Transportation (other than aviation)

Overview

Brazilian transportation infrastructure faces many challenges. Roads and ports need to be upgraded. Trucks hauling cargo on roads is the most common method of transportation. Despite the existence of several rivers, waterways are rarely used. The exception is the Amazon region, where rivers are usually the only way of access to many isolated villages. Railroads are few and uncompetitive. The use of trains for long distance transportation of passengers is restricted to a few urban tourist routes, while cargo transportation is mostly restricted to minerals.

According to the National Logistics and Transport Plan (PNLT) established in April 2007, the investments needed to reduce bottlenecks in the transportation sector for the medium and long term may reach US$180 billion between 2010 and 2025. Investments include extension of highways, the interconnection of the North-South regions with the Southeast; ferries to cover North-South regions; and port construction.

The National Plan for Logistics and Transport (PNLT) in Brazil provides a framework for the evaluation of public and private initiatives to increase the competitiveness of the logistics sector, with a time horizon of 20 years. The specific objectives are:

- Integration of waterway network with highway and railway networks
- Expansion of road capacities
- Improvement of signage
- Control of axle load on trucks
- Expansion of railway network

The overall aim is to shift freight transport from the highways to more sustainable modes, especially rail transport. The development of the rail infrastructure network will support this strategy. The PNLT sets out clear, measurable objectives for the modal shift to occur by 2025. The use of sustainable modes of transport will further contribute to achieving the environmental targets.

Brazil must act quickly to improve its transportation infrastructure in time for the World Cup, which it will host in 2014. The Brazilian government has pledged billions of dollars to improve the urban transit system in the twelve host cities. Brazil is developing new concessions and public-private partnerships, leveraging the private sector in a way that aims to mutually beneficial to investors and the government.

Projected Transportation Investments 2010-2025 (US billion)

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Total Projected Transportation Investments	89.8
Highways	22.6
Railways	48.5
Hydro ways (ports and waterways)	17.8
Total	178.7

Source: National Logistics and Transport Plan – Ministry of Transportation
Exchange Rate: 1USD X R$ R$1.67

Sub-Sector Best Prospects

Waterway: Brazil's use of waterway transportation is small when compared with other countries. For example, 25% of cargo is transported by river in the United States and 35% in Canada. In Brazil, only 13% of cargo is transported by this mode. Brazil has enormous potential for river traffic with approximately 63,000 km of rivers and lakes, of which 40,000 km are navigable. However, the potential is still largely untapped, with navigation occurring in only 13,000 km, with a greater concentration in the Amazon region. Lack of storage facilities, limited access and few terminals are the main problems faced by this segment. Currently, the largest share of investments comes from the public sector, representing 97% of the funds (or about $3 billion per year). This situation is expected to change by the end of 2022, when mixed investments (private and public) may reach an average annual total of $2.6 billion.

Ports: The limited use of port services originates from old problems of infrastructure: (a) difficulties in accessing ports by road and railways, (b) lack of strategic planning that causes cargo to pile up in ports, and (c) lack of investment in the existing ports. New investments are expected to be made in this segment to increase the participation of water transportation from the current 13% to 29% in 2025. This growth will enable the reduction of tariffs and freight cost and will contribute to reducing the flow of trucks on highways.

Railways: By 2015, the Brazilian federal government plans to invest US$40 billion in rail transportation, mainly expanding the network of 30,000 kilometers to 35,000 kilometers. Moreover, by 2023, investment in sector projects could reach US$81.0 billion. Compared to emerging countries, Brazil has less than half of the number of railroads as China and six times less than India.

The government's goal is to make railways the main means of transporting freight in the country. Today, roads represent 58% of total freight, while railroads comprise 21%. Transport by rail can be up to 30% cheaper and more efficient than paved roads. One freight car has nearly ten times the capacity of one truck.

Logistics: Brazil has one of the highest logistics costs in the world. In 2010, the World Bank estimated that the distribution cost structure includes approximately 31.8% of logistics cost. This includes administration, warehousing, inventory, legal requirements and transportation costs. The same report shows that logistics costs represent an average of 20% of Brazil's GDP (twice that of the United States).

World Cup 2014: Brazilian cities must invest heavily in the modernization and expansion of their transportation systems, and the 2014 World Cup is the incentive that the country needs. Brazil plans to invest in the construction of new metro lines, the implementation of light rail vehicles (LRV) and Bus Rapid Transit (BRT), and other infrastructure projects to modernize its transportation system..

Currently, metropolitan rail systems in all Brazilian cities transport about 6 million people daily. That should total the number of people transported by rail in the metropolitan area of São Paulo alone. According to a study done by ANTP (National Association of Public Transportation), the social cost incurred by the city of São Paulo due to its current insufficient public transportation system is about R$40 billion a year (US$22 billion). Furthermore, the study showed that 63% of the cities with more than 300 thousand people use illegal, unsafe and unreliable means of transportation, with millions of people spending 3 to 6 hours a day traveling to and from work or school.

Opportunities

While there are many challenges associated with the country's current transportation system, this also means there are a lot of opportunities for growth and investment, including for U.S. companies.

That said, U.S. manufacturers face strong competition from European and Asian manufacturers. Best prospects for the transportation sectors include: intelligent transportation systems, logistics intelligent systems, passenger terminal solutions at the ports, and parts and equipment for trains, among others. U.S. companies interested in the transportation market in Brazil need to work closely with the federal government and with each state's public transportation secretariat.

Market Entry

Privatization in the transportation sector has increased over the last 20 years. Many antiquated and burdensome state management structures that operated in the sector have been dismantled. The Brazilian railroad industry has been privatized through concession contracts ranging from 30 to 60 years, and the ports sector is experiencing similar, albeit less expansive, privatization. In response to the dramatic deterioration in the national highway system, the federal government has granted concessions for existing highways to private companies, which in turn promise to restore, maintain, and expand these highways in exchange for toll revenues generated.

Brazil has historically invested in other sectors to the detriment of infrastructure. Now, the country faces an infrastructure deficit. Recent growth and a number of opportunities arising in Brazil will be the thrust the country needs to shift its focus to its transportation infrastructure. International and domestic pressure to successfully host the World Cup in 2014 should compel Brazil to finally develop a modern transport infrastructure, generating high returns on investment while providing development and benefits to the population. With the government creating new concessions and public-private partnerships, it has never been easier to enter Brazil's transportation market.

Market Issues & Obstacles

Import Costs: All imports in Brazil are subject to a number of taxes and fees, which are usually paid during the customs clearance process. There are four main taxes that account for the bulk of importing costs:

Import duty: federal tax levied on foreign products that enter Brazilian territory and calculated on top of the CIF value. For the transportation sector, import duty ranges from 2 to 20 percent depending on the product. The average duty rate is 15 percent.

Industrial Products Tax (IPI): federal tax levied on both domestic and imported manufactured products. It is assessed at the point of sale by the manufacturer in the case of domestically produced products, but at the point of customs clearance in the case of imports. The IPI is calculated on top of the CIF value plus import duty. The IPI for the transportation sector varies from 10 to 20 percent.

Merchandise Circulation Tax (ICMS): state government value-added tax, applicable to both imported and domestic products. The ICMS tax on imports is assessed on the CIF value, plus import duty, plus IPI as its calculation base. The calculation of this tax is done in a way that the ICMS tax is added to the basis of subsequent calculations. The ICMS rate varies among states. In the state of São Paulo it is 18 percent, but in most states it is 12 percent.

PIS and Cofins: fees applicable to both domestic and imported products and services. They are calculated in an extremely complex way and added to the basis. In general, the total effect of these fees sums up to approximately 12.63 percent of the CIF.

Brazilian manufacturers must also pay the above taxes, but American companies should keep in mind that, as the taxes are calculated in a compounding manner over the CIF value plus the import duty, the overall IPI, ICMS, PIS and Cofins of an imported product will be significantly higher than that of a locally manufactured product. Also, when distributors and trading companies sell the product, they are compensated for those taxes collected at the time of import.

Web Resources

- ANTP: National Association of Public Transportation**:** www.antp.org.br
- NTU: National Association of Urban Transportation Companies: www.ntu.org.br
- FABUS: National Association of Bus Manufacturers: www.fabus.com.br
- ATR: Association of Rail Transportation of Brazil: www.atrbrasil.com.br

Trade Events

- Intermodal South America – Logistics, Transportation and International Commerce Fair. http://www.intermodal.com.br

10-12 April 2012 São Paulo

- Transpo-Sul – Logistics and Transportation Fair and Congress http://www.transposul.com/

4-6 July Porto Alegre

- Expo Logistica Rio de Janeiro – Logistics Products, Services and Solutions Fair http://expologistica.com.br/

20-22 August Rio de Janeiro

Transportation contact

For more information about export opportunities in this sector, please contact US Commercial Service Industry Specialist Ebe Raso: ebe.raso@trade.gov