

MARITIME CONTAINER TRANSPORTATION AND EXPORT COMPETITIVENESS

- *Containerization has made multimodality possible and stimulated international trade by boosting the formation of global value chains and improving their operation. Most of Brazil's industrial products traded in international markets are transported by sea in containers.*
- *Brazilian container users are burdened by domestic policies adopted more than half a century ago that have become outdated even in their explicit objectives as policies designed to promote a Brazilian merchant marine.*
- *In addition, they are becoming increasingly vulnerable to global trends that increase shipowners' market power and push freight prices up.*
- *Addressing these problems is essential for increasing the competitiveness of Brazilian manufactured products.*

In Brazil, users of international maritime transportation (IMT) of containerized cargo, which is the main mean used for transporting industrial cargoes, are burdened by policies adopted more than half a century ago that have become outdated even in their explicit objectives as policies designed to promote a Brazilian merchant marine.

From an external point of view, users are becoming increasingly vulnerable to global trends that increase shipowners' market power and push their freight prices up, apart from leading to non-transparent pricing practices. These trends are particularly strong in Brazil, because services are concentrated in the hands of a few foreign companies that are not established in the country and because Brazil has no access to the main container transportation routes.

Brazil lacks appropriate regulatory and institutional instruments to deal with these trends. It can be said that the institutional profile of the National Waterborne Transportation Agency (ANTAQ) and the regulatory framework for international maritime transportation in Brazil do not meet the necessary requirements for the market to function in conditions that would enable users

to challenge the market power of container freight carriers without compromising their interests.

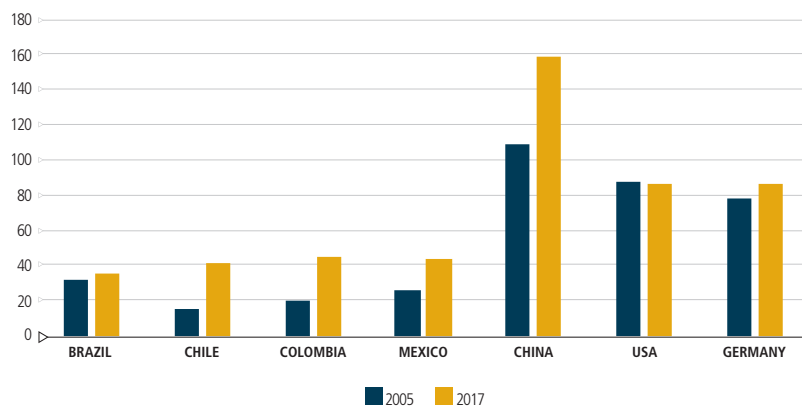
An agenda designed to meet the interests of users of maritime container transportation services should address two main needs. The first one is to eliminate policy instruments created more than half a century ago, or at least reduce the burden they impose on IMT users. The second one is to strike a better balance between providers and users of transportation services, correcting the imbalance that only favors the former.

Main recommendations

1 Measures should be taken to reduce the market power of container freight carriers providing IMT services and to increase the bargaining power of users. Some of the measures proposed for this purpose include:

- more intense inspection of shipowners providing long-haul container transportation services, a process initiated by ANTAQ's Normative Resolution 18/2017;
- systematic dissemination of information and statistics on container IMT in Brazil - including of data on average freight by cargoes and routes;

CONNECTIVITY INDICES OF REGULAR MARITIME TRANSPORTATION



Source: UNCTAD, 2016.

- institutional strengthening of ANTAQ to enable it to play its role as a regulatory agency appropriately; and
- establishment of a national council for defending the interests of users in their relations with regulators and container freight carriers.

2 Existing bilateral agreements imposing cargo handling restrictions should be terminated. This instrument was inherited from policies adopted more than 50 years ago and generate significant costs for users of container IMT services. The agreement with Chile will expire in 2020 and the Brazilian government should denounce the agreements with Argentina and Uruguay.

3 The burden imposed on users by the Additional Freight Charge for Renovation of the Merchant Marine (AFRMM) should be reduced. This additional charge is another instrument of the merchant marine policy adopted back in the 1960s. This charge, which is levied on freight and port expenses, represents a burden for users. It is recommended that the tax rate levied on imported cargoes be reduced from 25% to 15% of the freight value - exempting from the tax goods imported in connection with investment projects of regional interest being implemented by the Superintendency for the Development of Brazil's Northeast Region (SUDENE) and of the Superintendency for the Development of the Amazon Region (SUDAM). The rate levied on cabotage cargo should be reduced to zero, since it does not contribute

to the Merchant Marine Fund, and even when it is not charged its proceeds are transferred to an escrow account of shipowners operating the cabotage vessels.

4 The AFRMM charge should be automatically lifted for imports under preferential agreements negotiated by Brazil. Currently, exemption from the AFRMM is granted only to imports under international agreements negotiated by Brazil that contain a specific clause for this purpose (Law 10,893/2004). This means that only imports made under ALADI agreements are exempt from this charge. Law 10,893/2004 should be amended to ensure automatic exemption from the AFRMM on imports under all preferential trade agreements to which Brazil is a party.

5 Rules on cargo handling restrictions for feeder services directly linked to the country's international trade flows should be relaxed. The restrictions currently applied to maritime cabotage also have an impact on the provision of feeder services for transporting internationally traded goods. The competitiveness of Brazilian exports is affected by the availability and efficiency of feeder services to feed ports capable of concentrating and distributing cargoes. These services can only be provided by companies authorized to provide cabotage services. Brazil could explore alternatives to relax the rule on cargo handling restrictions in favor of Brazilian flag vessels when the services provided can be identified as feeder services linked to the country's international trade.

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