

Tax elimination on terminal handling charges of the sectoral importers: assessing the economic effects in Brazil



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Tax elimination on terminal handling charges of the sectoral importers

SCOPE

METHODOLOGICAL
STRATEGY

RESULTS

CONCLUSIONS

➤ Globalization

- Internationalization, fragmentation and integration of production processes and markets.

- Commercial liberalization

- Communication

- Commercial agreements

- Logistical processes

➤ Logistics chains

- Relative competitive trends are dependent on functionality, efficiency and transport costs.

- Sánchez et al. (2003): port costs and the sector's productivity influence competitiveness in the world market.

➤ Trade facilitation

- Global trend of tariff and non-tariff barriers reduction.

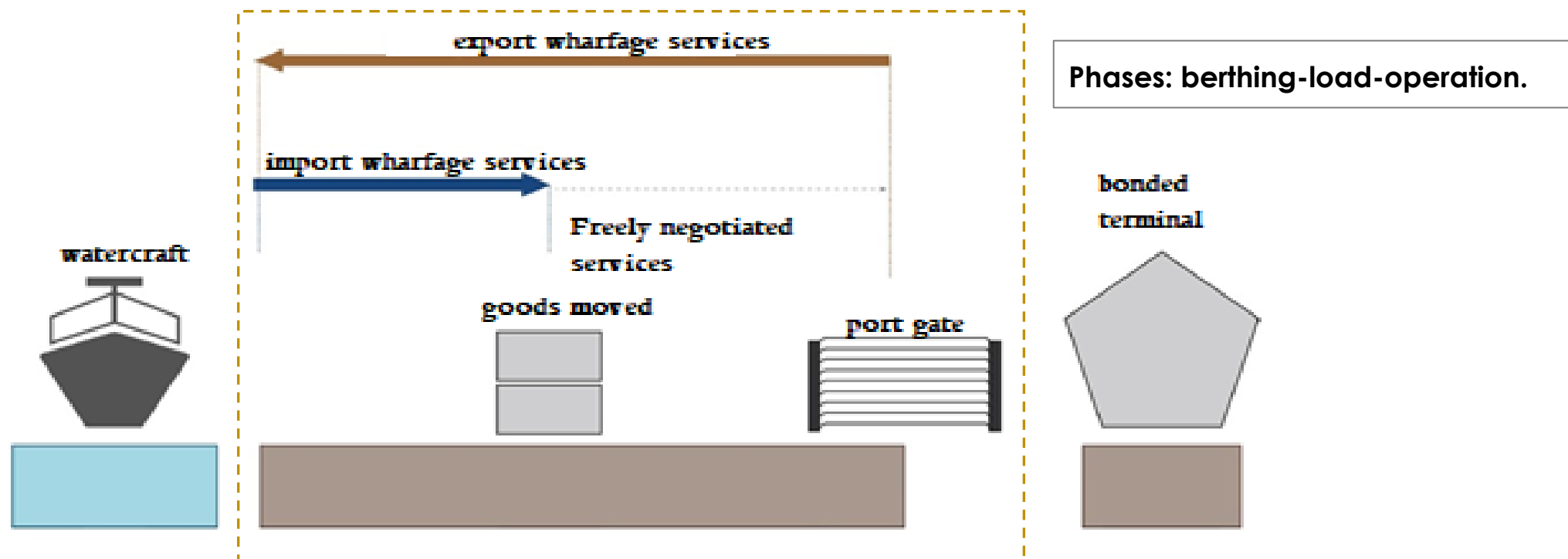


➤ Trade facilitation

- Global trend of tariff and non-tariff barriers reduction.
- It covers all direct and indirect costs generated in the import and export operations of a port system.
- Trade Facilitation Agreement (TFCA), negotiated by over 150 countries in 2013.

- **Objective: to reduce the costs associated with the trade of goods through customs offices around the world, such as simplifying and reducing bureaucracy of procedures and eliminating distorting measures on the competitiveness of traded products.**





Services charged by THC on import and export

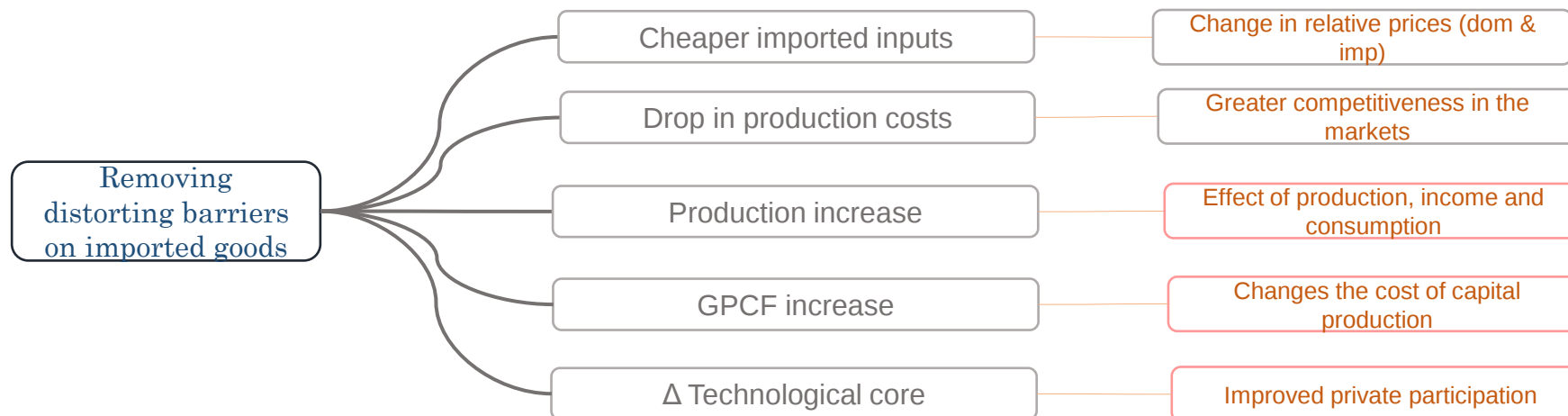
Source: adapted from Fernandes (2016).

The WTO describes that the import operation takes place before the goods are unloaded (art. VII of the GATT), and the Brazilian tax code determines that only expenses incurred until importation, which generates the Taxes, can be included in the customs value.

The port handling fee between the unloading of goods in the national territory and customs clearance is the basis for calculating taxes on imports, perhaps the only one in the world. The justification of this policy defines an import operation at the time the goods are moved.



- To analyze the economic effects of an exclusion of the port foreclosure tax on the basis for calculating the import tax on the Brazilian economy, taking into account the redistributive effects on the country's productive composition and technological base.
- The inclusion of this tax inflates the cost of imports and affects business conditions and sectoral competitiveness in the country's domestic and foreign markets, as well as countering the world trend of trade facilitation.

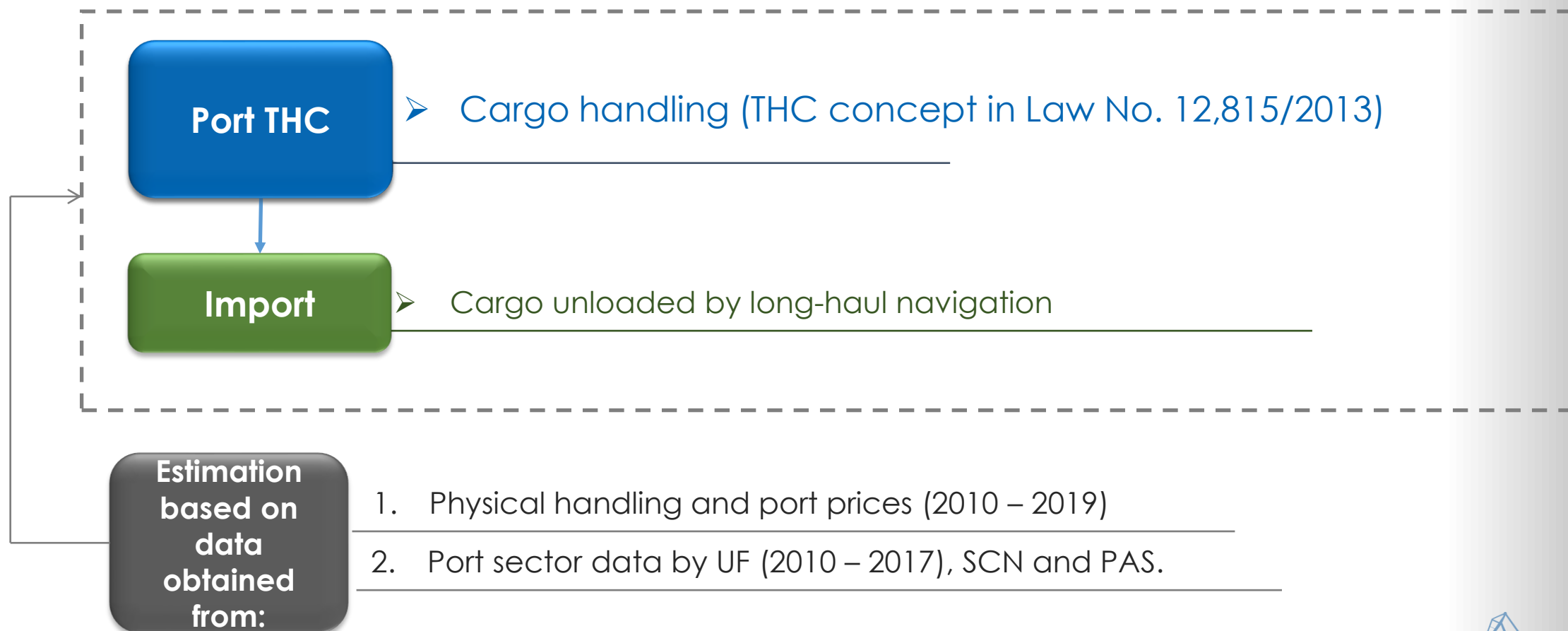


The Brazilian port system

- **34** organized public ports and **147** terminals for private use, spread over a coastline of **7367** kilometers.
- TUP is a port facility operated under authorization and located outside the organized port area. In 2019, TUPs represented 66% of the total volume handled in the sector.
- The regulatory framework is centralized at the National Secretariat of Ports and Waterway Transport (SNPTA). And ANTAQ oversees the contracts and monitors the operational performance of the Brazilian port system..
- Put into operation in 2015, the “Single Foreign Trade Portal” Program promoted a reduction in time and costs in exports and imports in the country.

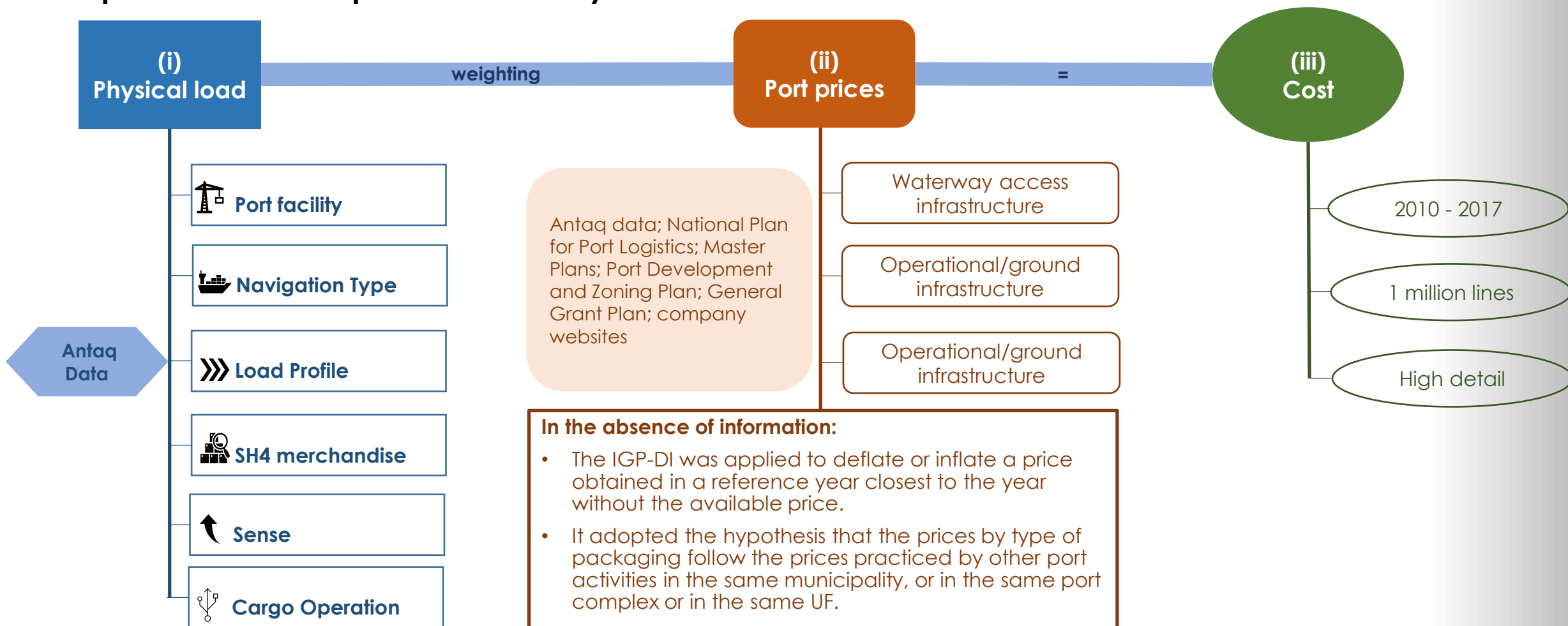


Estimation of terminal handling charges (THC) by product



Methodological strategy

Step A: Estimates of port THC costs by sector



Antaq's data was used because it details gross tons handled by port terminals and prices are per tons.

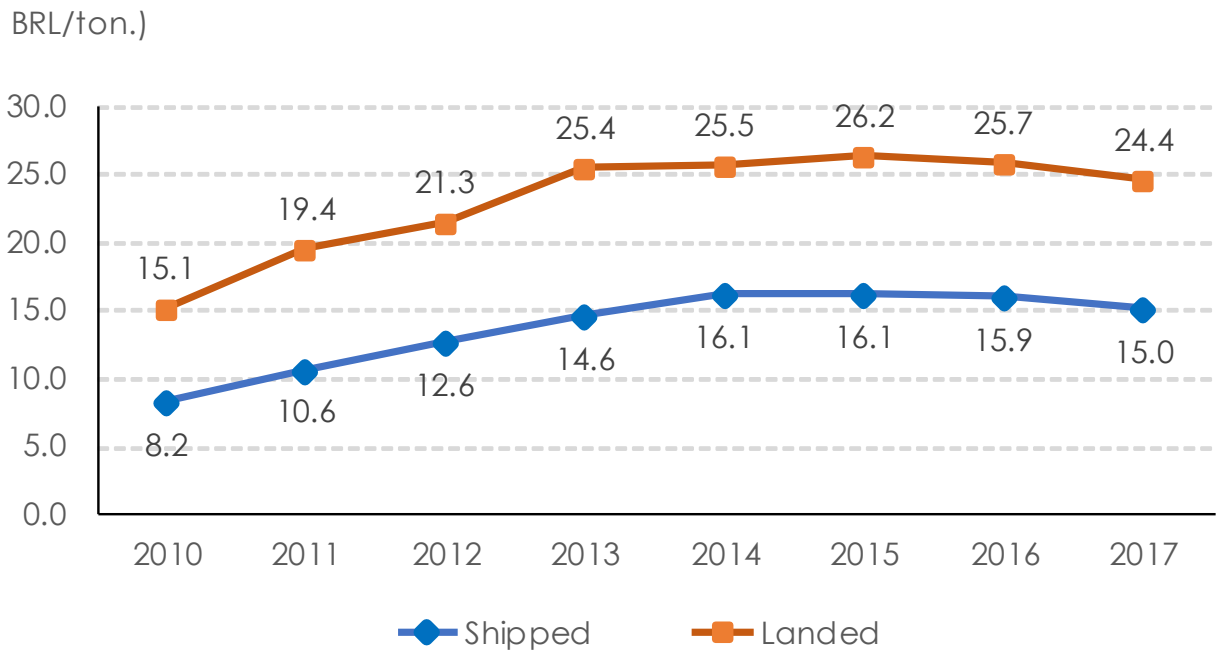
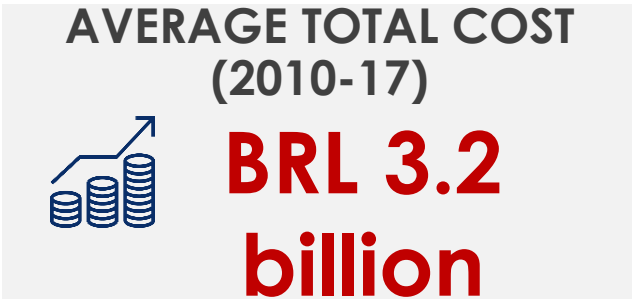
Methodological strategy

Step A: Estimates of port THC costs by sector

Annual average of port import indicators (2010-2017)

Product group	(A) Imports (BRL billion)	(B) Port wharfage (BRL billion)	(B/A) Portion of the wharfage (Part.%)
Agriculture	12.06	132.95	1.10
Extractive Industry	43.96	1067.20	2.43
Foods	20.21	121.52	0.60
Consumer goods	54.07	48.67	0.09
Durable goods	38.00	16.56	0.04
Intermediate inputs	220.03	1707.98	0.78
Capital goods	110.60	108.78	0.10
Overall average	498.93	3203.67	0.64

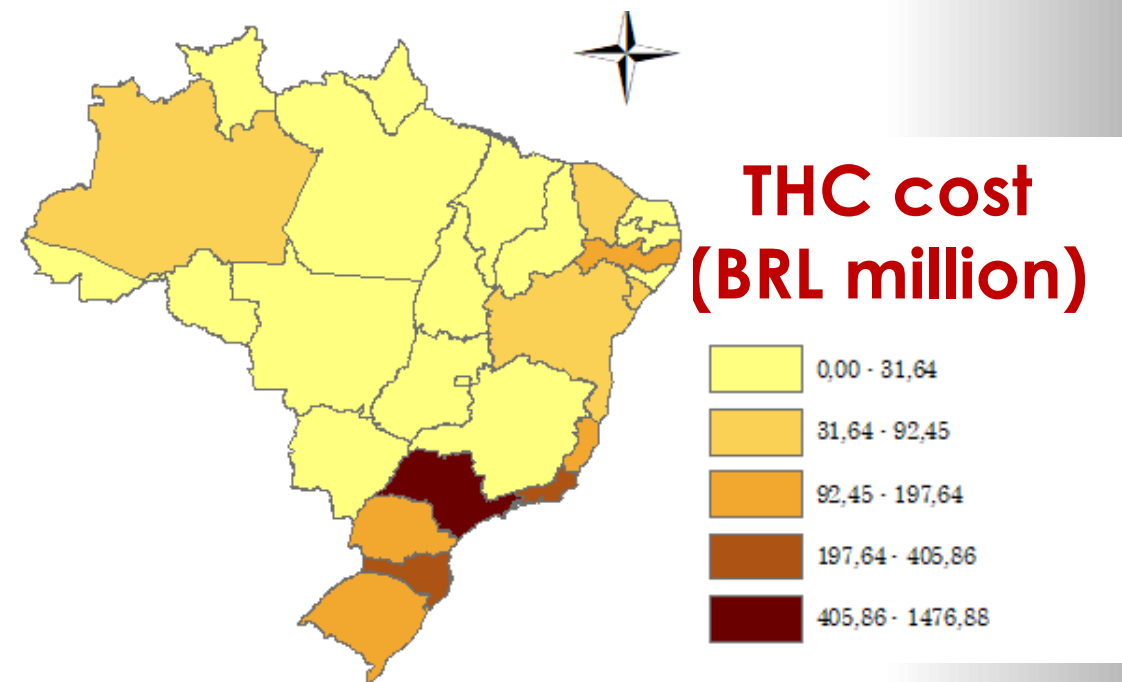
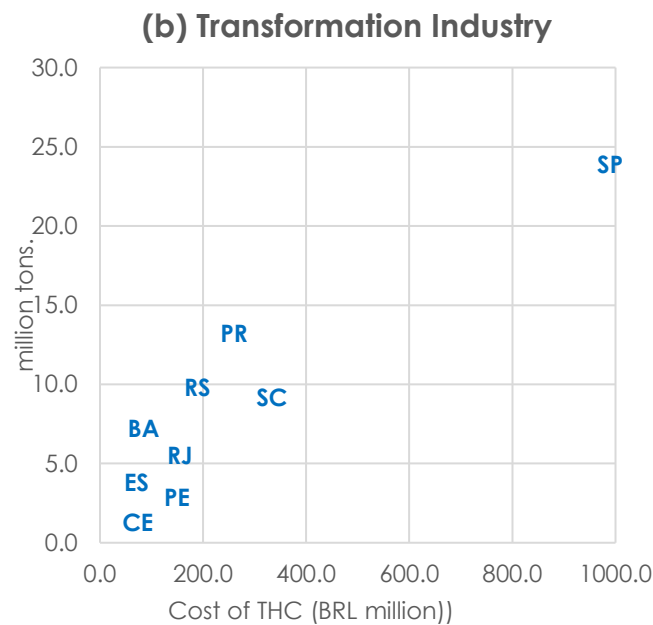
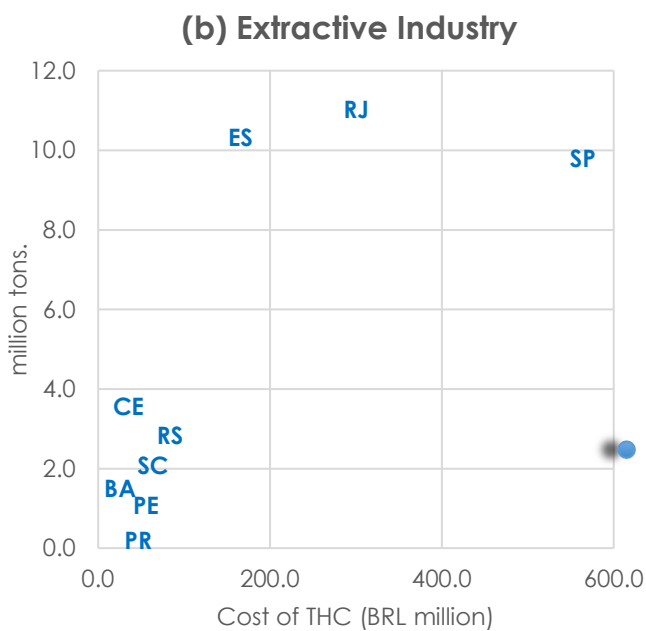
Source: research estimates.



Source: Search Result.

THC costs per UF between 2010-17

THC import costs by state (annual average)



Methodological strategy: CGE model

Step B: Simulations of economic impacts

Simulation drawings

Elimination of distortions generated by the undue tax incidence of the port THC on imports

Prospective analysis: simulations involve a short, medium and long term future scenario of the Brazilian economy (2021-2040). They point to the likely economic benefits over the next 19 years.

General equilibrium model

- National economy, base year 2010.
- Recursive dynamic version, SAM and R&D.
- Recognizes 137 products; 67 sectors that use domestic inputs (126), imported (126), physical capital, Knowledge and labor capital.

Analysis strategy

- Reduction of the customs tax rate on the price of imported goods, which determines the tax base for imports into the country between 2021 and 2040.
- The strategy of this study consisted of applying a reduction shock (% ad-valorem) on the price of imported goods in the tax base to simulate the policy.
- For example, the tax base of a typical imported good presents 3% of the THC on the import value, that is, the tax base registers ($B=1.03$).
- In this way, the elimination of 3% of the port quay would translate into a negative variation of 2.91% in the value of the tax base.

$$\Delta B_i = \left[\left(\frac{P_i^M}{P_i^M + C_i^M} \right) - 1 \right] \times 100$$

$$\Delta B_i = \left(\frac{C_i^M}{P_i^M + C_i^M} \right) \times 100$$

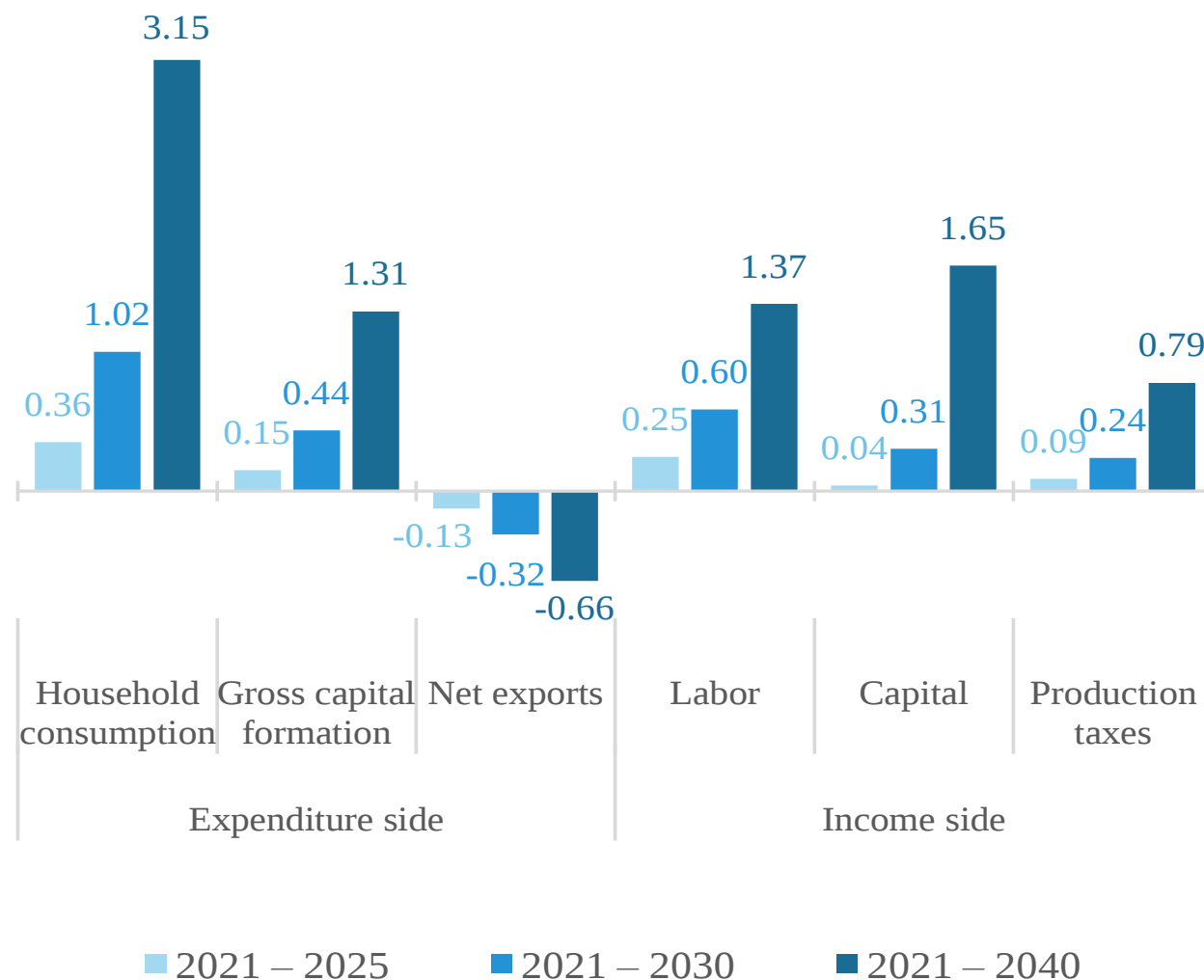


Results

Macroeconomic impacts (var.%)

Variables	2021 – 2030	2021 – 2040
	Medium term	Long term
GDP	1.15	3.80
GDP deflator	1.21	1.10
Investment	2.68	7.68
Physical (KF)	2.74	7.84
R&D (KH)	0.97	2.81
Physical Capital stock	0.59	3.18
Knowledge Capital	0.58	1.94
Household consumption	1.55	4.87
Utility	1.02	2.79
Employment	1.72	4.21
Total government income	2.19	4.48
Tax revenue	1.80	3.70
Trade flows	1.65	4.08
Exports	0.33	1.82
Imports	2.85	6.14
Trade terms	4.06	6.84

Contribution (%) of components to real GDP



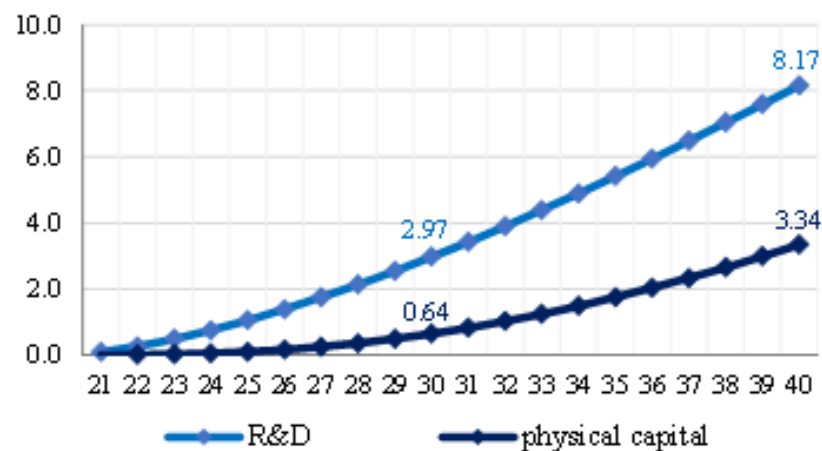
Results

Effects on sectoral activities in 2040

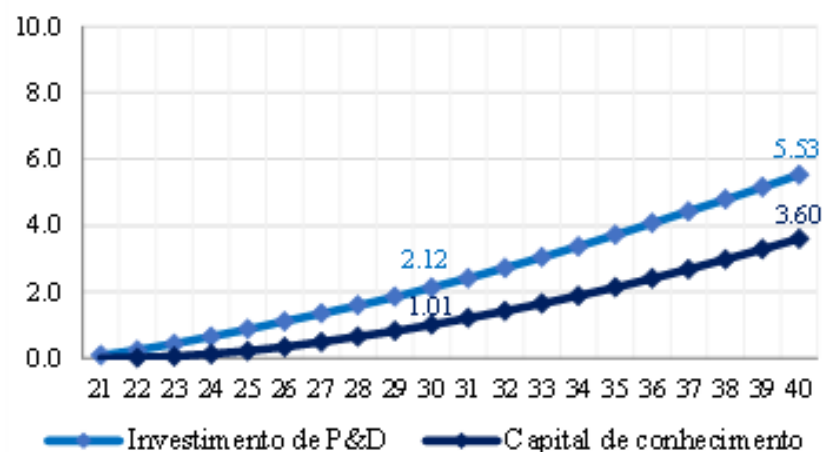
Sectors	Output	Investment		Capital	
		R&D	Physical	Knowledge	Physical
Agriculture	2.64	4.53	6.36	2.92	2.71
Industry	3.86	5.98	6.43	3.92	2.25
Low	3.49	4.65	7.65	2.83	2.92
Medium-low	3.66	6.04	5.04	3.94	1.51
Medium-high	4.70	6.24	8.74	4.09	3.67
High	4.31	5.46	7.94	3.67	3.00
Services	3.87	1.07	8.42	0.71	3.50
KIBS*	3.92	4.26	7.83	2.75	3.01
Other services	3.86	-0.03	8.50	-0.13	-0.13
Private R&D	4.24	5.53	8.17	3.60	3.34
Public R&D	0.02	-0.52	0.84	-0.50	-0.14
No R&D	3.62	4.76	7.69	3.02	3.04

Evolution of investment and capital in the private sector

Panel (a): investments

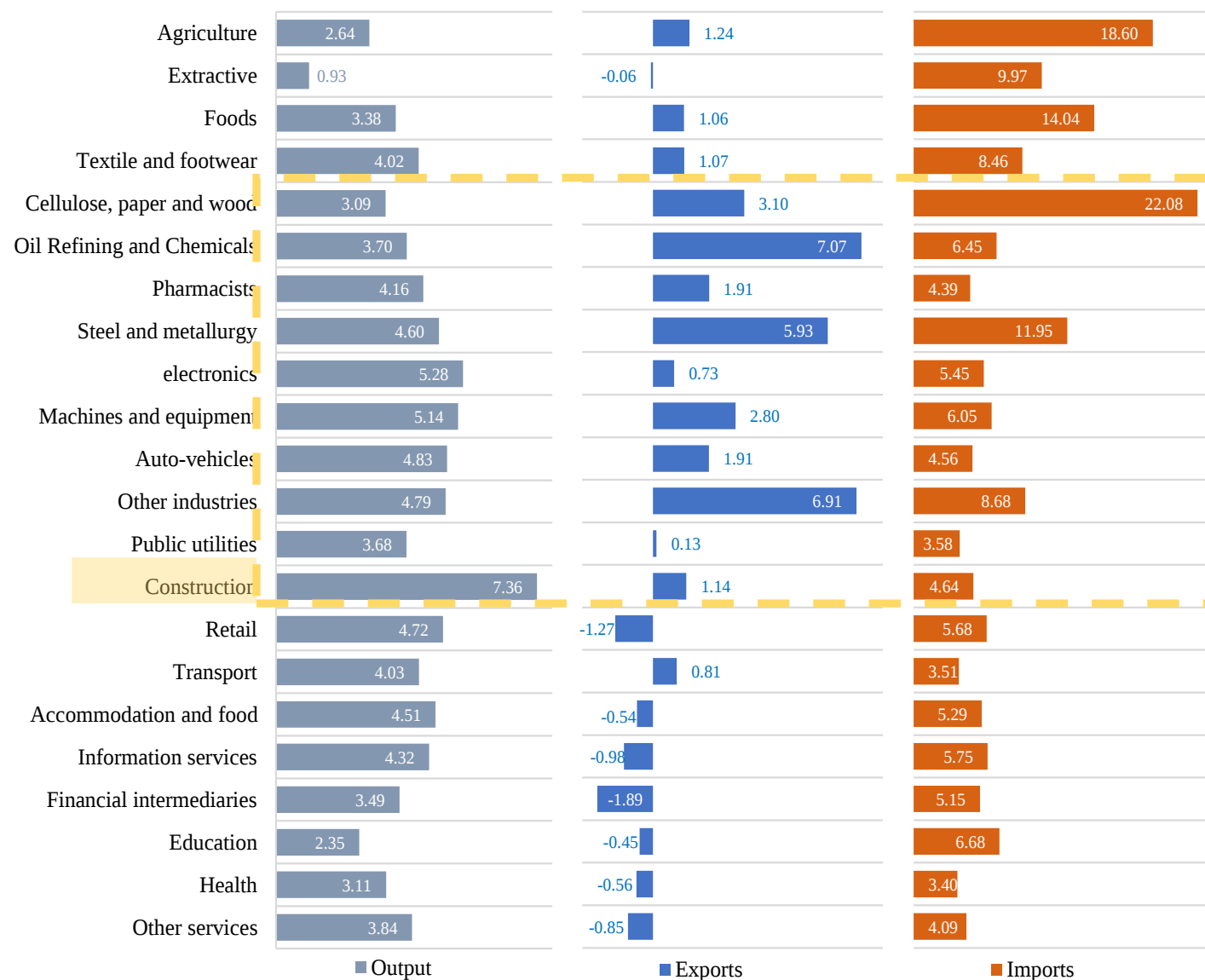


Panel (b): capital stock



Results

Accumulated impacts (%) on sectoral indicators in 2040



Sectors more linked to gross capital formation and which are among the most important in the country's technological base would grow relatively more

- The elimination of this tax distortion has impacts on the structure of relative prices and production operations, especially in those sectoral activities that are more intensive in imported inputs and with greater technological intensity.
- This tax policy directly impacts the formation of physical capital and knowledge by altering the rate of return on sectoral investments in the Brazilian production system.
- The volume exported would increase and the export basket would become more diversified, with a relative growth in the share of manufactured products in foreign trade.
- These projections are in line with the objectives of Brazilian trade policy, which is intended to increase the share of manufactured goods in the country's trade flow.
- In countries with insufficient domestic supply of inputs to meet the process of physical capital formation, the facilitation of imports would also meet part of the domestic demand and complement the national supply.





THANK YOU!

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