Encephalopathy (BSE). These rules, still in place, are considered stricter than the agreed in international standards set by the World Organization for Animal Health (OIE).
- The United States imposes sanitary and phytosanitary barriers to some fruits ("pest risk analysis"), chicken, pork and bovine meat sectors that have already resulted in prohibitions of import those products.
- New types of plants and plant products cannot be imported into USA before the phytosanitary requirements are decided on by the USA plant health authorities and afterwards included in US import legislation. This is required for every type of fruit or vegetable, and for many plants for planting. The procedure may take several years.
- In 2010, the United States enacted the Food Safety Modernization Act (FSMA), granting special discretionary powers to the US Food and Drug Administration (FDA). The FSMA includes preventive controls across the whole food supply chain. More specifically, importers shall perform supplier verification activities demonstrating conformity with US safe standards and authorize the FDA to require further certification documents or risk a refusal of admission from FDA's authorities.

- The United States also established an “organic labeling” and the controversial COOL system, which implies in four specific labels granted to the foreign producer accordingly to the percentage of the bovine meat (or living animal) that was produced within the United States territory. In general terms, this is a technical regulation that exposes in details which part of the product is originated in the United States and which part is not and that was considered a discriminatory measure by the WTO Dispute Settlement Body in the case *US – COOL (Canada)*.
- Chemicals: The Toxic Substances Control Act (TSCA) does not impose new standard levels if compared to EU-REACH regulation. However, the US Senate is considering reforming the US TSCA. In such reform, legislators are currently inclined to provide more discretionary power to the Environmental Protection Agency in order to assess conformity to safety standards. Another potential concern should be the revaluation of chemical products safety standards.
- Other legislations are of interest as well:
 - Buy American Act and variations (e.g. American Jobs Act): the U.S. Government determines that Federal Agencies should buy from American producers instead of imported merchandises, especially in the infrastructure sector (steel and other inputs for public works), directly affecting the civil construction sector and competition for Federal bids;
 - Measures taken under the counter terrorism agenda such as Container Security Initiative – CSI, which may cause additional and unjustifiable restriction to Brazilian exporters.
 - The Automobile Sector is a part of the Transpacific Partnership negotiations. The United States and Japan have decided to enter into bilateral negotiations regarding special motor vehicle safeguards, transparency proceedings, technical regulations and standards, certification systems, green technology vehicles, financial incentives, distribution and ways for facilitating market access and investment in other countries. New market access levels between the US and Japan may impact Brazilian motor vehicle exports. Furthermore, the United States adopted fuel economy and environment label regulations, debatable under WTO TBT-SPS rules – see The Gas Guzzler Tax and the Corporate Average Fuel Economy (CAFE) regulations.

Subsidies:

- The United States’ domestic support programs and fiscal incentives potentially distort ethanol, dairy products, corn, and soybeans sectors’ competitiveness. Those subsidies involve minimum price and heavy support price policies. The soybeans sector, for instance, receives special treatment for funding demands while Brazilian government estimates dairy products sector price support to be of US\$3 billion or more (2011).
- The United States has also developed an incentive program to export biofuels to the European Union – “blenders credit” – negatively affecting Brazilian exports to that market.
- American Farm Bill is also problematic to Brazilian exporters. Brazil suggests that the Market Assistance Loans (MALs), the Counter Cyclic Payments (CCP), the Direct Payments (DPs), the Facility Guarantee Program, the GSM-102, and others are inconsistent with the United States obligations under the SCM WTO Agreement. The case *US – Upland Cotton (Brazil)* already determined the GSM-102 program applied to the cotton sector to be inconsistent with WTO rules; however, the United States has not yet put its legislation in compliance to the DSB ruling.

- In addition, Brazil implies that subsidies contingent to export performance, which are prohibited under the SCM WTO Agreement, could be in force in the United States.

Antidumping duties:

- The United States applies several antidumping duties against Brazilian producers, especially orange juice, shrimp and steel products with the dumping margin ranging from 6.96% to 67.8%. Brazil indicates those antidumping duties are overrated or even unjustified.
- The United States used to practice zeroing in the calculation of dumping margins. The methodology was already considered inconsistent with the WTO agreements and there were some recent changes in US legislation in order restrain the use of such practices only to target dumping.

Services

- US law requires US airlines to be under the actual control of U.S. citizens in order to be licensed for operation. For airline corporations, 75% of the voting interest must be held by US citizens and two-thirds of its board of directors must be US citizens. Airline ownership conditions (i.e. the interpretation of the notion "actual control") risk being tightened further in the context of the review of the FAA Reauthorisation Act.
- US Foreign Account Tax Compliance Act (FATCA) aims to increase the ability of the US tax authorities to combat cross-border tax evasion by US persons who use foreign financial institutions (FFIs) to hide assets and avoid reporting income taxable in the US. The regulation imposes due-diligence, reporting and withholding obligations on FFIs, defined to include banks, funds, insurance companies, securitization vehicles, and others. The FATCA could create a barrier for foreign financial institutions wishing to invest in the US market and market their products to US clients.
- Financial: 100 % collateral requirement on reinsurance business and discriminatory tax treatment.

Investment barriers

- Licenses for the construction and operation of facilities for the transmission and utilization of power on land and water controlled by the government can be granted only to US citizens and corporations organized under US law.

Intellectual Property Rights Protection

- Legislation on Appellations of Origin and Geographic Indications: difficulties in the use of EU geographical indications on food and drinks produced or sold in the U.S., especially in the wine and food (such as cheese and meat products) sectors
- Anti-Counterfeiting Trade Agreement which may harm the health and generic drugs sectors by enacting TRIPS *plus* rules.

III.2. Trade Barriers in the European Union

In accordance with WTO Tariff Profiles, the European Union holds a simple average MFN tariff of 13.9% for agricultural products and a simple average of 4.0% for non-agricultural products, as showed by Table 13 below:

Table 13 – EU Tariffs and Imports: Summary and duty ranges

Summary		Total	Ag	Non-Ag	WTO member since					1995
Simple average final bound		5.2	13.8	3.9	Binding coverage:		Total		100	
Simple average MFN applied		2011	5.3	13.9	4.0			Non-Ag		100
Trade weighted average		2010	2.8	9.9	2.4	Ag: Tariff quotas (in %)		11.3		
Imports in billion US\$		2010	1,813.3	106.5	1,706.8	Ag: Special safeguards (in %)		23.9		
Frequency distribution		Duty-free	0 <= 5	5 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100	NAV
		Tariff lines and import values (in %)								in %
Agricultural products										
Final bound		32.3	10.2	15.5	13.0	11.1	9.7	5.2	1.0	32.0
MFN applied	2011	30.1	10.2	16.1	14.2	12.8	7.8	4.6	1.2	32.4
Imports	2010	42.9	12.6	15.5	10.3	10.5	3.5	4.5	0.2	28.0
Non-agricultural products										
Final bound		28.4	37.1	26.6	6.9	0.9	0.0	0	0	0.6
MFN applied	2011	26.7	38.6	27.1	6.7	0.9	0.0	0	0	0.6
Imports	2010	58.8	23.5	10.9	6.0	0.9	0.0	0	0	0.4

Source: WTO, World Tariff Profiles – the European Union, 2012.

However, group sectors analyzed separately show much higher averages in specific agricultural sectors. Simple average MFN applied tariff for dairy products is of 55.2%, for sugar and confectionery of 29.1%, and for animal products of 23.0%, as Table 14 follows:

Table 14 – EU WTO Tariff Profiles – Tariffs and imports by product groups

Product groups	Final bound duties				MFN applied duties			Imports	
	AVG	Duty-free	Max	Binding	AVG	Duty-free	Max	Share	Duty-free
		in %		in %		in %		in %	in %
Animal products	24.3	20.6	140	100	23.0	23.8	140	0.4	8.3
Dairy products	57.6	0	226	100	55.2	0	205	0.0	0
Fruit, vegetables, plants	10.4	22.8	170	100	11.5	18.8	170	1.5	12.5
Coffee, tea	6.2	27.1	25	100	6.2	27.1	25	0.9	77.1
Cereals & preparations	20.3	6.3	167	100	16.3	12.0	167	0.4	2.3
Oilseeds, fats & oils	6.6	48.2	171	100	7.1	43.5	171	1.4	72.7
Sugars and confectionery	28.3	0	131	100	29.1	0	131	0.1	0
Beverages & tobacco	21.8	23.0	175	100	19.2	19.8	162	0.6	16.8
Cotton	0.0	100.0	0	100	0.0	100.0	0	0.0	100.0
Other agricultural products	4.4	65.9	131	100	4.8	65.1	131	0.4	68.0
Fish & fish products	10.9	12.3	26	100	10.3	16.4	26	1.3	6.3
Minerals & metals	2.0	49.6	12	100	2.0	49.9	12	16.6	72.3
Petroleum	2.0	50.0	5	100	2.7	29.7	5	20.3	87.4
Chemicals	4.6	20.0	17	100	4.6	21.7	17	9.5	46.5
Wood, paper, etc.	0.9	84.1	10	100	0.9	81.2	10	2.8	86.3
Textiles	6.5	3.4	12	100	6.6	2.1	12	2.2	2.3
Clothing	11.5	0	12	100	11.5	0	12	4.4	0
Leather, footwear, etc.	4.2	27.8	17	100	4.2	22.7	17	2.4	17.8
Non-electrical machinery	1.7	26.5	10	100	1.9	21.4	10	10.9	56.4
Electrical machinery	2.4	31.5	14	100	2.8	20.4	14	12.3	59.8
Transport equipment	4.1	15.7	22	100	4.3	12.7	22	5.1	27.1
Manufactures, n.e.s.	2.5	25.7	14	100	2.7	20.5	14	6.4	52.6

Source: WTO, World Tariff Profiles – the European Union, 2012.

When it comes to non-agricultural products, the European Union applies low tariffs, with higher averages for the sectors of clothing (11.5%) and textiles (6.6%).

The text below is an attempt to summarize the main barriers for export to the EU, supported by evidence from WTO Committees, Reports and Disputes, data provided by SECEX/MDIC and APEX-Brazil, the World Bank, Mercosur, the European Commission, the Directorate-General for Trade and the USTR.

Tariff Barriers:

- The European Union makes use of tariff escalation associated to high applied tariffs in the tobacco sector.
- GSP modifications: In the course of European GSP revision for 2014, Brazil will be excluded because of its new condition as a high medium-income country. If such revision is put in force, Brazil estimates that soluble coffee and sisal fibers exports could be harmed.
- Regarding food products, the EU tariff system seems to be too complex, which leads to a lack of predictability to Brazilian exporters. The Meursing duty is an additional duty, applied to some food products, calculated according to the composition of the product. The difficulty of calculating Meursing duties imposes an unnecessary administrative burden on, and creates uncertainty for, exporters, especially those seeking to ship new products to the EU.
- Brazil considers the EU tariffs to biofuels could be lowered. Furthermore, the EU could be providing several subsidies programs through the Common Agricultural Policy (CAP) – including measures promoting the use and generation of renewable energy. – The EU transparency standards also present some difficulties in the issuing of conformity certificates. These factors altogether are harmful to Brazilian biofuel exporters.
- Brazil considers the EU applied tariffs for bovine meat *in natura*, chicken and pork to be problematic in some aspects:
 - Pork: multiple tariff-rate quota requirements (77 thousands of tons + 9.3 thousands for the United States and Canada).
 - Bovine meat: the EU established a new regulation on Hilton Beef Quota that caused a disparity of conformity procedures, which resulted in the reduction of the total amount of Brazilian HBQ exports to only 25% of its maximum quota, recorded in 2009.
 - Chicken: Despite of the DSB ruling in the case *EC – Chicken Cuts (Brazil)*, the EU invoked GATT Article XXVIII and revised the applied tariff for four chicken products. Brazil suggests that the revision of the tariff lines was unjustified.
- Brazil suggests that since 2009 the EU has been exporting subsidized sugar above the limit established in its WTO Schedule. In addition, Brazilian exporters face very high tariffs in the EU market.
- Bananas: discriminatory bananas trading regime (US-EU agreement: the EU agreed not to reintroduce measures that discriminate amongst foreign bananas distributors and to maintain a nondiscriminatory, tariff-only regime for the importation of bananas)
- The EU violated its tariff commitments under Information Technology Agreement (ITA) by imposing duties as high as 14 percent on flat panel computer monitors, multifunction printers, and certain cable, satellite, and other set-top boxes.
- Bilateral Negotiations MERCOSUR-EU: Brazil considers of importance to seek tariff zero for orange juice exports and a reduction or elimination of import tariffs for sisal fibers.

Non-tariff Barriers:

- Private Standards: The European Union issues only general technical regulations mostly on health and safety matters. However, the EU relies on standards created by private entities to apply additional requirements. According to the European Commission procedures, only if the exporter complies with all technical regulations and private standards in force it will receive the “EC label”, considered essential by the consumer point of view. In practical terms, if the EC label is not issued it means that the product is not in conformity with the standards approved or supported by the European Commission revealing a pernicious disadvantage for Brazilian products in the European market.
- The European Union also established the Rapid Alert System Food and Feed (RASFF) responsible for notifying inconformity products entering the EU market. However, Brazil indicates that such system could reveal itself as problematic because there are differences between the implementation of the act by each member state and actual provisions in the EU Law. In the use of the system, some Brazilian requirements of information to identify affected product batches have been ignored by the EU.
- The European Union adopted a very strict regulation for the Genetically Modified Organisms (GMO) leading to a gap between it and Brazilian conformity procedures. Those regulations could harm Brazilian exports to the EU and mutual recognition and harmonization negotiations should be considered between the parties.
- Alongside with the RASFF System and the Meursing Tariff Code, the European Union adopted legislation with specific requirements in order to “track any food, feed, food-producing animal or substance that will be used for consumption, through all stages of production, processing and distribution” – see Food Traceability Fact Sheet provided by the EC – Health & Consumer Protection. The EU Food Traceability Regulation might be inconsistent with WTO TBT-SPS provisions because demands specific labeling, thus consumers could identify origin and authenticity of food products (including fruit and vegetables, beef, fish, honey, olive oil amongst others). Furthermore, there are requirements tracing GMO’s products origin and respective labeling. In the same way, animals must be tagged and details of their origin disclosed to the public such as the traceability code of the abbatoir.
- The EU regulatory system is generally considered to be a complex and complicated one, e.g. it does not recognize technical procedures approved by other countries and not yet included in the EU regulations, which potentially caused the rise of production costs and problems regarding certification proceedings. Due to this complexity, Brazilian exporters may turn themselves to opportunities in other markets instead of facing such limitations and specific regulations to access European markets. Some of the sectors affected are unfrozen chicken, bovine meat *in natura*, pork, corn, and soybeans.
- Several problems regarding sanitary and phytosanitary measures and mutual recognition assessment of conformity procedures are faced by Brazilian exports, e.g. bovine meat *in natura* (the EU demand that all property shall be inspected by MAPA in order to evaluate conformity with SPS measures), chicken, pork, dairy products (GMO), nuts (GMO), peanuts (GMO), honey (GMO and labeling requirements), eggs (affects derived products such as frozen cheese bread), fishing products, soybeans and corn (pesticides regulation) among others.
- Food Safety: Concerns regarding hormones related to beef and beef products, cherries, poultry, pork produced with ractopamine, and seafood.

- The European Union considers the possibility of issuing a technical regulation on sustainability criteria to its imported products in order to enhance environmental standards. Such criteria should be applied to fishing products – e.g. the Illegal, Unreported and Unregulated (IUU) fishing technical regulation – and biofuels – e.g. calculation of GEE emissions parameters. Some of these criteria lack transparency. In accordance to Brazil, negotiations could be held in more suitable multilateral fora such as the WTO and FAO.
- The European Union has been aiming at Brazilian agricultural regulatory compliance. In 2011, 10% of the Food and Veterinary Office (FVO) inspections around the world were taken in Brazil. Brazil suggests that might be an excessive interest in Brazilian conformity analysis.
- The European Union mechanism of control of sanitary and phytosanitary measures are hurting Brazilian exports to the EU because of the higher and different standards set by the European Commission, which are considered Codex Alimentarius plus, World Organization for Animal Health (OIE) plus and International Plant Protection Convention (IPPC) plus.
- In the same path, new regulations on climate change are forcing Brazilian exporters to review their production methods. The Emissions Trading System (ETS) issued by the EU consistency with the Kyoto Protocol could be of question, in Brazil's point of view.
- The Restriction of Hazardous Substances Directive (RoHS) implemented by the European Union can also present some difficulties to Brazilian exports because it sets a periodic revision of the criteria list. The decision making process in this proceedings are not considered transparent by Brazil.
- Pharmaceutical Products: nontransparent procedures and lack of meaningful stakeholder input into policies related to pricing and reimbursement, including therapeutic reference pricing and other price controls.
- The Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) may not be consistent to the TBT WTO Agreement. The lack of transparency of its proceedings is also a concern of Brazilian authorities.
- The European Union requires from importers a whole-vehicle type approval prior to bringing them on the EU market – See EU MVFD, Directive 2007/46/EC. The same rules apply to automotive parts or components. EU MFN applied tariff range from 5.3% to 22%.
- Accreditation Rules: the EC Regulation No. 765/2008 requires each Member State to appoint a single national accreditation body and prohibits competition among Member States' national accreditation bodies. The regulation raises market access concerns for foreign producers, whose products may have been tested or certified by conformity assessment bodies accredited by non-European accreditation bodies.

Subsidies:

- The Common Agricultural Policy (CAP) may cause market distortion and indirect distortion upon third markets. Some affected sectors are tobacco and chicken (35% of Brazilian exports in the sector may be affected).
- The European Union provides several credit lines and subsidies programs for the aircraft sector that might be debatable under WTO rules.

Antidumping Duties:

- There are no specific concerns regarding antidumping investigations and duties applied by the European Union towards Brazilian exporters. There are only two antidumping duties in force against Brazilian exporters in aluminum (17.6% dumping margin) and PET film (17.3%) sectors.

Intellectual Property Rights Protection

- Patent filing and maintenance fees in the EU and its Member States remain significantly higher than in other countries.
- The system for the protection of geographic indications may have negative impact on the protection of trademark and market access for some exporters;
- The European Union considers adopting a new regulation in order to enforce and enhance Intellectual Property Rights, including patents, marks, geographic indications, licensing, copyright, digital libraries, cooperation and bilateral negotiations standards towards non-EU countries or other economic blocs, and special rules on violations of IPRs. Brazil suggests that such regulation in the present terms is ought to cause additional trade barriers to Brazilian exporters.
- Another Intellectual Property measure in discussion is the Anti-Counterfeiting Trade Agreement (ACTA) which may harm the health and generic drugs sectors.

Services Barriers

- Television Broadcasting and Audiovisual Services: EU Directive on Audiovisual Media Services (AVMS) does not set any strict content quota, but requires Member States to ensure that on-demand services encourage production of, and access to, EU works.
- Legal Services: Austria, Cyprus, Greece, Hungary, Lithuania, Malta, and Slovakia require EU nationality for full admission to the bar, which is necessary for the practice of EU and Member State law. Belgium and Finland require EU nationality for legal representation services.

Investment Barriers

- EU law imposes some restrictions on foreign investments and, in many instances, individual Member State policies and practices have had a more significant impact on foreign investment than EU-level policies.

Government Procurement

- Although the EU is a signatory to the WTO Agreement on Government Procurement (GPA), the lack of EU statistics makes it difficult to assess the level of non-EU participation.
- EU content requirement applies to foreign suppliers of goods and services in the following sectors: water (production, transport, and distribution of drinking water); energy (gas and heat); urban transport (urban railway, automated systems, tramway, bus, trolley bus, and cable); and postal services.

Customs Administration

- There is a lack of EU institutions or procedures ensuring that EU rules on classification, valuation, origin, and customs procedures are applied uniformly throughout the 27 Member States.

Electronic Commerce

- Concerns over data privacy regulation and legal liability for companies doing business over the Internet in the EU.

III.3. Trade Barriers in Brazil

Brazil holds, as Table 15 shows, a simple average MFN tariff of 10.3% for agricultural products and a simple average of 14.2% for non-agricultural products:

Table 15 – Brazil Tariffs and Imports: Summary and duty ranges

Summary			Total	Ag	Non-Ag	WTO member since					1995
Simple average final bound			31.4	35.4	30.8	Binding coverage:			Total	100	
Simple average MFN applied		2011	13.7	10.3	14.2				Non-Ag	100	
Trade weighted average		2010	10.2	11.4	10.1	Ag: Tariff quotas (in %)					0.2
Imports in billion US\$		2010	179.7	8.0	171.6	Ag: Special safeguards (in %)					0
Frequency distribution		Duty-free	0 <= 5	5 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100	NAV	
		Tariff lines and import values (in %)									in %
Agricultural products											
Final bound		2.7	0.0	0.4	1.1	7.1	74.9	13.7	0	0	
MFN applied		2011	6.2	6.1	56.7	15.5	14.7	0.8	0	0	
Imports		2010	2.1	1.7	61.9	19.0	11.6	3.7	0	0	
Non-agricultural products											
Final bound		0.7	0.1	0.6	2.1	23.7	72.7	0	0	0	
MFN applied		2011	5.2	14.7	11.5	28.3	26.2	14.2	0	0	
Imports		2010	28.7	8.8	9.9	25.4	19.3	8.0	0	0	

Source: WTO Tariff Profiles – Brazil (accessed on 30 August 2013).

As previously shown in both United States and European Union WTO Tariff Profiles, Brazil also reveals some higher averages for specific sectors. Brazil applies a simple average MFN tariff of 18.5% for dairy products, 17.2% for beverages and tobacco; and 16.5% for sugar and confectionery, amongst agricultural products, as Table 16 demonstrates:

Table 16 – Brazil WTO Tariff Profiles – Tariffs and imports by product groups

Product groups	Final bound duties				MFN applied duties			Imports	
	AVG	Duty-free	Max	Binding	AVG	Duty-free	Max	Share	Duty-free
		in %		in %		in %		in %	in %
Animal products	37.8	5.4	55	100	8.9	7.9	16	0.1	2.9
Dairy products	48.8	0	55	100	18.5	0	28	0.2	0
Fruit, vegetables, plants	34.1	1.0	55	100	9.7	5.4	14	1.0	1.7
Coffee, tea	34.1	0	35	100	13.3	0	20	0.2	0
Cereals & preparations	42.9	0.8	55	100	11.8	8.7	20	1.8	1.2
Oilseeds, fats & oils	34.6	0.4	35	100	8.0	7.4	12	0.5	1.1
Sugars and confectionery	34.4	0	35	100	16.5	0	20	0.0	0
Beverages & tobacco	37.7	0	55	100	17.2	0	20	0.3	0
Cotton	55.0	0	55	100	6.4	0	8	0.0	0
Other agricultural products	28.8	7.9	55	100	7.6	9.7	14	0.3	15.2
Fish & fish products	33.6	3.8	35	100	10.0	6.7	16	0.6	30.2
Minerals & metals	32.9	0.6	35	100	10.1	6.3	20	17.2	39.0
Petroleum	35.0	0	35	100	0.2	96.7	6	11.8	99.3
Chemicals	21.1	0.4	35	100	8.3	1.2	18	15.7	4.8
Wood, paper, etc.	28.4	2.6	35	100	10.7	3.5	18	1.5	17.0
Textiles	34.8	0	35	100	23.3	0	35	2.6	0
Clothing	35.0	0	35	100	35.0	0	35	0.6	0
Leather, footwear, etc.	34.6	0	35	100	15.7	0.6	35	2.5	0.2
Non-electrical machinery	32.4	0.4	35	100	12.7	12.0	20	15.7	17.8
Electrical machinery	31.9	2.6	35	100	14.1	10.8	20	11.9	17.7
Transport equipment	33.1	0	35	100	18.3	10.7	35	10.9	14.8
Manufactures, n.e.s.	33.0	0.8	35	100	15.3	8.7	35	4.6	27.2

Source: WTO Tariff Profiles – Brazil (accessed on 30 August 2013).

On non-agricultural products, Brazil applies relatively high tariffs, which is also verified frequently in other developing countries. Thus, for instance, simple average MFN tariff is of 35.0% for clothing, 23.3% for textiles and 18.3% for transport equipment.

As it is shown, Brazil's MFN applied tariffs varies depending on the importance of the economic sector, however, some nontariff barriers are also present. Based on reports from the USTR (Foreign Trade Barriers 2013) and the EU (Trade and Investment Barriers 2013), a summary of Brazil's major barriers are presented below.

Tariff Barriers:

- Brazil imposes relatively high tariffs across a wide spread of sectors, including automobiles, automotive parts, information technology and electronics, chemicals, plastics, industrial machinery, steel, and textiles and apparel;
- Brazil continues not allowing imports of wheat under the tariff-rate quota (TRQ) for wheat established on its Uruguay Round commitments.

Nontariff Barriers:

- Complex domestic tax system;
- Lack of transparency surrounding import license requirements.
- Resolution 323, Standard for Certification of Telecommunications Products: the Resolution only allows testing of products to be performed within Brazil, except in cases where the equipment is too large or too costly to transport. As a result, foreign suppliers must present virtually all of their information technology and telecommunications equipment for testing at laboratories located in Brazil before that equipment can be placed on the Brazilian market.

- Stricter customs controls since the last quarter of 2011. Textiles and clothing are subject to physical inspection and samples can be subject to laboratory tests. No progress can be reported.
- Health Products: applicants have had to submit to ANVISA a Good Manufacturing Practices (GMP) certificate with their application for registration of health products in Brazil. ANVISA issues a GMP certificate only after it has inspected the manufacturing premises. Although Brazil intends to accelerate GMP inspections, the average waiting time from submission of the inspection request until completion of the inspection is twenty months. This delay hinders medical device exports to Brazil.
- Food Safety: Brazil bans imports of U.S. and EU live cattle, beef, and beef products following the detection of a BSE-positive animal in the United States and EU. In late 2008, Brazil promulgated a draft regulation that establishes sanitary requirements for the importation of ruminants and ruminant products from countries affected by BSE.
- Pre-listing of exporting establishments and regionalization: The lack of a swift pre-listing provided by Brazil to all EU Member States results in an adverse impact on trade, since EU Member States wishing to add a new establishment for exports into Brazil should wait first for a veterinary inspection mission to be carried out on-the-spot by the Brazilian competent authorities. In addition, Brazil refused to recognize regionalization to certain EU Member States on the basis of the presence of Classical Swine Fever in limited regions of EU Member States, resulting in import restrictions on exports of pigs, pork products and other pig derivatives (porcine semen and embryos).
- Increased taxes on industrial products (IPI) on sales of automotive vehicles and trucks that do not meet certain conditions of local production (in order to benefit from fiscal relief, 65% of the vehicles' components must be produced in Brazil; companies have to invest at least 0.5% of their gross sales in R&D in Brazil and must carry out a number of essential manufacturing processes in Brazil).
- Use of indirect taxes to afford protection to Brazilian manufacturers against imports in sectors such as electronics and telecommunication equipment.
- Domestic regulation and own certification procedures for car parts (do not accept conformity assessment procedures (testing and audits) carried out in the EU).
- Export restrictions on raw materials

Subsidies

- Government subsidies are granted to industry, agriculture and livestock sectors.

Export taxes

- Brazil used to apply two different export taxes on leather raw materials :
 - Since 1995, a 9% export tax on bovine raw hides, skins (HS 4101, 4102, 4103), which was due to expire on 30 November 2003, but is still in place.
 - Since 2004, a 7% export tax on semi-processed bovine hides and skins, including wet-blue (HS 4104.11 and 4104.19), which was due to be reduced to 4% in 2007 and to 0% from 1 January 2008 onwards. However, by CAMEX Resolution N°42 of 19 December 2006, instead of reducing the tax to the foreseen 4%, the Brazilian Government raised this export tax to 9% as from 1 January 2007 without providing any phasing-out schedule.

Government Procurement

- Foreign companies without a substantial in-country presence regularly face significant obstacles to winning government contracts (regulations allow a Brazilian state enterprise to subcontract services to a foreign firm only if domestic expertise is unavailable);
- Brazil's regulations regarding the procurement of information technology goods and services require federal agencies and parastatal entities to give preferences to locally produced computer products based on a complicated and nontransparent price/technology matrix;
- Petrobras' local content requirements.
- In 2010, Brazil introduced a 25% horizontal preference margin in its national public procurement law, which was immediately applied to the Information and communications technology sector.

Services Barriers

- Audiovisual Services and Broadcasting: domestic film quotas for theatrical screening and home video distribution; taxes on each foreign film released in theaters, on foreign home entertainment products, and on foreign programming for broadcast television etc.
- Express Delivery Services: high import taxes, an automated express delivery clearance system that is only partially functional and low de minimis exceptions from tariffs for express shipments.
- Financial Services: U.S. companies seeking to enter Brazil's insurance and reinsurance market must establish a subsidiary, enter into a joint venture, or acquire or partner with a local company; banks are subject to case-by-case approval by the insurance regulator SUSEP.
- Telecommunications: auction for mobile broadband services (commitment to meet specific milestones over time to ensure specific local content for the infrastructure, including software, installed to supply the licensed service and to ensure a 70 percent local content ratio in the infrastructure by the tenth year).
- Maritime transport services sector: discriminatory treatment on maritime transport services, including in particular the protection of traffic in the Mercosur region, due to bilateral cargo sharing agreements between countries in the region that reserve access to the market only to vessels flying the flag of those countries through a first refusal basis.

Investment Barriers

- Foreign Ownership of Agricultural Land: the area bought or leased by foreigners cannot account for more than 25 percent of the overall area in its respective municipal district. Additionally, no more than 10 percent of the land in any given municipal district may be owned or leased by foreign nationals from the same country.

Intellectual Property Rights Protection

- Backlog in examining patent applications;
- Internet piracy;

- Inadequate protection against unfair commercial use of undisclosed test and other data generated to obtain marketing approval for pharmaceutical products.

IV. RULES IN PREFERENTIAL TRADE AGREEMENTS

Modern PTAs have, besides ambitious schedules of preferential tariffs, a broad regulatory framework to deal with bilateral international trade flows of goods and services. This set of rules deal with several trade related activities and may have a direct impact on market access of the preferential trade partners.

As presented before, these rules often surpass the scope of the agreements of the multilateral trading system, and encompass themes not regulated by the WTO. Those rules, called WTO plus and WTO extra, may enlarge the trade liberalization between the preferential partners, or may create tools that restrict trade flows, reducing the market access in some areas – for example, bilateral and sectorial safeguards.

Thus, the preferential regulatory framework allows both to enhance the trade liberalization promoted in by the PTA and to provide tools to sensitive sectors to protect themselves from negative impacts of an enlarged market access in their domestic markets.

IV.1. PTAs of the 21st Century: TTP and TTIP

With the dead-lock of multilateral negotiations there is an urgent need to create trade rules that are able to regulate the challenges of modern international trade, such as global production chains, transnational companies and e-commerce. The USA and the EU are leading the negotiations on such issues, through what is being called 21st century PTAs: the Trans-Pacific Partnership – TPP, between USA, Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore and Vietnam; and the Transatlantic Trade and Investment Partnership – TTIP, between the USA and the EU.

The negotiations of these two agreements present an ambitious agenda, with substantial elimination of tariffs in goods, enlargement of market access in services and government procurement, harmonization and mutual recognition of technical, sanitary and phytosanitary measures.

A relevant issue for the Brazilian agricultural sector will be the negotiation by the EU of preferential tariff quotas to the USA. These quotas shall impact and reduce the global tariff quotas offered by EU in its agricultural market and can significantly harm the Brazilian exports.

In addition, the enlargement of market access of the trade partners participating in these two agreements will increase trade flows between these parties and will reduce flows from other players to these destinies - such as Brazil (trade diversion), since Brazilian products will not benefit from market access privileges.

The agreements will also include several WTO plus and extra rules such as enhanced intellectual property protection, as proposed by the USA in the TPP, regulation of e-commerce, competition rules, liberalization and protection of investments, regulation of

trade related aspects of state owned enterprises, provisions on small and medium sized enterprises, rules of international supply chains, amongst other themes⁶. One major concern in the development of WTO plus rules in PTAs is that they will eventually affect all trade players and not only the ones that have directly participated in the negotiation of the PTA.

The rules of deep integration negotiated within those agreements, which regulate behind the border barriers, such as technical regulations and intellectual property, are likely to be extended to all other players, since these rules imply in a modification of the countries' national legislation to be applied to all goods or services trade within the territory of the respective country. Therefore, Brazilian products are likely to face technical and sanitary standards negotiated within the TTIP or enhanced intellectual property protection in patents registered in any of the TPP partners, which may also damage Brazilian exports.

Brazil will have to adapt with several of the requirements present in these two agreements without having participated in the drafting of such rules, and thus, without being able to impose its own interests and perspectives in the regulation of such themes. Therefore, if the country does not participate in this movement of negotiation of 21st century PTAs, it will become a rule taker, instead of a rule maker, bearing all the costs related to its late arrival in this new generation of international trade rules.

The TPP and the TTIP shall promote a deep economic integration within its members, which should result in the elimination of several trade barriers, regulatory harmonization, and creation of regional value chains. The benefits of this deep integration include an increase in business opportunities (trade in goods and services and investments) amongst the partners as well as the exchange of know-how and technology through the internationalized production chain, enhancing the countries' competitiveness and negatively affecting trade partners that do not participate in this process of regional integration.

The following topics will present the most relevant rules in US and EU previous PTAs and their proposals to current negotiations.

IV.2. USA

The USA has developed over the past years a model of PTA which includes binding rules in a wide range of trade related topics. The TPP and the TTIP, as well as the PTA with Korea (KORUS) that entered into force in the past year shall serve as a base for future negotiations.

Concerning the rules of origin, the most relevant proposal by the US in the TPP negotiations is the “yarn forward” for textiles, already implemented in other agreements. This strict requirement confers origin only for textile products fully produced in one or more member countries of the preferential agreement. This rule of

⁶ FERGUSSON, I.; COOPER, W.; JURENAS, R.; WILLIAMS, B., *The Trans-Pacific Partnership Negotiations and Issues for Congress*, Congressional Research Service Report for Congress, junho de 2013, p. 47-48 and *Interim Report to Leaders from the Co-Chairs EU-US High Level Working Group on Jobs and Growth*, June 2012

origin can be interesting for Brazilian textile industry, considered to be complementary to the American industry, and that also defends the yarn forward criteria⁷.

Regarding trade defense issues, the most relevant clauses present in US's agreements are related to sectorial safeguards, applied to agricultural and textile products, during a transition period. PTAs with Australia, Morocco and Chile establish a reference price below which agricultural safeguards can be applied. The agreement with Australia also allows the application of safeguards when exports exceed in 110% the amount established in the schedule of the PTA⁸.

In the issue of technical, sanitary and phytosanitary barriers to trade, US PTAs usually present mechanisms of mutual recognition of these measures by the parties of the agreement. This mechanism considers that the technical and sanitary requirements present on the legislation of each country have equivalent level playing fields and can be recognized by the other country⁹.

Trade in services is an area of great interest to the US. The country usually demands a negative schedule of commitments in its PTAs, by which only the services sectors that will not be liberalized are listed. Another particularity of the US model, based on NAFTA, is that it excludes mode 3 (commercial presence) from the rules in trade in services to regulate the activity in the investments chapter. Due to the same reasoning, financial services are also regulated in a separate chapter.

The increase of intellectual property protection is also a major issue for the US. The KORUS agreement has substantially enhanced such protection and proposals on the TPP aim to increase even further the duration of author rights and to strengthen the protection of patents, especially in pharmaceutical products¹⁰.

Investments regulation includes clauses regarding the protection of international investments and investor-state arbitration, in the model of bilateral investments agreements (BITs).

An interesting point is the current debate around the ancient American position regarding the freedom of capital flows. US PTAs usually establish the complete freedom of capital flows, but, due to the financial crisis of 2008, there are some that argue that capital controls are a necessary measure to promote economic stability in periods of crises and some degree of controls must be allowed. This change in position will possibly be reflected in the TPP¹¹.

⁷ FIESP, *Análise Quantitativa das Negociações Internacionais – Relatório do projeto*, São Paulo, 2011, p. 56

⁸ CARVALHO, Marina A. E., *Medidas de Defesa Comercial e Regras de Origem: Panorama de Regulação em Acordos Regionais de Comércio Celebrados por União Europeia, Estados Unidos, China e Índia*, Texto para Discussão 1811. IPEA, 2013

⁹ PIERMARTINI, Roberta; BUDETTA, Michelle, "A Mapping of Regional Rules on technical barriers to trade", in ESTEVADEORDAL, A., et. al., *Regional Rules in the Global Trading System*. Cambridge: Cambridge University Press, 2009, p. 259

¹⁰ FRANKEL, S. "The intellectual property chapter in the TPP". In: LIM, C.L.; ELMS, D.K.; LOW, P. (orgs.). *The Trans – Pacific Partnership: A Quest for a Twenty-First-Century Trade Agreement*. New York: Cambridge University Press: 2012, pp. 157-170

¹¹ FERGUSSON, I.; COOPER, W.; JURENAS, R.; WILLIAMS, B., *The Trans-Pacific Partnership Negotiations and Issues for Congress*, Congressional Research Service Report for Congress, junho de 2013, p. 39

Government procurement is also an issue of interest to the US. US agreements frequently prohibit preferential treatment to national products in procurement covered in its PTAs. The US also regulates competition, environment and social clauses in its agreements as well as the new topics proposed in TPP and TTIP negotiations, which point to the extensiveness of the trade regulation and the deep integration sought by the country in its preferential negotiations.

IV.3. EU

The EU also presents an extensive regulation in a broad range of themes in its PTAs. In its previous agreements, several clauses in themes such as environment, labor and competition were merely cooperative, with no binding mechanisms. But there has been a recent change towards obligatory clauses in these issues.

Regarding rules of origin, the preferred method by the EU is to establish transformation process for each product, which can result in a complex certification procedure. Some European rules confer origin for products with a low aggregated value in the continent, allowing for products majorly produced in other countries with cheaper labor costs to be eligible to preferences by EU's PTA partners.

In trade defense instruments, the major concern is, again, the mechanism of agricultural safeguards, present EU's PTAs.

Technical, sanitary and phytosanitary barriers to trade are usually regulated by the harmonization – through the export of European standards – of each partner's domestic legislations¹². Nevertheless, the negotiation of harmonization clauses and, especially, mutual recognition are of great interest to Brazil in several sectors. Many agricultural exports face SPS barriers and an extensive range of industrial products is directly or indirectly affected by the REACH program, a complex regulation regarding chemicals,.

Trade in services is a market of interest to the EU. The EU usually follows the model of the GATS, with a positive schedule of commitments, where only the liberalized sectors are listed, and with the inclusion of mode 3 in the services chapter. But the recent EU-Korea agreement also regulates the liberalization of investments related to this mode of services¹³.

In intellectual property, the EU also aims to enhance the level protection and has, together with the US, established this as one of the objectives of the TTIP, even though there are some long standing differences between European and American legislation that will be kept. A topic of great interest of the EU regarding intellectual property is geographic indication.

¹² PIERMARTINI, Roberta; BUDETTA, Michelle, “A Mapping of Regional Rules on technical barriers to trade”, in ESTEVADEORDAL, A., et. al., *Regional Rules in the Global Trading System*. Cambridge: Cambridge University Press, 2009, p. 258

¹³ RORIZ, J.H.R.; TASQUETTO, L.S. *Propriedade intelectual, serviços e investimentos: panorama de regulação em acordos regionais de comércio celebrados por União Europeia, Estados Unidos, China e Índia*. IPEA, TD 1801, 2012, p. 46-48

The regulation of investments in a manner similar with BITs is common in EU's PTAs as well and another theme of the TTIP, which aims both liberalization and protection of international investments and shall present and investor-state arbitration clause¹⁴.

Government procurement is also regulated in EU's PTAs and does not present significant differences if compared with the US model. The chapter usually regulates on non-discriminatory market access, fair and equitable treatment and transparency and it also limits offsets and conditionalities in government procurements covered by the PTA. Furthermore, no or few flexibilities regarding special and preferential treatment for developing countries are allowed¹⁵.

Competition, environment and labor clauses have changed in the EU most recent agreements from cooperative to binding clauses. Furthermore, the increasing concern with environmental and climate change issues has lead the EU to develop several rules on the subject, mainly in the form of technical standards and the level playing field sought by the bloc on the negotiation of environmental clauses in PTAs may have been increased.

¹⁴ *Interim Report to Leaders from the Co-Chairs EU-US High Level Working Group on Jobs and Growth*, June 2012

¹⁵ BADIN, Michelle R. S. *A Regulação de “Novos Temas” em Acordos Preferenciais de Comércio Celebrados por União Europeia, Estados Unidos, China e Índia: Pontos Relevantes para o Brasil*. IPEA, TD 1773, 2012

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SECTION 2

BRAZIL – IMPACTS OF THE TTIP

Simulations on the impacts of TTIP for Brazil.

In this Section the construction of different scenarios are simulated, considering the following sectors: agriculture, industry and services.

The idea is to estimate opportunity costs for Brazil of not participating in the TTIP. The hypotheses are: partial and full liberalization of tariff and non-tariff barriers. The audacious scenario of Brazil participating in the TTIP is considered.

I. MODELING ISSUES

The GTAP computable general equilibrium model was used in the present simulations in order to evaluate the first round effects of the costs and opportunities for Brazil of the conclusion of the TTIP. For a description of the standard GTAP model, see Hertel (1997).

The GTAP model is a global comparative static applied general equilibrium model. The model identifies 57 sectors in 153 regions of the world. Its system of equations is based on microeconomic foundations providing a detailed specification of household and perfect competitive firm behavior within individual regions and trade linkages between regions. In addition to trade flows the GTAP model also recognizes global transportation costs.

The GTAP model qualifies as a Johansen-type model. This model estimates the impacts of external shocks (gains and losses of a PTA) through a comparative static modeling (before and after the shock). The solutions are obtained by solving the system of linearized equations of the model. A typical result shows the percentage change in the set of endogenous variables (GDP, exports and imports, exchange rate and land value) after a policy shock is carried out, compared to their values in the initial equilibrium, in a given environment. The schematic presentation of Johansen solutions for such models is standard in the literature (see Dixon et al (1992) and Dixon and Parmenter (1996)).

For the modeling of the reduction of non-tariff barriers, this project used the same methodology presented in Ecorys, 2009.

II. DATA BASE

The GTAP 8 database combines detailed bilateral trade, transport and protection data characterizing economic linkages among 129 regions, together with individual country input-output data bases which account for inter-sectorial linkages within regions. The dataset is harmonized and completed with additional sources to provide the most accurate description of the world economy in 2007 (the last available data base for GTAP).

The main applied protection data used in the GTAP 8 data base originates from ITC's MacMap database, which contains exhaustive information at the tariff line level. The ITC database includes the United Nations Conference on Trade and Development's (UNCTAD's) Trade Analysis and information system (TRAINS) data base, to which ITC staff added their own data. The model transforms all specific tariffs in ad valorem tariffs.

In order to capture the first round effects, the simulations were carried out using a standard GTAP hypothesis, which considers perfect factor mobility for labor and capital and imperfect factor mobility for land and natural resources. National aggregate supply of factors of production is exogenous and production technology for firms is given.

The way the economy variables are affected by horizontal reductions in bilateral import tariffs of the TTIP partners will depend on the resulting behavior of domestic relative prices. Domestic relative prices of the TTIP partners will be altered in such a way that import competition from the PTA partner will be favored, as the economy becomes more preferentially open to trade. Overall efficiency in resource allocation tends to be improved and, by the same token, possible gains from trade may take national welfare a step up.

Notwithstanding the aggregate benefits from improved resource allocation, regions might be adversely affected through re-orientation of trade flows – trade diversion – as relative accessibility changes in the system. Thus bilateral aggregate gains from trade are not necessarily accompanied by generalized regional gains in welfare. This issue of trade diversion versus trade creation has been an important one in the international trade literature, especially in the case of welfare evaluations of preferential trade agreements.

III. RESULTS OF THE SIMULATIONS

The results in these simulations present the impacts for exports and imports, as well as the gains and losses for the sectorial GDP, in order to evidence the sensitiveness of each sector of the Brazilian economy in relation the TTIP.

The choice for impacts on sectorial GDP can be explained as an attempt to explore the global effect of each PTA in a more complete evaluation since GDP includes the impacts on production, exports and imports.

The sectorial results are presented according to the following classification:

Variation on GDP (%)	Classification
0 – 1	(+) or (-)
1 – 2	(++) or (--)
2 – 3	(+++) or (---)
More than 3	(+++++) or (----)

In this section, the main results from the simulations are presented.

Simulation 1 – Impacts of the TTIP on Brazil

This simulation presents the impacts of the negotiation of the TTIP, between the EU and the US, to the Brazilian economy.

Three different hypotheses are proposed: (i) a full tariff reduction between US and EU; (ii) a full tariff elimination plus a 50% reduction of non-tariff barriers (NTB); and (iii) a full elimination of both tariffs and NTBs.

Results

When Brazil remains outside the TTIP, the country's exports are reduced:

- (iv) an exclusively tariff reductions results in a small drop of 0,6% of Brazilian exports to the US and the EU, corresponding to a decrease of US\$0.4 billion;
- (v) a full tariff reduction plus a 50% NTB reduction results in a decrease of 5% of Brazil's exports, corresponding to US\$3.8 billion reduction; and
- (vi) a full liberalization of both tariff and NTBs for TTIP result in a drop of 10% of the exports, corresponding to a US\$7.8 billion decrease.

With the expected increase of trade flow between US and EU, the share of Brazil in the World trade will be reduced.

Regarding imports, when Brazil remains outside the TTIP:

- (iv) a full tariff reduction between the US and the EU results in a decrease of 0,4% of Brazil imports from the US and the EU, corresponding to 0.3 billion;
- (v) a full tariff elimination plus 50% reduction in NTBs results in a drop of 4% of imports, corresponding to a decrease of US\$3.1 billion; and
- (vi) a scenario of full liberalization of both tariffs and NTBs results in a decrease of 8% of imports, corresponding to US\$6.4 billion.

Despite the fact that Brazil does not suffer expressive losses in its trade balance with the negotiation of TTIP between the US and the EU, considering the first round effects presented by the simulation, the comparison shows the opportunities lost by Brazil by remaining outside the integration process. Furthermore, it is possible to assume that the TTIP will result in gains of competitiveness for its partners, while Brazil, by remaining outside of the agreement, will remain in its current level, which will cause further losses in the country's trade balance.

Simulation 1 – Impacts of TTIP on Brazil: Macroeconomic Variables

Macroeconomic Variables	TTIP	TTIP+NTB (50 %)	TTIP+NTB (100 %)
Variation in bilateral exports (US\$ mi, F.O.B., 2012)	-453	-3,778	-7,858
Variation in bilateral exports %	-0.6%	-5.0%	-10.4%
Variation in bilateral imports (US\$ mi, F.O.B., 2012)	-320	-3,121	-6,401
Variation in bilateral imports %	-0.4%	-3.9%	-8.0%
Terms of trade	-0.1%	-0.6%	-1.3%
Real wage	0.0%	0.0%	-0.1%
Capital gains	0.0%	-0.1%	-0.1%
Land gains	-0.4%	-2.7%	-6.2%
Real exchange rate	-0.1%	-1.0%	-2.2%

Source: CGTI-FGV

In the sectorial analysis, the simulation presents the following results for each sectorial GDP:

For the agricultural sector, the conclusion of the TTIP results in small losses to the majority of the agricultural sectors, with a slightly better scenario according to the level of liberalization of NTBs. One factor that should affect Brazilian agricultural exports to the EU is that any preferential tariff quotas offered by the EU to the US should affect other countries' market access to the EU, since the global tariff quotas will be shared by many partners, with the US benefiting from a larger share of such global quota. Regarding the NTBs, the results of the simulation show that Brazil will benefit from the elimination of NTBs between the two countries.

For the industry, the conclusion of the TTIP results in small gains for a number of sectors. This can be explained by the fact that the increase of trade flows and economic integration between the EU and the US will create some demand for exports from other countries as well.

In services the scenario is not very different from the industry, with small gains for Brazil in the agreement between the EU and the US.

Simulation 1 – Impacts of the TTIP on Brazil: Sectorial Analysis

	TTIP	TTIP+NTB (50 %)	TTIP+NTB (100 %)
Agriculture	4	5	7
Industry	12	12	12
Services	8	10	11
+	24	25	24
++	0	2	4
+++	0	0	2
++++	0	0	0
Total	24	27	30

Source: CGTI-FGV

Simulation 2 – Impacts of the participation of Brazil on the TTIP

This simulation presents the impacts to the Brazilian economy of an hypothetical participation of the country in the negotiations of the TTIP.

The hypothesis assumed for this participation are: (i) a full liberalization of both tariff and NTBs; and (ii) a 50% reduction of tariffs in agriculture for the US and the EU and a full liberalization of all other tariffs and NTBs; and (iii) a 50% liberalization of EU and US's agricultural sectors, 50% liberalization of Brazil's industry and services and a full liberalization of non-tariff barriers for all partners.

Results

When Brazil adheres to the TTIP, its exports present a significant increase:

- (iv) a full liberalization of tariffs and NTBs for all three partners results in a strong increase of 126% of Brazilian exports, corresponding to a US\$95.4 billion raise; and
- (v) with a more realistic 50% reduction of agricultural tariffs plus a full liberalization of all other tariffs and NTBs results in an increase of 102% of the country's exports, corresponding to US\$ 77.3 billion.
- (vi) with a 50% reduction of EU and US agricultural tariffs, a 50% reduction of Brazilian industrial tariffs a full liberalization of non-tariff barriers for all partners, Brazilian exports increase by 121% , corresponding to US\$91.5 billion¹⁶.

In the TTIP, there is a very expressive increase in the exports of agricultural products, which explains the gains in the land value and the valorization of the Brazilian real.

Regarding imports, when Brazil participates in the TTIP:

- (iv) full liberalization of tariffs and NTBs results in an increase of 54%; corresponding to a US\$43.1 billion rise in imports from the US and the EU; and
- (v) a 50% liberalization in agricultural tariffs and a full liberalization in other tariffs and NTBs results in an increase of 46,5%, corresponding to US\$37.2 billion.
- (vi) a 50% liberalization in the agricultural sectors of the EU and US, a 50% liberalization in the Brazilian industrial sector and a full liberalization of non-tariff barriers for all partners results in a increase of 34.9%, corresponding to US\$27,9 billion¹⁷.

¹⁶ Values from Secex (US\$ F.O.B.) for 2012

¹⁷ Values from Secex (US\$ F.O.B.) for 2012

Simulation 2 – Impacts of the participation of Brazil on the TTIP - Macroeconomic Variables

Macroeconomic Variables	TTIP + Brazil (100% + NTB)	TTIP + Brazil (50% ag + NTB)	TTIP + Brazil (50% ag + 50% ind. + NTB)
Increase in bilateral exports (US\$ mi, F.O.B., 2012)	95,433	77,374	91,504
Increase in bilateral exports %	126.3%	102.4%	121,1%
Increase in bilateral imports (US\$ mi, F.O.B., 2012)	43,130	37,209	27,926
Increase in bilateral imports %	53.9%	46.5%	34,9%
Terms of trade	16.0%	10.7%	16,9%
Real wage	0.4%	0.8%	0,4%
Capital gains	1.1%	1.1%	1,0%
Land gains	198,4%	87.7%	191,2%
Real exchange rate	15.2%	10.5%	15,9%

Source: CGTI-FGV.

In the sectorial analysis, the simulation presents the following results for each sectorial GDP:

In a scenario of participation of Brazil in the TTIP, there are highly expressive gains for the majority of agricultural sectors in all three scenarios. This presents the greatest costs of opportunity of Brazil remaining outside the Trans-Atlantic integration process.

For the industry, when Brazil participates in the TTIP, there are significant losses for the majority of Brazil's industrial sectors in all cases, explained by the impact of the exchange rate.

For services, small and medium losses for the majority of sectors are verified.

Simulation 5 – Impacts of the TTIP on Brazil: alternative scenario - Sectorial Analysis

	TTIP + Brazil (100% + NTB)	TTIP + Brazil (50% ag + NTB)	TTIP + Brazil (50% ag + 50% ind. + NTB)
Agriculture	13	13	13
Industry	2	3	2
Services	5	5	6
+	5	5	6
++	3	3	3
+++	0	0	1
++++	12	13	11
Total	20	21	21

Source: CGTI-FGV.

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