

ECONOMIC VIEW

Latin America
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BRAZIL TARIFF TRACKER

Breaking the ice

High-level representatives from the U.S. and Brazil met in Washington last week to kick off talks addressing the two countries' tariff dispute. The negotiations were born of a fledgling détente between Presidents Trump and Lula, which saw the leaders express optimism about improving bilateral ties. After a chance encounter at the U.N. General Assembly in September, the two leaders spoke by phone on October 6, appearing to table past tensions. Trump and Lula have sparred over Lula's push for closer trade and diplomatic ties with BRICS nations and his advocacy of alternatives to the U.S. dollar. The trial of former Brazil president Jair Bolsonaro, indicted by Brazil's supreme court for plotting a military coup, was one of the factors cited by the Trump administration in the tariffs it put in place in July.

These issues have not disappeared. But the tariffs' economic damage has opened a window for dialogue. Prices for coffee and beef, of which Brazil is the U.S.'s first and third largest supplier, are surging. Tariffs haven't shifted the picture for the macroeconomy in Brazil, with increased exports to China picking up much of the slack. But they have caused pain to individual industries, and to Brazil's aircraft industry in particular. The U.S. is a critical market for Brazilian jet maker Embraer, which, together with Mexico and Canada, accounts for 60% of its global sales. Although aircraft and parts were excluded from the July tariffs, Embraer faces a base tariff of 10%, while competing parts makers in Mexico and Canada are able to export tariff-free via the USMCA.

There are additional factors that could drive momentum for a deal. Brazil is home to the world's second-largest reserves of rare-earth metals after China but accounts for a minute share of global production. U.S. ambitions to unlock alternate supplies are growing, as are Brazilian miners' need for capital. Less likely is the possibility that the Brazilian military could help resolve the security crisis in Haiti, in a repeat of its 2004-2017 mission.

Effective U.S. Tariff Rate, Brazil

Total: 29%

Reciprocal tariffs:	8.8%
July announcement:	15.2%
Steel and aluminum:	3.7%
Autos and parts:	0.7%
Copper:	0.3%
Lumber and furniture:	0.1%
Trucks:	0.2%

The art of a Trump-Lula deal

While the current negotiations will likely center on the economic benefits of improving trade ties, politics is not far behind. With coffee prices playing a key role in consumer psyches, Trump could face growing pressure to reach a deal. Most of Brazil's exports outside of aerospace rely more on trade with Asia. But a Trump deal could bolster Lula's prospects ahead of Brazil's general elections, scheduled for October of next year. Lula has not officially declared his candidacy but leads potential challengers in recent polls.

In the previous update, we deemed a broader deal between Trump and Lula unlikely given lingering tensions between the two leaders. While we will await further progress in negotiations before incorporating any changes into our baseline forecast, it is possible to picture the outlines of a trade deal. This would likely involve the U.S. rolling back tariffs in exchange for nominal changes to Brazil's stringent social media regulations, which have hit U.S. firms. Some easing of non-tariff barriers could follow. However, the macro consequences of a deal would likely be on the margin given our earlier expectation that Trump would unilaterally ease tariffs on key consumer goods imported from Brazil.

A closer look at Brazil tariff assumptions

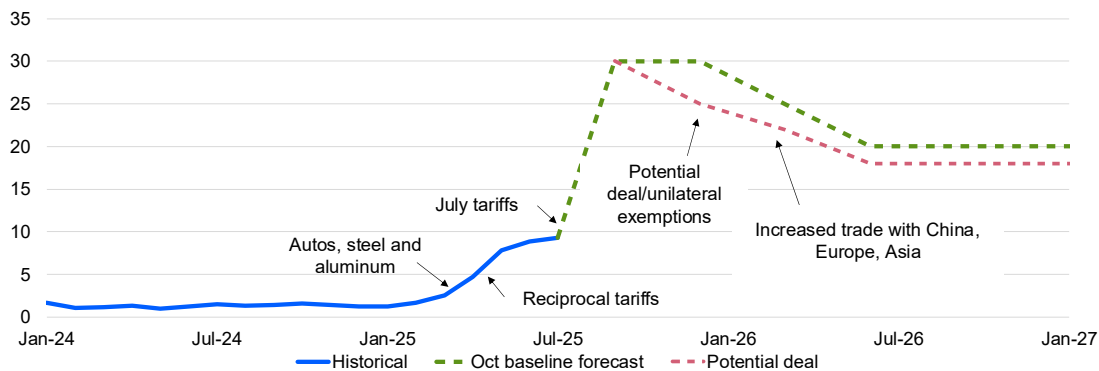
Our estimate of the effective U.S. tariff rate on Brazil is nearly unchanged from the previous update. The new sectoral tariffs on lumber and furniture and medium- and heavy-duty trucks lower this figure on the margin given that the sectoral tariff rate is below the 40% July tariff. Many wood products were excluded from the original tariffs. Recent pharmaceutical tariffs do not meaningfully add to the effective tariff rate due to pharmaceuticals' small share in Brazil's exports to the U.S. and exemptions for generics.

We originally anticipated the effective U.S. tariff rate levied on Brazil to decline over the next year due to changes in global trade flows and unilateral exemptions to consumer goods such as coffee and beef. A deal between Trump and Lula would hasten this decline but would not meaningfully change the macroeconomic picture for either the U.S. or Brazil. Any deal sweeteners such as preferential treatment for U.S. mining firms investing in Brazil's rare-earth deposits would play out over a longer time horizon given the lack of current production in Brazil and associated infrastructure.

Evidence of trade diversion is plentiful. Brazil's exports of soy and corn to China have surged this year, while U.S. Department of Agriculture data available through the first week of October show scant Chinese purchases of U.S. soybeans for the current market year. China traditionally purchases around one-third of its U.S. soy imports in August, with the remainder falling in September and October. Brazil will continue to benefit from trade diversion, which will reduce the impact of remaining U.S. tariffs on its exports.

Picturing a Trump-Lula Deal

Effective tariff rate, % (U.S. import duties as a % of U.S. imports)



Sources: U.S. Census Bureau, Moody's Analytics

Moody's Analytics

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Consistent with the previous update, we do not expect the effective U.S. tariff to return to lows that prevailed prior to January. The combined relief from a trade deal and re-routing of Brazil's agricultural exports will still leave tariffs well above their rate prior to the start of the second Trump administration. Relief is also unlikely to match that granted to closer U.S. trade partners such as the European Union, Japan, and the U.K. Disputes over Brazil's prominent role in the BRICS bloc of emerging economies and non-tariff trade barriers will not soon dissipate. And Brazil's complex web of non-tariff barriers makes it unlikely that U.S. firms competing in Brazil could find more favorable conditions in the near term, even if there is political will to dismantle them.

Corollas and the Brazil Cost

The cost of a Toyota Corolla in Brazil is an instructive lesson in assessing the magnitude of these barriers. While data on tariffs are readily available, sizing up just how much additional regulations, red tape and taxes add to the cost of doing business in Brazil—widely referred to as the *Custo Brasil*, or "Brazil Cost," can be a difficult task.

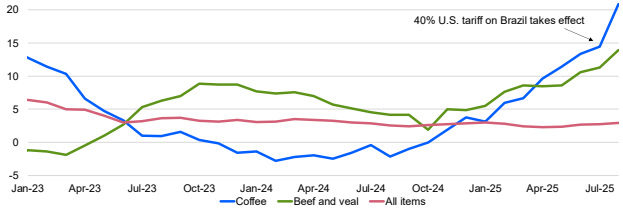
One way to indirectly measure the cost of Brazilian protectionism is to examine the cost of consumer goods manufactured in Brazil, with prices for electronics, household appliances and autos ranging from 30% to 50% more than in most other emerging economies. Take, for example, the cost of a base model Toyota Corolla—which is similarly priced in the U.S. and Mexico but can cost up to one-third more in Brazil. Import taxes and red tape can elevate the cost of an iPhone—whether imported from China or produced in Brazil—to nearly twice that charged in the U.S.

It is similarly difficult to assess the broader economic gains that could come from a more competitive, export-oriented manufacturing economy given how critical protectionism is to the DNA of Brazil's factory sector. But it would not be imprudent to anticipate that a gradual liberalization of regulations and other non-tariff barriers could yield productivity growth on a similar scale to export-oriented Asian economies South Korea, the Philippines and Vietnam.

What We're Monitoring

Brazil Tariffs Hit U.S. Store Shelves

U.S. consumer price index, % change yr ago, by category



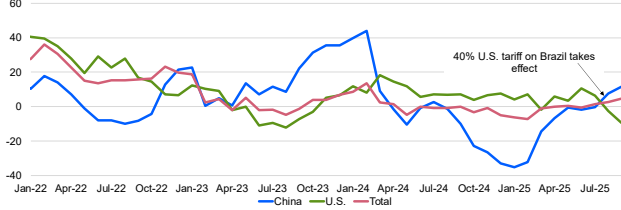
Sources: BLS, Moody's Analytics

Moody's Analytics

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Trade Diversion Limits Tariffs' Economic Damage

Exports, Brazil, % change yr ago



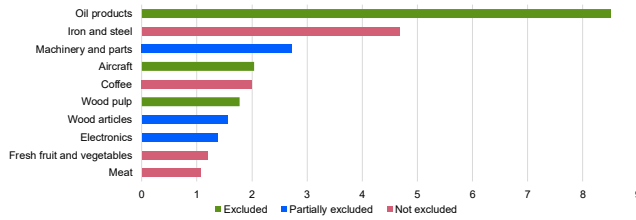
Sources: Ministério da Economia, Moody's Analytics

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U.S. Tariffs on Brazil Exclude Many Top Exports

Exports to the U.S. from Brazil, \$ bil



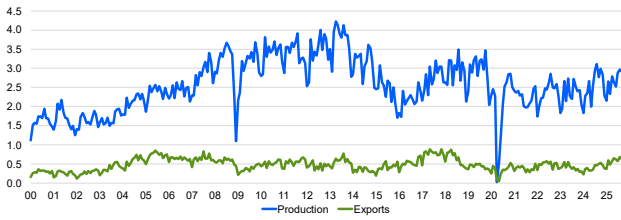
Sources: Census Bureau, Moody's Analytics

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Automakers in Brazil Mostly Focused on Domestic Market

Light vehicles, Brazil, annualized, # mil



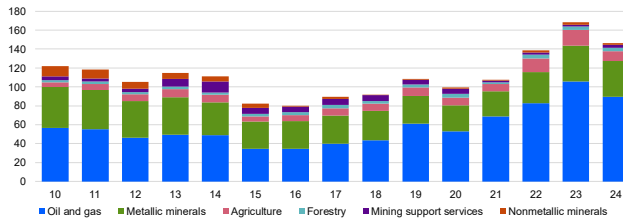
Sources: ANFAVEA, Moody's Analytics

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Rare Earths Not a Focal Point of FDI in Brazil

Foreign direct investment in primary industries, Brazil, \$ bil



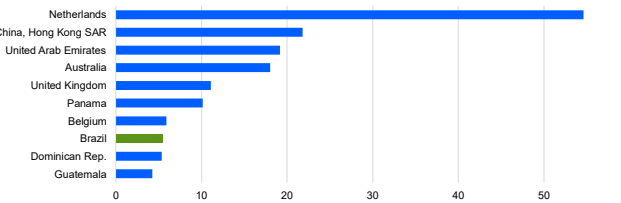
Sources: Banco Central do Brasil, Moody's Analytics

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U.S. Trade Surplus With Brazil Among Ten Largest

U.S. trade balance, \$ bil, 2024



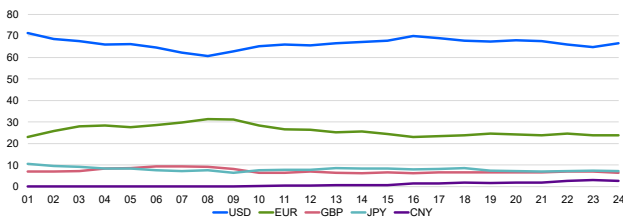
Sources: U.N. Comtrade, Moody's Analytics

Moody's Analytics

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Dollar Replacement a Distant Dream

Index of International Currency Usage, % of total



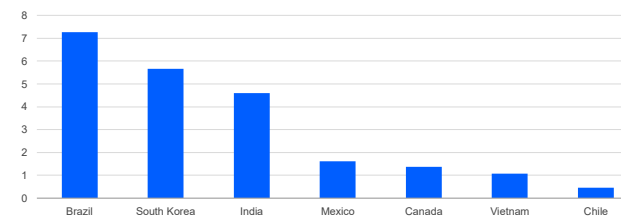
Sources: Federal Reserve, Moody's Analytics

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Brazil's Own Tariffs Higher Than Most

Effective tariff rate applied to imports, %, 2022



Sources: World Bank, Moody's Analytics

Moody's Analytics

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Tariffs Enacted

Effective date	Target goods	Tariff rate	Est. value, US\$ bil	Status
3/12/2025	Steel and aluminum	25%	3.1	Revised
3/26/2025	Autos and parts	25%	1.1	Enacted
4/5/2025	Reciprocal tariffs	10%	42.3	Enacted
6/4/2025	Steel and aluminum, including cans	50%	3.1	Enacted
7/14/2025	Brazil July national emergency	50%	16.5	Enacted
7/30/2025	Copper products	50%	0.2	Enacted
9/29/2025	Timber, lumber and derivatives	10%-25%	0.3	Enacted
10/1/2025	Pharmaceutical products	100%	0.2	Announced
10/7/2025	Heavy- and medium-duty trucks	25%	0.4	Enacted

Sources: Multiple sources, Moody's Analytics

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