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**Country Paper:**

**Overview of the services sector in Brazil**



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**Departamento de Competitividade Internacional em Comércio e Serviços  
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**Multi-year Expert Meeting on Trade, Services and Development  
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### **Overview of the services sector in Brazil**

In 2015, the tertiary sector accounted for 72.0% of the value added in Brazilian GDP, according to the *Quarterly National Accounts* of the Brazilian Institute of Geography and Statistics (IBGE). It also accounted for 73.4% (54.6%, when excluding the public administration) of the formal employment in 2014, according to data from the *Annual Social Information* (RAIS) of the Ministry of Labor and Social Security (MTPS).

When analyzing the contribution of the tertiary sector to GDP in emerging and advanced countries, it is noted that the share of services is positively correlated with per capita income. In Brazil, it seems to be an anomaly since the sector's share in GDP of over 70% is similar to countries with much higher per capita income and more advanced stages of industrial development. Services share in the consumption basket of the Brazilian families is currently around 62%. This percentage is high when compared to other emerging countries and helps to explain the high share of services in Brazil's GDP.

On the other hand, although it has shown significant expansion in the last decade, foreign trade in services accounted for only 15% of the country total trade flow, well below the world average of 20% in 2014, according to WTO data for the period.

Thus, according to the figures presented above, it is evident the association between the performance of the tertiary sector and the growth of the Brazilian GDP. In this context, the formulation of public policies for the sector has become increasingly important in government programs and public and private agendas.

In this regard, the Brazilian government and the private sector itself face some major challenges in the near future. Among such challenges stand the need to increase productivity and hence the competitiveness of the service sector, add value to the services produced in the country, provide better services for both consumers and industrial and agricultural productive chains, and increase the participation of Brazilian services in the world trade flows.



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**Government policies for the services sector**

The services sector is composed of a wide range of products and industries that vary in technology, labor and tax complexity. There are essential services, considered fundamental to the functioning of a society, as well as consumption and leisure services, not to mention the medical, cultural and educational services. Considering the complexity and diversity of the service sector, the Brazilian government acts sometimes as regulator of public services supplied by the private sector, or as a formulator of public policies to improve the sector, and finally as a direct supplier of some services. Thus, in the Brazilian government administration, the power to formulate and handle public policies and regulations for the services sector is diffused among different government agencies and entities, especially for “regulated services” such as electricity, infrastructure, oil and gas.

**The Secretariat of Commerce and Services (SCS)**

The Secretariat of Commerce and Services (SCS), under the Ministry of Development, Industry and Foreign Trade (MDIC), works to promote sustainable economic growth through actions and public policies aimed at increasing the competitiveness and productivity of the commerce and services sectors, including foreign trade. One of its main objectives is to support the development of professional services in Brazil. SCS seeks to work in partnership with the public and the private sector in creating favorable conditions for entrepreneurship, identifying and eliminating bottlenecks in order to leverage the Brazilian economy and Brazil's performance in international markets, thus contributing to the creation of jobs, wealth and knowledge. It is also responsible for the formulation of policies and the creation of instruments aiming to promote economic development and boost foreign trade and the internationalization of companies in the services sector. To attain its objectives, SCS works closely with the productive sector, other ministries and state and municipal governments.

**SCS and the services private sector**

In order to identify — together with the private sector — the bottlenecks that hinder the productivity of the domestic services sector and the expansion of exports in services, in 2015 SCS created two permanent discussion venues: the Retail Competitiveness Forum and the Services Foreign Trade Forum. The Retail Competitiveness Forum has a broad membership composed by some of the major national retail entities and aims at the creation of a common agenda to deal with domestic regulatory bottlenecks that hinder the productivity of the sector. In parallel, the Services Foreign Trade Forum was established in order to strengthen the dialogue with the private sector and discuss proposals and initiatives to increase competitiveness, upgrade exports and open new markets for the sector. After a few meetings with organizations representing the private sector, SCS perceived a continued concern with domestic regulatory



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issues, a fact that could be affecting the competitiveness of foreign trade in services. The feedback received from the private sector strengthened the understanding of SCS on the importance of policies and initiatives that consider the sector as a whole, from the business environment perspective (domestic challenges) to foreign market access.

In this sense, in 2015, SCS set an agenda with suggestions offered by the private sector and ideas from scholarly sources with the aim to improving the business environment for professional services. By improving the business environment, it is believed that Brazilian companies could become more internationally competitive and consequently be able to leverage foreign trade flows, especially exports.

This agenda proved to be quite complex with labor, tax and administrative issues requiring intensive coordination among different government entities. Many of the issues raised required legislative actions and, therefore, a more complex articulation with the Brazilian Congress. Since the actions of SCS depend on coordination with other government entities and the Legislative branch, it is difficult to set deadlines to solve many of the issues raised by the private sector. Nevertheless, the Secretariat maintains its compromise to support the improvement of the business environment, and to articulate, with other government entities, policies and measures needed to enhance private sector competitiveness. Besides the dialogue with the private sector described above, SCS has promoted several initiatives to improve the formulation and monitoring of public policies in the services sector, and to contribute with business intelligence to the tertiary sector.

**Siscoserv and NBS – gateway to better understanding the services sector in Brazil**

One of the major obstacles to the development of public policies to boost foreign trade in services used to be the lack of detailed information on the sector and its trade performance. Furthermore, considering that foreign trade in services is an unambiguous measure of the competitiveness of the Brazilian tertiary sector, the usefulness and the importance of reliable data go beyond foreign trade issues and becomes a tool to support the formulation of policies aimed at the entire industry and not only to the exporting sector.

In order to tackle this problem, SCS and the Brazilian Federal Revenue Office (RFB) implemented, in August 2012, the Brazilian Integrated System of Foreign Trade in Services and Intangibles (Siscoserv). Siscoserv complies with the guidelines of the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO). The target audiences of Siscoserv are natural and legal persons resident and domiciled in Brazil that perform operations involving services and intangibles with natural and legal persons resident or domiciled abroad.

Siscoserv has two registration/input modules: (i) the “Sale Module” that covers sales (exports) of services and intangibles from Brazilian to foreign individuals and companies; and (ii) the



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“Purchase Module” that refers to services and intangibles purchased (imported) by Brazilian from foreign individuals and companies.

By prioritizing trade flows instead of financial flows, Siscoserv draws a panorama that goes beyond the financial aspects of foreign trade in services. The system captures details of services supply that go beyond that of current balance of payments data. The focus on the modes of supply, for example, reveals the business models adopted by Brazilian companies and is a key aspect in international negotiations. The system also made possible the proper identification of the relevant actors in this trade and the main target countries for Brazilian services exports.

The data collected through Siscoserv have been used for the improvement of actions related to the formulation, implementation and analysis of public policies related to services and intangibles, as well as for the orientation of business strategies of foreign trade in the services sector. Since the first official release of Siscoserv statistics on trade in services, in April 2015, SCS has presented the public with some deliverables in trade intelligence on services. Siscoserv data have also been shared with various institutions such as the Ministry of Foreign Affairs (MRE), the Ministry of Planning and Budget (MPOG), the Brazilian Central Bank (BCB), the Brazilian Institute of Geography and Statistics (IBGE) and the Institute for Applied Economic Research (IPEA) to support their internal tasks and research. SCS has also shared the data with some Latin-American Integration Association (ALADI) member countries and the Mercosur Group on Services Statistics.

As part of the overall Siscoserv project, SCS and the Federal Brazilian Federal Revenue Office (RFB) have also created the Brazilian Classification of Services and Intangibles (NBS). NBS draws on the structure and guidance of the Central Product Classification (CPC) of the United Nations (UN). Since its inception, NBS has increased in importance and has been used as the official classification for services in Brazil. NBS is now being revised to better match CPC and its latest revision (2.1).

### **The National Export Plan (PNE)**

The only way to achieve coherence and coordination in government actions and public policies for both the domestic and the international market is through crosscutting guidelines set at the highest government level. A clear definition of the objectives to be achieved with foreign trade and precise guidelines on how to achieve these goals is essential for the success of articulated activities on business intelligence, promotion and support to enterprises. At the same time, this set of guidelines should serve as parameters to achieve coherence in the implementation of domestic policies, including regulatory policies.

Coordination between the government entities working with foreign trade is critical to the achievement of these objectives. Each ministry and agency, within its scope, must act in an



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integrated manner to improve the operating conditions of enterprises, enhance the overall competitiveness of the economy and encourage innovations that help companies to excel abroad.

In this sense, the National Export Plan (PNE) is an important initiative to build a common set of guidelines for the Brazilian foreign trade and for achieving better export performance. The Plan was launched in June 2015 and consists of five action pillars: market access, trade promotion, trade facilitation, exports financing and improvement of mechanisms and tax regime for exports. The Plan covers the period 2015-2018 and, after almost a year of its release, it is possible to conclude that the specific actions relating to foreign markets have advanced at a good pace. However, the actions related to domestic market have faced some challenges. The fiscal adjustment the Brazilian government experienced in the last year prevented the implementation of many of the tax financing measures that were aimed to improving the business environment and made government agencies coordination challenging.

### **Infrastructure and Logistics**

In a country with geographic and economic complexities as Brazil, infrastructure and logistics are always a challenge to overcome. The Brazilian government has been working on several fronts to offer a more favorable investment environment for both domestic and foreign investment. In the Brazilian government administration, different ministries and agencies act directly in regulating the services sector, in line with the guidelines of the Presidency. MDIC, within its competences, maintains a constant liaison with other government agencies and entities, helping to identify the infrastructure and logistics needs to leverage trade and the competitiveness of the Brazilian productive sector. However, it does not act directly in the development of policies and regulatory guidelines for this sector.

### **Growth Acceleration Program (PAC)**

Created in 2007, the Growth Acceleration Program (PAC) consists of two parts: (i) investment in infrastructure and (ii) institutional measures. The first part is subdivided in logistics, energy, and social and urban development. The institutional measures are geared towards the relief and improvement of the tax system, encouraging credit and financing, improvement of the investment environment and long-term fiscal measures. A second phase of the Program was launched in March 2010.

In August 2012, the Brazilian government launched the Logistics Investment Program (PIL). The goal of the program was to increase the range of public and private investment in transportation infrastructure and to promote the integration of roads, railways, ports and airports, reducing costs and increasing transportation capacity, and promote efficiency and increase the country's competitiveness.



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Despite the unfavorable economic situation in Brazil and the consequent adjustments made to adapt the federal budget to the new tax environment, the program has achieved some degree of progress in recent years. In addition to the various works of logistics and infrastructure, the PAC has generated a national debate on the regulatory environment of such services in Brazil, which included the various branches of government, both at the federal and local levels, as well as representatives of the civil society. Far from achieving unanimity on various regulatory aspects, there were times when deadlines had to be reviewed and some works experienced delays due to environmental requirements and interference from the Brazilian Public Ministry (MPU)<sup>1</sup>. Although the debate has sometimes been considered in itself a bottleneck for the progress of the program, the country grew as a democracy in discussing issues such as foreign investment, indigenous rights, privatization and concessions, among others.

**The civil aviation sector**

Recently the Brazilian government also promoted changes to the domestic regulations to expand foreign trade and attract investments. The civil aviation sector, one of the most regulated and protected in the world, is an example of that modernization process in Brazil. On March 1, 2016, the Brazilian government signed a Provisional Measure (MP) that raised the admissible percentage of foreign participation in the voting capital of domestic airlines to 49%. With this measure, the government aimed not only to attract new companies to the sector but also to ensure international routes the same expansion obtained by domestic ones, which jumped from 36 million passengers per year, in 2002, to 111 million in 2013. The MP also opened the possibility of negotiating reciprocity agreements that allow foreign companies to acquire up to 100% of the voting capital of a Brazilian airline if a Brazilian company can also acquire 100% of an airline in the home country of that foreign company. The MP is currently under examination at the Brazilian Congress and should be voted into law.

The reciprocity requirement described above is relevant as it presupposes the negotiation of international agreements to that end. The success of market access negotiations in services depends on the flexibility of the negotiating governments to change their domestic regulations to accommodate the results of these negotiations. At the same time, without this flexibility, negotiators do not have a mandate to advance far-reaching agreements and are limited to consolidate the domestic status quo.

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<sup>1</sup> The “Brazilian Public Ministry” (MPU), or the Public Prosecutor’s Office (in Portuguese, *Ministério Público da União*), is the Brazilian body of independent public prosecutors, being totally independent from the Executive, Legislative or Judiciary branches.



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**Regulatory coherence in Brazil**

The importance of regulation in international trade has increased with the growth of the global value chains, and thus regulatory barriers have become the main obstacles to foreign trade. The traditional barriers to trade have been systematically reduced through preferential and multilateral trade agreements, and at the same time, there has been an expansion of domestic regulatory requirements to access foreign markets. Domestic regulations, while essential to achieve economic, social and legitimate environmental objectives, can also bring significant impacts on trade and investment flows. Therefore, it is necessary to strike a wise balance between implementing domestic regulations that have legitimate goals and policies that minimize adverse effects on trade and investment flows.

There is a determination of the Presidency that the regulatory authorities of the Brazilian government consult in advance the Brazilian Foreign Trade Chamber (CAMEX) on decrees, bills and normative acts in the pursuit of expanding the regulatory coherence of domestic policies with the several Brazilian international commitments.

Recently, this issue has gained prominence for being among the disciplines under negotiation in the Brazil – Mexico Trade Agreement since, for the first time, the discipline becomes part of an agreement negotiated by Brazil. This negotiation is an opportunity to improve the regulatory practices of the Brazilian foreign trade bodies and to strengthen the work of CAMEX in supervising the regulation of foreign trade in Brazil.

The implementation of a regulatory coherence policy in Brazil seeks to minimize trade disputes, reduce transaction costs and expand market access opportunities. Thus, it is necessary that Brazil expands cooperation with countries that have successful experiences in this area in order to identify good practices that can be applied in the country and to enable transparency to increase the interaction between regulators and foreign trade operators.

Brasilia, May 11<sup>th</sup> 2016