

# **THE TRUCK DRIVERS'S STRIKE**

## ORIGINS AND IMPACTS ON THE BRAZILIAN ECONOMY



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# EXECUTIVE SUMMARY

In the last two weeks of May and in the first days of June in 2018 - more precisely, between 21/05 and 03/06 - Brazil, literally stopped, because of the truck drivers strike. According to the Brazilian Federal Highway Police, at the peak of the strike, more than 1,300 blockade points had been registered across the country. Although the movement has been organized through a decentralized coordination, there was a common claim within the category: the contraction of the economic return of truckers' activity. Despite the fact that, successive increases in the price of diesel have been singled out as the main "villain", it is possible to identify other factors that have compressed the economic margin of this category, both on the demand side and on the supply side:

## ON THE DEMAND SIDE

- The longest and deepest recession that the Brazilian economy has experienced between 2015 and 2016 since the 1980's;
- The consequent reduction of the demand for freight in the transportation of goods by road.

## ON THE SUPPLY SIDE

- The strong expansion of the truck fleet, at least since 2010. As the supply of trucks is inelastic in the short term, the lower demand for freight has not been adjusted through a reduction in the supply of road freight transport;
- The rise in the costs of the sector at a pace above the average increase in prices of the Brazilian economy (that is inflation);
- As already mentioned, among the factors that may explain the expansion of these costs, a special highlight has been placed on the substantial rise in the price of diesel oil (between August 2017 and May 2018, this fuel accumulated a 137.7% increase).

Pressured by the truck drivers and without enough political capital to have tangible power in this negotiation (despite the social costs, the strike had a big popular support), the government sought to meet almost all of the truckers' demands, among them, it is worth highlighting:

- Reduction of PIS/COFINS and CIDE on the price of diesel oil;
- Freezing the price of diesel oil in the pumps for 60 days;
- Toll exemption on the suspended 3rd axis;
- Definition of a minimum table for freight;
- The commitment of not increase the payroll tax of road transport of loads sector.

Naturally, attend these requirements has generated a fiscal cost. Although there are divergences in the final numbers, these demands will require approximately R\$ 13.5 billion from Brazil's public coffers. To balance this new expense, the government had to:

- Increase the tax burden of several sectors (e.g. exporters, beverage industry, chemical industry): R\$ 4 billion;
- Reallocate budget resources originally aimed at other areas: R\$ 6.2 billion;
- Make new cuts in expenses: R\$ 3.3 billion.

In addition to the fiscal costs, the truck driver's strike also generated losses in several economic sectors. Despite the fact that, it is not yet possible to assess the size of these losses with reasonable accuracy, since data from the strike period is not yet available for a significant fraction of cyclical indicators, indirect estimates suggest that the Brazilian economy will have lost R\$ 47.7 billion throughout 2018. Focusing only on agribusiness, the losses announced by five important entities related to the sector total to more than R\$ 6.1 billion.







# 1. INTRODUCTION

From the month of May to the month of June, Brazil was faced with an event that literally stopped the country: the truck driver strike. Although there is no clear date for the start of this paralysis, Monday, the 21st of May, has been adopted as the first day of this movement. Among the truckers' final claims, the following stand out:

- Reduction of PIS/COFINS and CIDE on the price of diesel oil;
- Price freezes of diesel oil in the pumps for 60 days;
- Toll exemption on the suspended 3rd axis;
- Definition of a minimum table for freight;
- The commitment of not increase the payroll tax of the road transport of loads sector.

As there is a not clear date for the beginning of this movement, there is also no clear end date of this stalemate. For this report, Sunday, the 03rd June, was adopted as the end date of this strike, because the following Monday (June 4), logistics activities were started gradually returning to normal. However, although the truck drivers have already returned to their activities, the consequences of this strike will be felt in the Brazilian economy, at least until the end of the year.

This is precisely the main objective of this report: to analyse the impacts of this strike that paralyzed on a general level, Brazilian economy and on a particular level, national agribusiness. However, before proceeding to the consequences of this paralyzation, we will discuss, in the next section, a set of factors that may have motivated the truck drivers to undertake this strike.

Finally, a comment is important: the analysis presented in this report will have a preliminary scope, mainly referring to the impacts that the strike generated on the economic activity, since data that can measure with more precision the unfolding of this event is not yet available. For example, official numbers of the industry performance or retail trade over the weeks of the shutdown will be released only in the months of July and August, respectively. Therefore, the information and data presented in this report provide an initial overview of the consequences of this event that, quite literally, stopped the country.



## 2. WHAT ARE THE POSSIBLE FACTORS THAT MADE THE TRUCK DRIVERS GO ON STRIKE?

During the paralyzation, there was common complaint amongst almost all truck drivers: the economic margin (revenue - costs) of their activity was miniscule. There are reports that, in some cases, truck drivers lost money when making a trip. There are factors on both the demand and the supply side that may explain the compression of truckers' margins. On the demand side, the following deserve be highlighted:

- The longest and deepest recession that the Brazilian economy has experienced between 2015 and 2016;
- The consequent reduction of the demand for freight in the transportation of goods by road.

As already mentioned, there are also factors on the supply side that have probably intensified the process of contracting the truckers' margin, such as:

- The strong expansion of the truck fleet, at least since 2010. As the supply of trucks is inelastic in the short term, the lower demand for freight has not been adjusted through a reduction in the supply of road freight transport;
- The rise in the costs of the sector at a pace above the average increase in prices of the Brazilian economy (that is inflation);
- As already mentioned, among the factors that may explain the expansion of these costs, a special highlight has been placed on the substantial rise in the price of diesel oil (between August 2017 and May 2018, this fuel accumulated a 137.7% increase).

The combination of these factors - a contraction of demand and a rise in costs in an industry with an inelastic supply - led to the reduction of truckers' margin, which in turn resulted in the strike. Each of these factors will then be discussed in more detail in this report, as there are innumerable nuances to suggest which motives are most relevant in explaining

the truck drivers paralysation.

## 2.1 THE ORIGINS OF THE PARALYZATION BY THE DEMAND SIDE: THE STRONG BRAZILIAN RECESSION

According to the IBGE numbers, between 2015 and 2016, Brazil experienced its longest and deepest recession since the 1980's. Considering only these two years, the Brazilian economy shrunk by 7.2%. This contraction alone would be more than enough to reduce the demand for road freight transport. However, the situation may have been even worse. According to Borges (2018)<sup>1</sup>, over the Brazilian recession, the GDP of the sectors that demanded the most freight transportation (agricultural activities + manufacturing industry + retail trade + import of goods) shrunk at a higher intensity than in the total economy.

According to Figure 01, it is clear that if, on the one hand, these sectors registered a more intense expansion than the total economy, at least since 2010, on the other hand, they have suffered a more intense decrease since 2014. In conclusion, although these sectors recorded a recovery in 2017, they still operate with a level of activity at a level lower than that observed in 2010.

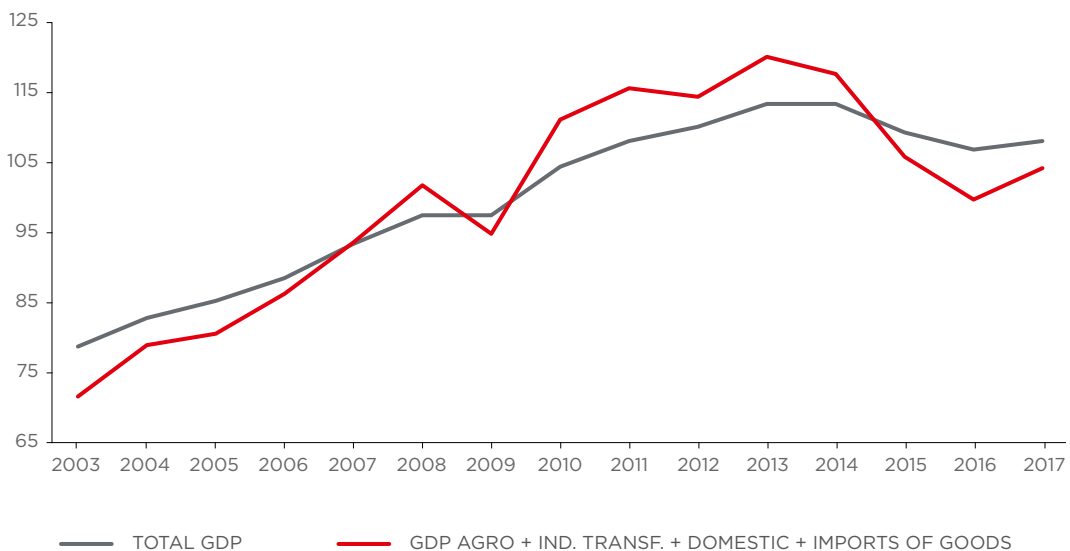


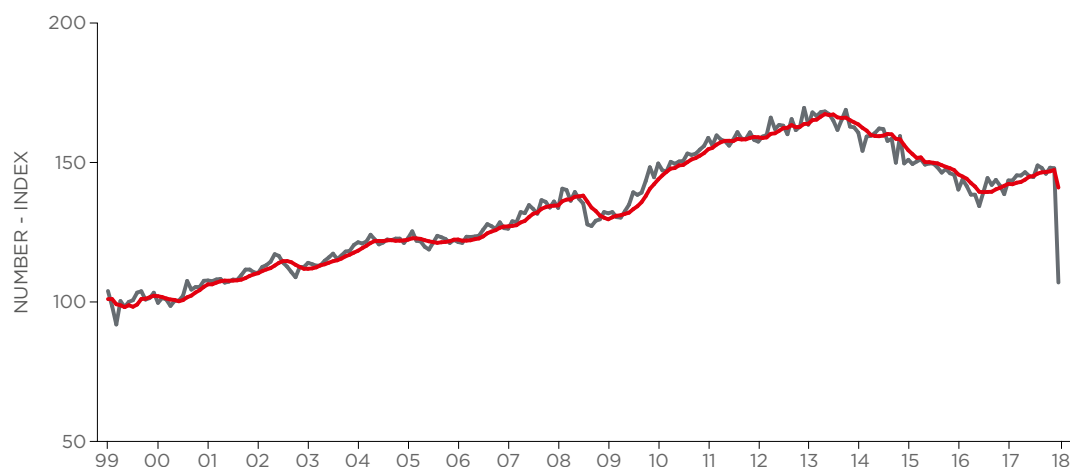
Figure 01

<sup>1</sup> Borges, Bráulio (2018). Excesso de oferta vs falta de demanda: considerações sobre o transporte de cargas no Brasil. Blog from IBRE- FGV. Available at <<http://blogdoibre.fgv.br/posts/excesso-de-oferta-vs-falta-de-demanda-consideracoes-sobre-o-transporte-de-cargas-no-brasil-3>>.

**GDP IN VOLUME** (AVERAGE INDEX 2003-2017 = 100)

Source: IBGE and IBRE/FGV.

A direct consequence of this dynamic is the reduction in freight demand. Unfortunately, there is no public data that captures the evolution of demand for road freight. However, it is possible to have an approximation of what happened in this sector by means of the numbers of the circulation of heavy vehicles (trucks) on toll roads (Figure 02). By analysing the evolution of the ABCR Index<sup>2</sup> it is clear that there has been a strong expansion of the circulation of this type of vehicle, at least since 2010 (increase of 21.8% between January 2010 and April 2013) and a strong recession from the end of the first 2013 (-15.2% between April 2013 and June 2016). The flow of heavy vehicles on toll roads only increased again in the second half of 2016, but even in April 2018, the flow was 12.8% lower than that observed at the end of the first half of 2013.



**Figure 02**

**FLOW OF VEHICLES ON TOLL ROADS** (ABCR INDEX): MAY/1999 TO MAY/2018

Source: ABCR – Brazilian Association of Highway Concessionaires.

Finally, there is clear evidence that the strong recession of the Brazilian economy has experienced in recent years has contracted freight demand. Although this was already a sufficient reason to contract the economic margin of the truck drivers, it is important to incorporate into the analysis the events that hindered an adjustment on the supply side.

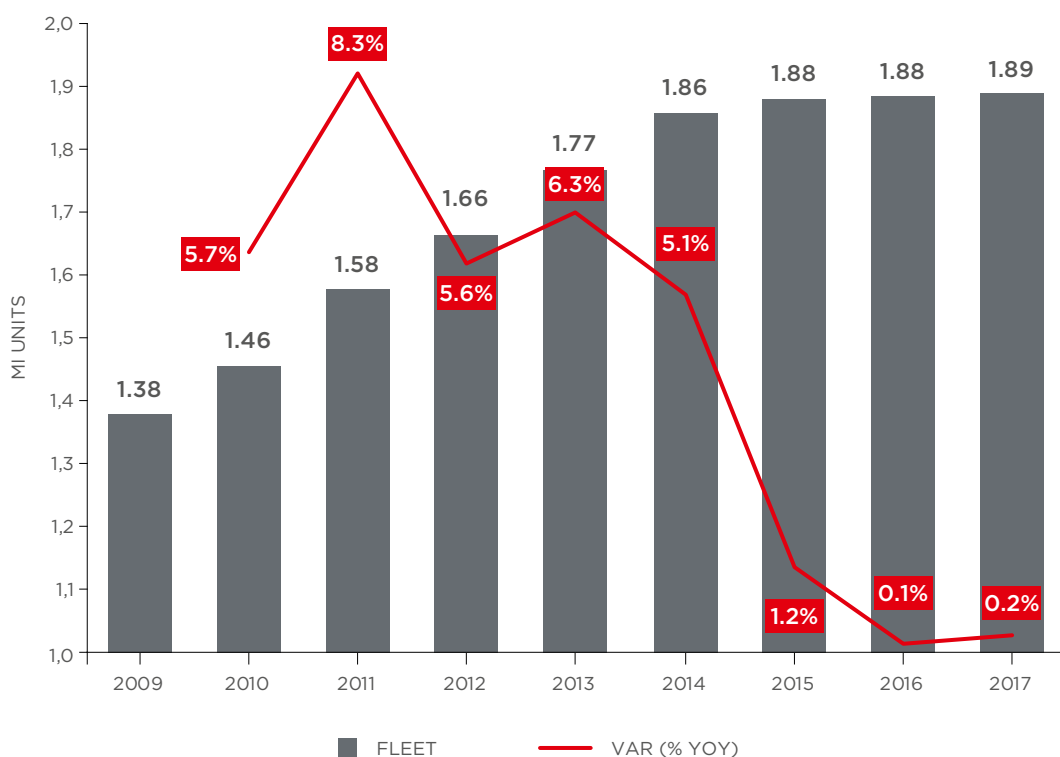
<sup>2</sup> Available at <<http://www.abcr.org.br/Conteudo/Secao/22/indice+abcr.aspx>>.

## 2.2 THE ORIGINS OF PARALYZATION BY THE SUPPLY SIDE: THE HIGH FLEET OF TRUCKS

On the supply side, there is a phenomenon that draws attention: the robust expansion of the truck fleet. According to numbers from SINDIPEÇAS, between 2000 and 2014, the Brazilian truck fleet increased 35%, from 1.38 million units to 1.86 million units. However, since 2014, the fleet has remained virtually stagnant, reaching 1.89 million units in 2017 (an increase of only 1.5% accumulated in the period).

Figure 03

EVOLUTION OF THE BRAZILIAN TRUCK FLEET (MILLION UNITS): 2009 TO 2017



Source: SINDIPEÇAS - National Union of the Component Industry for Automotive Vehicles.

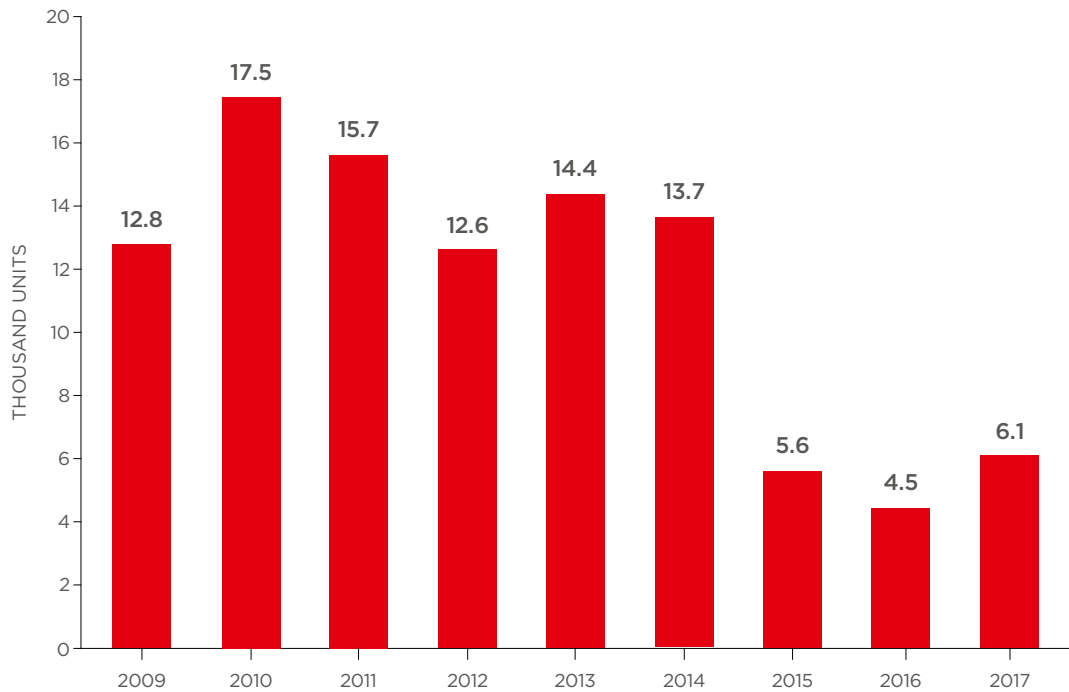


Behind this strong expansion of the Brazilian fleet are three important factors:

- The Brazilian economy growth between 2010 and 2013 (expansion of 17.4% accumulated in the period);
- The anticipation of the purchase of trucks to attend the new emission regulation compatible with the Euro V protocol (replacing the previous one, Euro III) that would come into effect from 2012<sup>3</sup>. According to this regulation, all diesel vehicles produced in Brazil would adopt more advanced engines that reduce emissions of various types of gases harmful to health and the environment from 60% to 70% (Borges, 2018);
- This anticipation to attend the new demands for lower emission of pollutants meant that the sale of trucks, on the one hand, grew strongly in 2010 and 2011, but, on the other hand, declined in 2012. Also bolstered by this situation, the government launched a subsidized credit line for the acquisition of new trucks, under the Investment Support Program (PSI). This dynamic can be observed in the evolution of the number of new licensed trucks between 2009 and 2017 (Figure 04)

<sup>3</sup> For more information see the note from the Ministry of Environment. Available at <[http://www.mma.gov.br/estruturas/163/\\_arquivos/proconve\\_163.pdf](http://www.mma.gov.br/estruturas/163/_arquivos/proconve_163.pdf)>.

Figure 04

**EVOLUTION OF THE NUMBER OF LICENSED TRUCKS (THOUSAND UNITS): 2009 TO 2017**

Source: Fenabreve - National Federation of the Distribution of Motor Vehicles.

From now on, it is important to synthesize the situation outlined so far. Despite the economic crisis of 2015 and 2016, which reduced the demand for freight, the fleet of trucks remained practically constant during that period; after all, it is a market with a very inelastic supply in the short term. The combination of these two phenomena would already be enough to carry a contraction of the freight price, which, in turn, would lead to a fall in the truckers' revenue.

Unfortunately, the margin of professionals in this sector contracted, not only due to a reduction in their revenues, but also as a consequence of the increased costs associated with this activity. According to the INCTF (National Fractionated Freight Transport Cost Index)<sup>4</sup>, the costs of cargo carriers increased, on average, 15.8% YoY between 2009 and 2014, 17.3% YoY between 2015 and 2016 and 15.2% YoY from the beginning of 2017 to May 2018. In other words, despite the economic fluctuations (strong growth in the first period, strong recession in the second period and slight recovery in the most recent period), the cost of freight transport has grown practically constant since 2009.

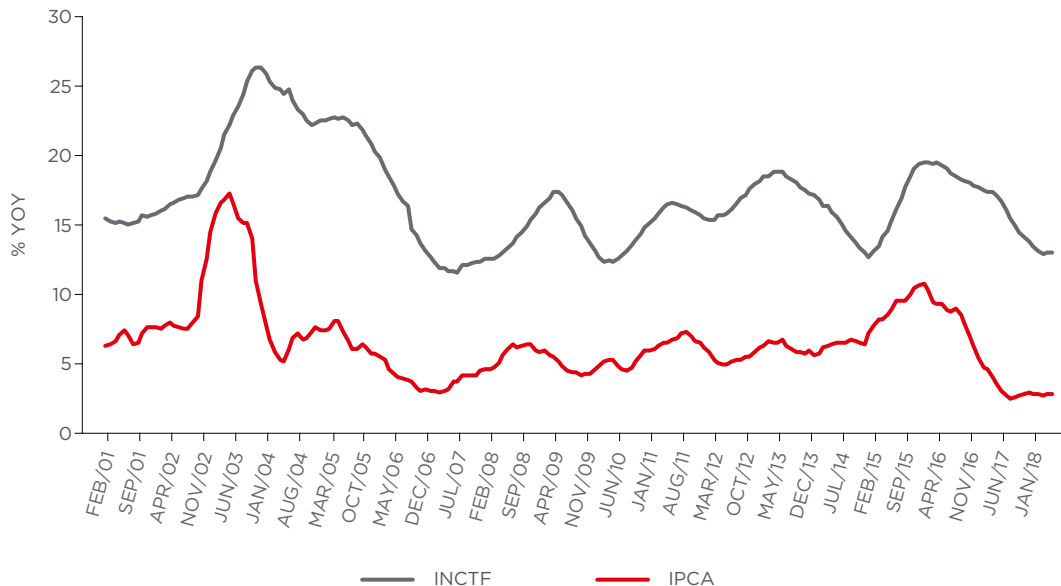
In addition, long-haul freight costs have been growing at a faster rate than the average price expansion of the economy. This dynamic is clear when observing the evolution of the INCTF in comparison with the evolution of the IPCA (Figure 05). When comparing the two previous variables, it is worth noting that the costs of the freight sector growing faster than the average of the prices of the economy is not a recent phenomenon; it is possible to observe this dynamics since at least 2001 (beginning of the available series). The difference from the most recent period was the inability of the trucking industry to pass on this increase in costs to freight value - probably due to the economic recession and the excess of available trucks.

4 Available at <<http://www.ntctec.org.br/canais/artigos/tecnico-economico-inct/inctf-indice-nacional-de-custos-de-transporte-de-carga-fracionada/52>>.

Figure 05

**COSTS OF THE LOGISTIC SECTOR VS. INFLATION IN BRAZIL**

(12-MONTH MOVING AVERAGE - % YOY): 2001 TO 2017



Source: IBGE and SETCEMG (Minas Gerais State Cargo Transportation Union).

Among the costs associated with cargo transportation, the industry pointed to the price of diesel fuel as the main “villain”. This point is curious because, according to the INCTF, the evolution of the total costs of road transport was not very different from that observed in previous periods, even when the price of diesel increased at a slower pace than the expansion of the IPCA (2013 to 2014). In any case, this fuel was pointed out as the main factor responsible for the reduction of the economic margin of the truck drivers. In this direction, Petrobras’ policy of aligning fuel prices with international oil prices was identified as responsible for a strong increase in the costs of this activity.

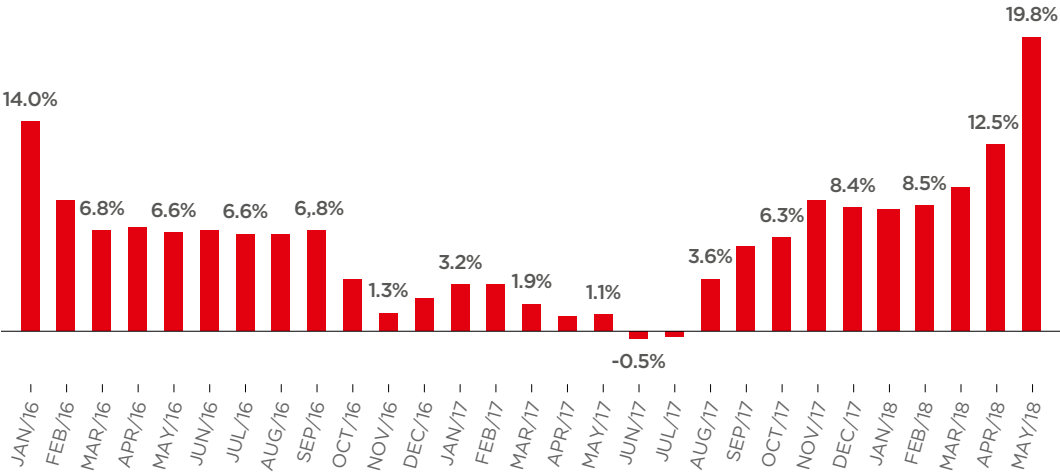
## 2.3 THE PRICE ALIGNMENT POLICY FROM PETROBRAS

Since October 2016, Petrobras has adopted the policy of maintaining the prices of petroleum-based fuels in refineries aligned with the price of oil in the international market (economic cost of oil for Petrobras). This policy implied a decision to transfer to the prices of these fuels in the domestic market the variations of the price of oil in the international market, as well as the exchange rate, since this commodity is quoted in dollars.

On the one hand, this policy allowed the increase in the price of diesel oil to decelerate until July 2017 (12-month moving average) and began to increase more vigorously since then, reaching an accumulation of 137.7% between August 2017 and May of 2018 (Figure 06). Behind these movements are:

- A trend towards an increase in the price of oil since at least the second half of 2017 (an increase of 20.2% in the 12 months ended in May 2018);
- Rise in the exchange rate from since February 2018, when the dollar was quoted, in the monthly average, at R\$ 3.10.

Figure 06  
**DIESEL OIL PRICE VARIATION BY IPCA**  
(CUMULATIVE VARIATION ON 12 MONTHS): JAN/2016 TO MAY/2018



Source: IBGE.

Faced with (i) a lower freight demand, (ii) an excess of available trucks and (iii) an increase in the costs of the trucking transport, the economic margin of the truck drivers was compressed and there was a great deal of dissatisfaction, collapsing in the stoppage that began on May 21 and which, at its peak, managed to maintain 1,300 blockage points across the country. In the next section, we will analyze the demands presented to the public authorities by the truck drivers and their respective representative entities.







### 3. THE DEMANDS OF TRUCK DRIVERS AND THE TAX COSTS OF MEASURES ANNOUNCED

The paralyzation of the truck drivers generated a series of negative effects on Brazilian economic activity. Although these impacts are detailed in the next section, it is worth commenting that the total estimated loss indirectly to the Brazilian economy is already at approximately R\$ 47.7 billion. This estimate is the result of the contraction of the Brazilian economy's expected growth in 2018 by the Focus Survey of the Central Bank from 2.46% (median of the projections on May 21) to 1.76% (median of projections on June 15<sup>1</sup>).

On face with this great prospect of loss, associated with the population's support for the strike movement, the truck drivers had substantial negotiation power vis-à-vis the public authorities and presented the following demands:

- Reduction of PIS/COFINS and CIDE on the price of diesel oil;
- Price freezes of diesel oil in the pumps for 60 days;
- Toll exemption on the suspended 3rd axis;
- Definition of a minimum table for freight;
- The commitment of not increase the payroll tax of road transport of loads sector.

With a very limited reaction power and without popular support, the government practically met all the demands of the truckers by announcing the following measures:

- Reduction of R\$ 0.46 in the price of the liter of diesel for 60 days; after this period, monthly readjustments (truck drivers would have greater predictability regarding the readjustment). The reduction of R\$ 0.46 per liter of diesel corresponds to the reduction of taxes (PIS/COFINS and CIDE), plus the compensation that will be paid to Petrobras to avoid losses to the company<sup>2</sup>. CIDE will be zeroed by the government and PIS/COFINS will be reduced from R\$ 0.46 to R\$ 0.35 per

1 Last projection available at the time this report is written.

2 Decree 9.391 reducing the rates of CIDE and PIS for diesel oil. Available at <[http://www.planalto.gov.br/ccivil\\_03/\\_ato2015-2018/2018/decreto/D9391.htm](http://www.planalto.gov.br/ccivil_03/_ato2015-2018/2018/decreto/D9391.htm)>.

liter. The reduction in the price due to the decrease in taxes will be R\$ 0.16 per liter and the reduction due to the subsidy<sup>3, 4</sup> (amount to be paid to Petrobras to avoid losses<sup>5</sup>) will be adding R\$ 0.30, therefore R\$ 0.46<sup>6</sup>.

- Edition of three provisional measures:
- Exemption from the payment's charge of suspended axle of empty trucks in tolls, valid throughout the national territory;
- Guarantee that the National Supply Company (CONAB) contracts 30% of its freight with freelance truck drivers;
- Minimum freight table for road freight transport. The new rule is foreseen in a project that is in the Senate and stipulates the value of R\$ 0.70 per kilometre rotated for each shaft loaded with general cargo and R\$ 0.90 for dangerous or refrigerated cargo.
- The table was published<sup>7</sup>, but faced with the complaint, mainly from agribusiness representatives, who considered the established prices unfeasible, the government and the truck drivers discussed new values. After agreement and publication, the table will be valid until January, 20th of 2019. After this period, the minimum price table will be readjusted every 6 months, with publications in January and July.
- Guarantee that road freight transport will be out of payroll tax increase.

3 MP 838 creating the subsidy for diesel. Available at <[http://www.planalto.gov.br/ccivil\\_03/\\_Ato2015-2018/2018/Mpv/mpv838.htm](http://www.planalto.gov.br/ccivil_03/_Ato2015-2018/2018/Mpv/mpv838.htm)>.

4 Decrees 9,392 and 9,403 regulating MP 838. Available at <[http://www.planalto.gov.br/ccivil\\_03/\\_ato2015-2018/2018/decreto/D9392.htm](http://www.planalto.gov.br/ccivil_03/_ato2015-2018/2018/decreto/D9392.htm)> and at <[http://www.planalto.gov.br/ccivil\\_03/\\_ato2015-2018/2018/decreto/D9403.htm](http://www.planalto.gov.br/ccivil_03/_ato2015-2018/2018/decreto/D9403.htm)>.

5 Decree 9.390 amending the budget allocation for inclusion of the subsidy. Available at <<http://www4.planalto.gov.br/legislacao/portal-legis/legislacao-1/decretos1/2018-decretos/2018-decretos>>.

6 In more detail, according to Provisional Measure 838, dated 31/05/2018, it was established that:

Art. 1º The is granted by the Union, an economic subsidy in the marketing of diesel oil in the national territory, in the form of equalization of part of the costs to producers and importers of diesel oil, in the amount of:

I - R\$ 0.07 (seven cents of real) per liter, until June 7, 2018; and (difference due to Petrobras)

II - until R\$ 0.30 (thirty cents of real) per liter, as of June 8, 2018, limited to December 31, 2018 and observing the provisions of the sole paragraph of art. 5º.

Art. 5º The economic subsidy referred to in art. 1º shall be limited to the total amount of nine billion and five hundred million reais (R \$ 9,500,000,000.00)

7 MP 832 establishing the policy of minimum prices for the carriage of goods by road. Available at <[http://www.planalto.gov.br/ccivil\\_03/\\_Ato2015-2018/2018/Mpv/mpv832.htm](http://www.planalto.gov.br/ccivil_03/_Ato2015-2018/2018/Mpv/mpv832.htm)>.

Of course, these political measures will have a fiscal cost, since the government is giving up tax resources. Although there is still divergence between the total costs of the measures adopted, the government announced an estimated R\$ 13.5 billion. As described by Pires (2018)<sup>8</sup> in the Table 01:

- Part of this cost (R\$ 4 billion) will be financed by raising the tax burden of other sectors: exporters (Reintegra review<sup>9</sup>), beverages industry (raising IPI<sup>10</sup>), chemical industry (end of tax incentives PIS/COFINS<sup>11</sup>), and the end of the payroll exemption for 28 sectors of the economy (the so-called payroll tax increase, which aims to increase the number of sectors that pay taxes on payroll and not on billing);
- Another part of the cost (R\$ 6.2 billion) will come from budget reallocation; with is part of the budget destined for other expenses will be reallocated to offset the costs associated with actions to attend the truckers' demand;
- Finally, the remaining R\$ 3.3 billion will have to come from additional cuts in expenses initially set out in the original budget.<sup>12</sup>

8 Pires, Manoel (2018). Ementário da crise dos caminhoneiros: acompanhamento das medidas, custos e política econômica. Blog from IBRE. Available at <<http://observatorio-politica-fiscal.ibre.fgv.br/posts/ementario-da-crise-dos-caminhoneiros-acompanhamento-das-medidas-custos-e-politica-economica>>.

9 Decree 9.393 with review the rates of Reintegra. Available at <[http://www.planalto.gov.br/ccivil\\_03/\\_ato2015-2018/2018/decreto/D9393.htm](http://www.planalto.gov.br/ccivil_03/_ato2015-2018/2018/decreto/D9393.htm)>.

10 Decree 9.394 which review the beverage table. Available at <[http://www.planalto.gov.br/ccivil\\_03/\\_ato2015-2018/2018/decreto/D9394.htm](http://www.planalto.gov.br/ccivil_03/_ato2015-2018/2018/decreto/D9394.htm)>.

11 MP 836 repealing the tax incentives of PIS/COFINS from chemical industry. Available at <[http://www.planalto.gov.br/ccivil\\_03/\\_Ato2015-2018/2018/Mpv/mpv836.htm](http://www.planalto.gov.br/ccivil_03/_Ato2015-2018/2018/Mpv/mpv836.htm)>.

12 Until this moment, the Government has not detailed what expenses the cuts would come from.

Table 01

**ESTIMATE OF THE TOTAL COST OF THE AGREEMENT WITH THE TRUCK DRIVERS AND ORIGIN OF COMPENSATORY RESOURCES**

<b>ACTION</b>	<b>VALUES (R\$ BI)</b>
ESTIMATED TOTAL COST OF TRUCKER AGREEMENT	13.5
<b>ORIGIN OF COMPENSATORY RESOURCES:</b>	
BUDGET REALLOCATION	6.2
REDUCTION OF EXPENSES	3.3
REINTEGRA REVIEW <sup>1</sup>	2.3
END OF PAYROLL RELIEF	0.8
INCREASE OF IPI ON BEVERAGES	0.7
END OF BENEFIT FOR THE CHEMICAL INDUSTRY	0.2

Source: Pires (2018).

In addition to the fiscal costs already presented, the truck drivers' paralyzation also generated significant losses for the economy as a whole and for Brazilian agribusiness in particular. In fact, it is even possible to argue that the largest losses were not realized directly in the public coffers, but in that volume of income that the private sector left (and will no longer) generate. In the next section, the consequences of this strike on the Brazilian economy and on agribusiness will be analysed in more detail.

<sup>13</sup> Programa que devolve parcial ou integralmente o resíduo tributário remanescente na cadeia de produção de bens exportados.





## 4. IMPACTS OF TRUCK DRIVERS STRIKE ON THE BRAZILIAN ECONOMY

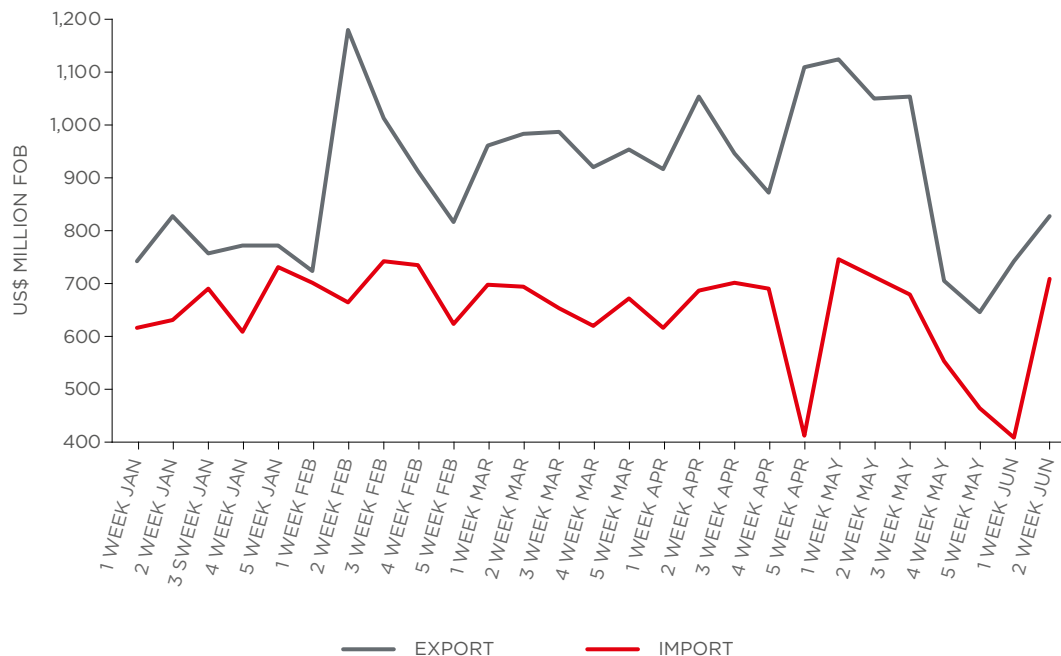
In general terms, only the impact of the truckers' strike on economic activity in July and August will be known more precisely when the official figures on industrial activity, retail trade and services are published by IBGE. In addition, part of the direct impact of the stoppage has infected the first week of June. Therefore, even the data of several class entities, whose disclosure usually precedes the IBGE numbers, will only be released after the end of June (that is, in July). However, despite this restriction, it is possible to have some approximations of the impacts already observed.

### 4.1 FOREIGN TRADE

As SECEX (Secretariat of Foreign Trade of the Ministry of Industry, Foreign Trade and Services) publishes the weekly data on Brazilian foreign trade, it is already possible to have the first numbers of the impact of the truckers' strike on these activities. According to SECEX data on the trade balance, the daily average of exports fell 38.7% in the fifth week of May, compared to the third week of the same month (period immediately before the paralyzation). The daily average of exports fell from US\$ 1047.4 million (FOB) to US\$ 641.6 million (FOB). Imports also fell by 31.8% in the fifth week of May compared to the third week of the same month. The average daily imports fell from US\$ 673.2 million (FOB) to US\$ 404.4 million (FOB) in this same comparison (Figure 07). Despite the recovery until the end of the second week of June, both exports and imports were still operating at levels lower than the pre-stop period (US\$ 822.3 million and US\$ 706.1 million, respectively).

Figure 07

**DAILY AVERAGE EXPORTS AND IMPORTS (US\$ MILLION FOB): FROM THE FIRST WEEK OF JANUARY TO THE SECOND WEEK OF JUNE IN 2018.**



Source: SECEX.

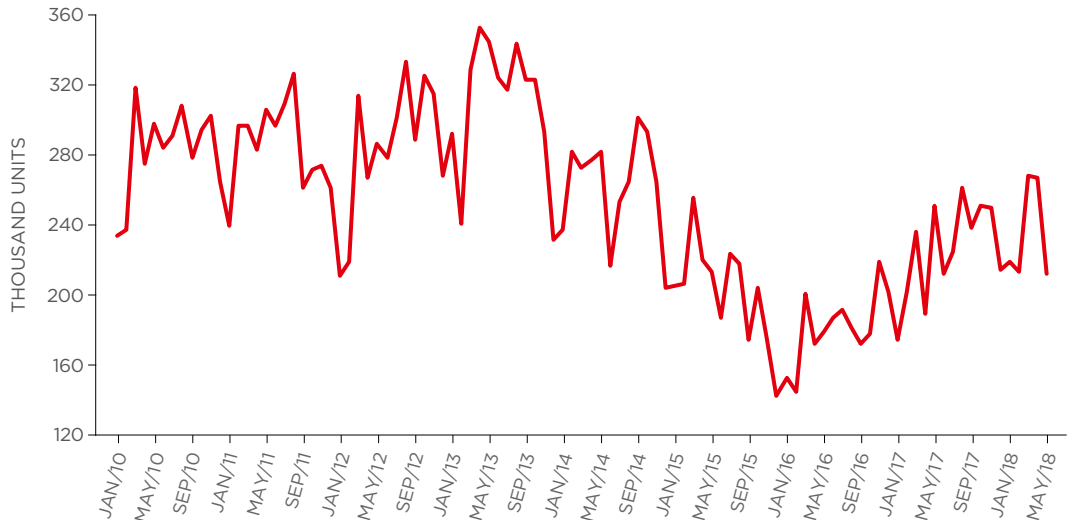
## 4.2 AUTOMOTIVE INDUSTRY

Among the main industrial sectors, the automobile industry is one of those that provide their short-term performance data with the shortest lag. In general, in less than a week, the data for the previous month is already available. In this direction, it is already possible to have a preliminary assessment of the impacts of the stoppage on this segment of Brazilian industry: a 20.2% decrease in the production of light vehicles, trucks and buses in comparison to April data (Figure 08). Undoubtedly, it is an expressive drop, but only after the release of June's production will it be possible to assess the net result of this shutdown; probably, there will be strong growth in June but not being able to recover all the contraction observed in May.



Figure 08

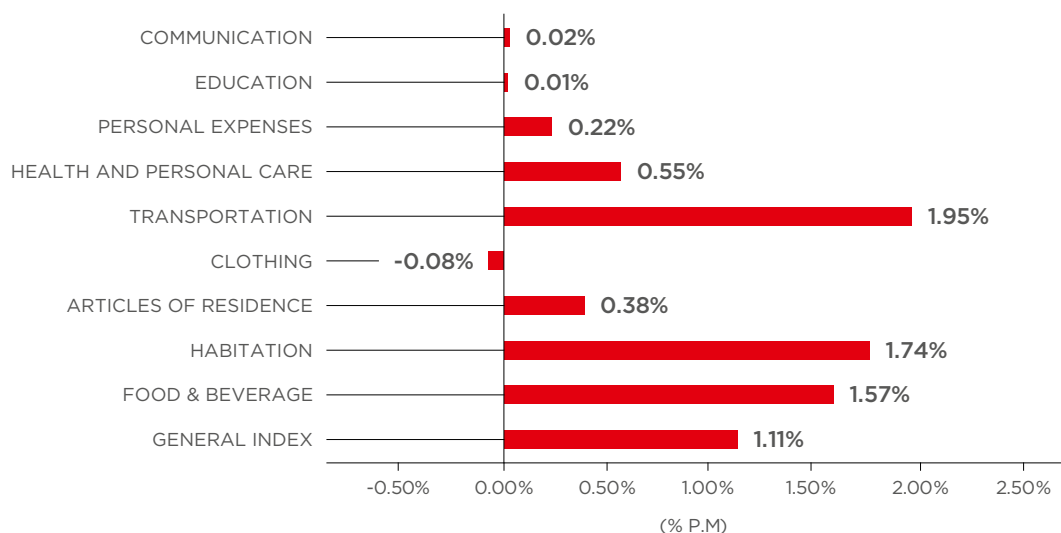
PRODUCTION OF LIGHT VEHICLES, TRUCKS AND BUSES (% P.M.): JAN/2010 TO MAY/2018



Source: ANFAVEA – National Association of Motor Vehicle Manufacturers.

### 4.3 INFLATION

Due to the paralyzation, there was a shortage of a number of products - including basic necessities such as food, which will be analysed in the next section. This shortage of products led to a record price increase: according to the IPCA15 - a kind of preview IPCA, official Brazilian inflation - inflation between May 16 and June 15, that is, precisely the period which includes the paralyzation, was at its highest since 1995. Compared with the same period between April and May, prices rose, on average, 1.11% from May to June. As expected, this increase was driven by transport (1.96%) and by food (1.57%) - precisely two of the three groups of products/services with the highest weights in the IPCA calculation (Figure 09).

**Figure 09**
**PRICES CHANGE FROM MAY TO JUNE 2018 FROM IPCA15 (% P.M.)**


Source: IBGE.

As observed with the production of motor vehicles, part of this price shock is probably transitory, so inflation should slow down from June to July. But only with the numbers to be released in July it will be possible to get a clearer idea of the net effect of the standstill on inflation. Finally, it is important to note that the Central Bank of Brazil considered the shock insignificant to undermine the achievement of this year's inflation target and kept the Brazilian economy's basic interest rate unchanged at the last meeting (20/06/2018) of the Monetary Policy Committee.

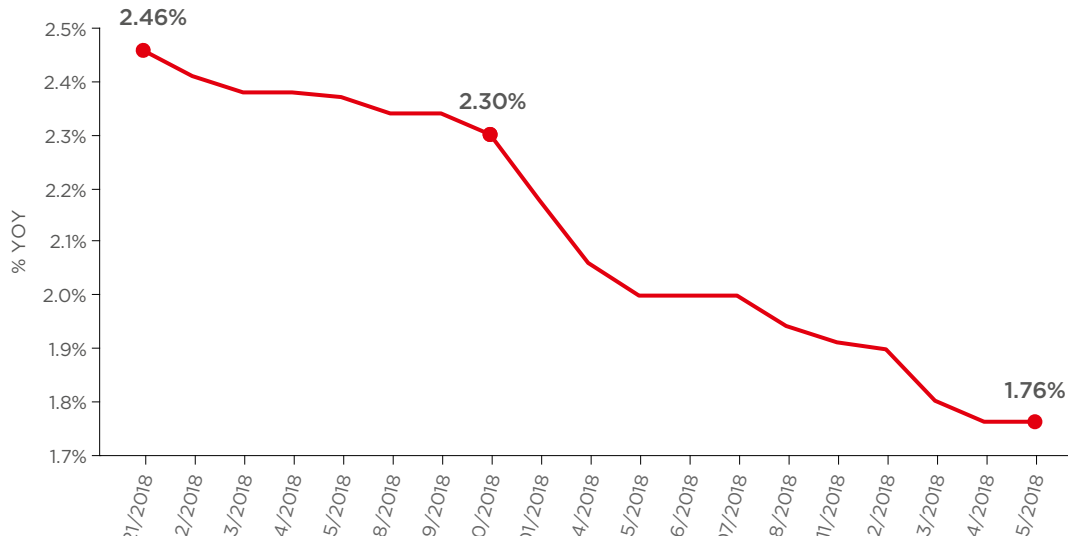
## 4.4 ECONOMIC GROWTH

As already mentioned above, it is not possible yet to measure quantitatively the dimension of the losses caused by the paralyzation. The numbers available are preliminary and will certainly be corrected over the next few weeks. However, one way to circumvent this limitation is to "estimate" the size of the economic impacts of the strike in an indirect way:

through the variation of the Central Bank's Focus Survey projections for the Brazilian economy growth in 2018. According to these projections, how much has the market revised downward Brazil's expectation of growth in 2018 since the start of the truck drivers strike?

On the Friday just prior to the start of the paralyzation (19/05/2018), the median of market projections suggested that the Brazilian economy would grow 2.46% this year (Figure 10). The most recent projection (15/06/2018) indicates a smaller growth of 1.76%, a substantial reduction of 0.7 percent point (and with a downward bias). Translating this growth into monetary values and assuming that all the variation observed in these projections can be attributed exclusively to the truckers' strike, this reduction implies that Brazil will no longer generate R\$ 47.7 billion. This number makes it clear that the losses caused by the strike go far beyond those fiscal impacts mentioned above.

**Figure 10**  
**PROJECTION FOR THE GROWTH OF THE BRAZILIAN ECONOMY IN 2018**  
(% YOY): FROM 21/05/2018 TO 15/06/2018



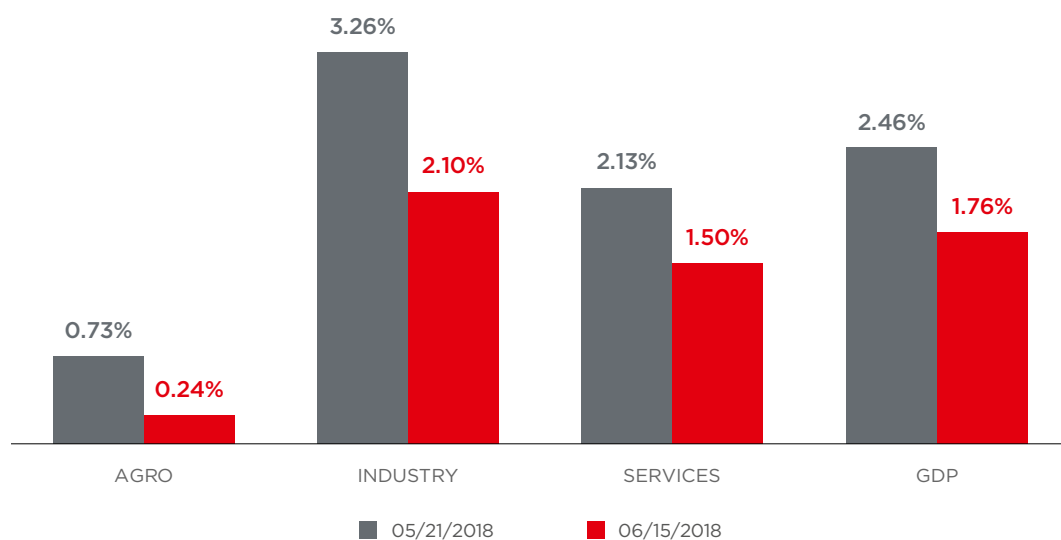
Source: Central Bank of Brazil.

Finally, it is important to make clear that these losses occur in a generalized way, that is, none of the three major economic sectors has been unaffected by this paralyzation (Figure 11). According to the projections of the same Focus Survey for the same period (pre and post strike), there was contraction in the expectation of growth of agricultural activities (from 0.73% to 0.24%), industry (from 3.28% to 2.10%) and of the services sector (from 2.46% to 1.76%).

**Figure 11**

**PROJECTION OF THE GROWTH OF THE MAIN BRAZILIAN ECONOMIC SECTORS IN 2018**

(% YOY): FROM 21/05/2018 TO 15/06/2018



Source: Central Bank of Brazil.

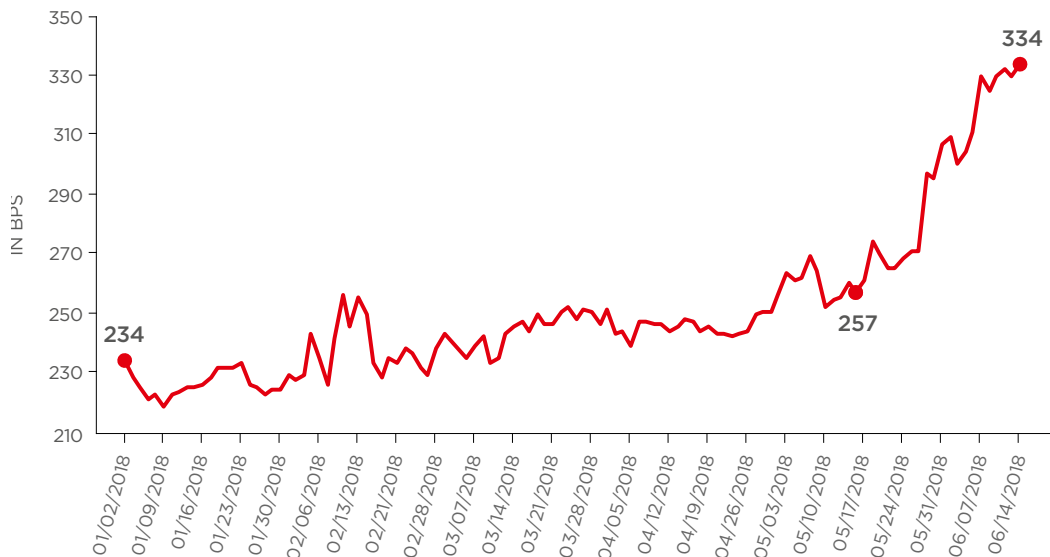
## 4.5 TRUST AND COUNTRY RISK

Unfortunately, the losses caused by the paralyzation go beyond the direct effects on economic activity. The way in which the negotiations between representatives of the truck drivers and the public authorities progressed, revealed the fragility and exhaustion of political capital, mainly of the federal government. Cornered by the truck drivers and without support from the population, the federal government found itself without alternatives and had to give in practically all the demands made by the strike. In addition to fiscal costs, this situation has

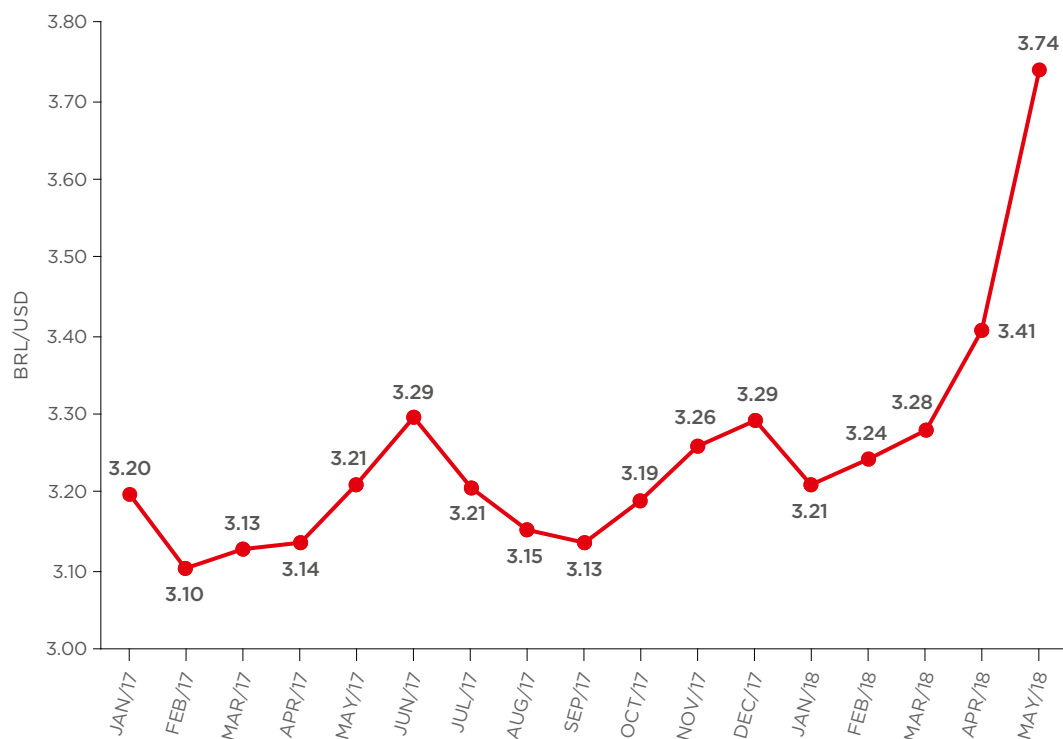
made clear that the government no longer has the political strength to approve any more relevant item on the reform agenda (with particular emphasis on pension reform).

As the fiscal crisis is severe (projection of a primary deficit of 2.1% of GDP and a nominal deficit of 7.2% of GDP), the depletion of political capital and the impossibility of continuing the reform agenda have reduced the agents' confidence in improving economic scenario this year and consequently made the Brazilian country risk increase 23.3%, going from 270 bps at the start of the shutdown (21/05/2018) to 333 bps on 15/06/2018 (Figure 12). Naturally, the exchange rate responded to the deterioration in the agents' confidence in relation to the Brazilian economy and the real depreciated against the dollar (Figure 13). This movement of devaluation was not only more intense because the Central Bank announced interventions (mainly auctions of foreign exchange swaps) to contain volatility.

**Figure 12**  
**RISK-BRAZIL ACCORDING TO EMBI + JP MORGAN'S**  
(IN BASE POINTS - BPS): 02/01/2018 TO 15/06/2018



Source: Ipeadata.

**Figure 13****EXCHANGE RATE (BRL/USD) END OF THE PERIOD (MONTHLY): JAN/2017 TO MAY/2018**

Source: Central Bank of Brazil.







## 5. IMPACTS ON BRAZILIAN AGRIBUSINESS

Unfortunately, the lack of periodic economic data on Brazilian agribusiness is greater than other sectors, for example, industry, retail, and services. Therefore, the information on how the trucker's strike affected the activities of the agro-universe is more imprecise; in general, data disclosed by class entities (e.g. CNA, ABPA, ABRAFRUTAS, ABIEC, UNICA) are available, whose methodology is not standardized and data are not adequately comparable.

In any case, given these observations, Brazilian agribusiness was probably one of the sectors that felt the greatest impact of the strike movement, since the operation of its productive activities is very dependent on logistics, especially road logistics, due to some of its characteristics, among which, it is worth highlight:

- Productive activities, in general, are more distant from consumer centers (whether in the domestic market or export-oriented);
- Brazilian agribusiness is organized in productive chains with a higher level of coordination among its links;
- In general, the products are characterized by low added value and limited producers margin over unit cost;
- Significant parts of your products are perishable.

The losses are estimated to exceed the mark of R\$ 6.1 billion, considering only five large chains that reported numbers on the effects of the strike (Table 02). In the sequence, a summary of the estimates of the impacts generated by the strike of the truck drivers released by the class entities linked to these five large chains will be presented.

Table 02  
**ESTIMATED LOSSES IN FIVE BRAZILIAN AGRIBUSINESS CHAINS CAUSED BY TRUCK DRIVERS STRIKE (R\$ MILLION)**

PRODUCTIVE CHAIN	LOSSES (R\$ MI)
POULTRY AND PIGS	3,000
SUGAR AND ALCOHOL	1,200
FRUITS AND VEGETABLES	920
BEEF	630
MILK	360
TOTAL	6,110

Source: CNA, ABPA, ABRAFRUTAS, ABIEC and UNICA.

5.1 MILK

According to the CNA (Brazilian Confederation of Agriculture and Livestock), during the first five days of the strike, there was complete interruption of milk collection by the largest dairy companies operating in the country, which generated the discard of 280 million liters. In monetary amounts, this loss is estimated at around R\$ 360 million. In addition to discarding the milk, there was a lack of feed for the animals. With the lack of feed, producers had to reduce milk production per animal. By adopting this practice, the producer will take time to get back to the previous level of production. It is estimated that the average production of milk per cow will need one to two months to become normalized.

## 5.2 POULTRY AND PIGS

According to numbers from ABPA (Brazilian Association of Animal Proteins), due to lack of animal feed, an estimated 64 million adult birds or chicks died or had to be slaughtered. In monetary terms, ABPA estimates that the lack of ration generated losses that may exceed R\$ 3 billion.

## 5.3 FRUITS AND VEGETABLES

The fruits and vegetables, being one of the most perishable types of agribusiness in Brazil, probably were one of the segments that suffered most from the truck drivers' strike. According to ABRAFRUTAS (Brazilian Association of Producers Exporters of Fruits and Derivatives), the estimated losses are in the order of R\$ 920 million. The ABRAFRUTAS still points out that, from this total, it is estimated a loss of R\$ 570 million just in the São Francisco Valley. The shortage of fruits and vegetables in markets and fairs was widely reported by the press. However, ABRAFRUTAS points out that the fruits most affected were papaya, mango, grape, guava and acerola, either because of their fragility or because of their high perishability.

## 5.4 BEEF

The truck drivers strike came at a very delicate time for the sector: just at the end of the harvest of the grass, before the dry season, when the sector usually plans to sell the cattle and buy spare animals. During the two weeks of the paralyzation, the herd could not be sent to slaughter because the slaughterhouses were without buying and selling movement. In addition to the losses of not being able to obtain revenue from the cattle ready for commercialization, the damage to the farmers was even greater, after all, there are costs to keep the livestock alive. Thus, the ABIEC (Brazilian Association of Meat Exporting Industries) estimates that during the strike, the sector wasn't able to export more than 40 thousand tons of meat, a loss equivalent to more than R\$ 630 million (US\$ 170 million).

## 5.5 SUGAR AND ALCOHOL

According to UNICA (Union of the Sugarcane Industry), because of the truck drivers strike, only 32.4 million tons were grind by the center-south of the country, or 13 million tons less than was expected. This represents an average loss of 4.5 days of production, generating losses of around R\$ 1.2 billion. The production of hydrated ethanol - used directly in the supply at the stations - presented a reduction of 15.5% in the second half of May, compared to the previous fortnight, with a total volume of 1.2 billion liters. Production of anhydrous ethanol, which is mixed with gasoline, fell 16.9% to 546.4 million liters in the final fortnight of May. Finally, sugar production reached 1.34 million tons, representing a reduction of more than 550 thousand tons from 1.91 million tons in the first half of the month. According to UNICA, this was the lowest volume ever recorded for this period in the available historical series.





# ATTACHMENT 1

## LIST OF ABBREVIATIONS

ACRONYM	DESCRIPTION
ABCR	BRAZILIAN ASSOCIATION OF HIGHWAY CONCESSIONAIRES
ABIEC	BRAZILIAN ASSOCIATION OF MEAT EXPORTING INDUSTRIES
ABPA	BRAZILIAN ASSOCIATION OF ANIMAL PROTEINS
ABRAFRUTAS	BRAZILIAN ASSOCIATION OF PRODUCERS EXPORTERS OF FRUITS AND DERIVATIVES
ANFAVEA	NATIONAL ASSOCIATION OF MOTOR VEHICLE MANUFACTURERS
BPS	BASIS POINTS
CIDE	Contribution of Intervention in the Economic Domain
CNA	Brazilian Confederation of Agriculture and Livestock
COFINS	Contribution for the Financing of Social Security
EMBI	Emerging Markets Bond Index
Fenabrave	National Federation of the Distribution of Motor Vehicles
FOB	Free On Board
GDP	Gross Domestic Product
IBGE	Brazilian Institute of Geography and Statistics
IBRE	Brazilian Institute of Economics from FGV
INCT	National Cost of Freight Transport Index
INCTF	National Index Load Fractional Transport Costs
IPCA	Broad National Consumer Price Index
PIS	Program of Social Integration
SECEX	Secretariat of Foreign Trade of the Ministry of Industry, Foreign Trade and Services
SETCEMG	Minas Gerais State Cargo Transportation Union
SINDIPEÇAS	National Union of the Component Industry for Automotive Vehicles
UNICA	Union of the Sugarcane Industry















**RIO DE JANEIRO**

Praia de Botafogo 190/6º andar

Tel.: +55 21 3799.5498

Fax.: +55 21 2553.8810

**SÃO PAULO**

Av. Paulista 1294/15º andar

Tel.: +55 11 3799.4170

Fax.: +55 11 3262.3569

[www.fgv.br/fgvprojetos](http://www.fgv.br/fgvprojetos)