

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/7
25 May 1962

Limited Distribution

Committee on Balance-of-Payments Restrictions

1962 CONSULTATION UNDER ARTICLE XII:4(b) (UNREVISED) WITH

B R A Z I L

Statement Supplied by the Authorities of Brazil¹

1. Legal and administrative basis of the restrictions

The laws and decrees which are relevant to the Brazilian import control system include the following:

- (i) Decree-law No. 7,293 of 2 February 1945, which gives authority to the Council of the Superintendency of Money and Credit (SUMOC), administered by the Minister of Finance to decide on exchange policies;
- (ii) Law No. 1,807, of 7 January 1953, which lays down the basis for control of foreign trade and establishes the official and free exchange markets;
- (iii) Law No. 2,145 of 29 December 1953, instituted the Foreign Trade Department (CACEX) of the Bank of Brazil and lays down general rules for authorizing imports;
- (iv) Law No. 3,244 of 14 August 1957, which establishes the new customs tariff, institutes a Customs Policy and introduces various changes in the import control system;
- (v) Decree No. 42,820 of 16 December 1957, which regulates all basis put in effect for foreign exchange system and control of foreign trade contained in (ii), (iii) and (iv) above;
- (vi) Regulation 204 of SUMOC, dated 13 March 1961 which initiated the exchange reform and maintained auctions for the purchase of import licenses for commodities included in the special category;
- (vii) Regulation 208 of SUMOC, dated 27 June 1961, which permitted to effect all exchange transactions through the free market, including those previously effected at a preferential rate.

¹This statement was sent by the Brazilian authorities and was used as a basis for the consultation held in May 1962, along with the secretariat document BOP/3.

2. Methods used in restricting imports

The system now in force is based mainly on the market mechanism to select imports. There is only one exception, i.e., the annual quota fixed by the Monetary Board (Council of SUMOC) for commodities included in the special category. All other imports are not subjected to any other restriction than the weekly limit of US\$50,000 per firm, in convertible currencies augmented to Cr\$70,000 if non-convertible currencies were included.

There was a remarkable change in the Brazilian exchange regulations related to imports, since the last consultation held in 1960.

At that time there was an auction system for part of imports and a direct allocation of exchange for other products and financial remittances effected at a preferential exchange rate.

Regulation 204 of SUMOC initiated an exchange reform. The auctions were discontinued and the exchange is obtained in the free market. Besides there was a substantial increase in the preferential rate to Cr\$200,00 per dollar (maintained at the level of Cr\$100,00 per dollar since January 1959).

To face the monetary impact arising from the sudden interruption of the "premia and bonuses" system through which 90 per cent of the effective import rate had to be paid in advance when exchange was bought at auctions, Regulation 204 determined the extension of partial subscription of Bank of Brazil notes required from exporters (Cr\$100 per dollar) to importers. At the beginning a percentage of 100 per cent of the cruzeiro value of the exchange contract related to imports previously covered by exchange bought at auctions was required to be paid in negotiable 150 day 6 per cent a year Bank of Brazil notes for imports be authorized. Later (Regulation 218) the percentage was increased to 150 per cent due to disturbances in the exchange market related to political events. However, Regulation 221 of SUMOC, dated 15 December 1961 determined a gradual 10 per cent monthly decrease. In May the percentage will be at 100 per cent again and by March 1963 the requirement of subscription of Bank of Brazil notes by importers will be discontinued as happened with exporters in October 1961.

The exchange reform was completed with Regulation 208 of SUMOC which eliminated the preferential exchange rate applied to certain imports and amortization of registered loans. Since Regulation 208 all exchange transactions are effected through the free market.

Imports of capital goods with financing from abroad were authorized by the Monetary Board after a careful examination of individual applications and effected at a preferential exchange rate. A certificate was issued stating that the financing was included in a preferential exchange category depending however on balance-of-payments situation at the time the remittances had to be effected.

Imports of capital goods representing foreign investment were permitted on an individual basis to applicants if invested in sectors considered of national interest.

Requirements for approval of financing from abroad were liberalized since no preferential rate is accorded any longer. The application now is examined only by the heads of Foreign Trade Department, Exchange Department of Bank of Brazil and by the Executive Director of SUMOC (all three members of the Monetary Board). If approved by all three the financing is registered for statistical purposes at SUMOC and the import licences are granted by the Foreign Trade Department. Only when there is disagreement among the three departments the application is submitted to the Monetary Board for decision. The same procedure applies to investments as imports of capital goods.

Only for a short period (October-December 1961) a temporary restriction, due to political events, was adopted by Regulation 219 of SUMOC, dated 26 October 1961, limiting the use of export proceeds sold by commercial banks to finance only general category imports (c.i.f. basis).

This requirement brought about a breakdown of the exchange market into commercial and financial. The latter also reflected the requirement contained in the Regulation 219 of SUMOC of a compulsory interest-free deposit of 50 per cent at Banco do Brasil of any exchange sale by authorized banks other than for imports classified in the "general category".

These two requirements brought about a spread of up to 30 per cent between exchange rates for general category commodity imports and other payments abroad.

However, the situation was short-lived and as soon as the political climate permitted (December 1961) the first requirement was abolished and a gradual 10 per cent monthly decrease was determined in the 50 per cent deposit. So, by April the latter requirement will be discontinued.

3. Treatment of imports from different sources

The policy adopted by Brazilian authorities is to rely less and less on bilateralism if partner's countries use no or only global restrictions on imports. According to this orientation trade and payment agreements were discontinued with some European and Latin American countries namely, Spain, Finland, Norway, Argentina, Chile, Uruguay, as well as Japan, and trade and payments are conducted on a multilateral basis.

This general policy has to be adjusted to special conditions of foreign trade of central planned economies. So, bilateral agreements with Hungary, Poland, Rumania, East Germany, USSR and Czechoslovakia were maintained and with Albania, Bulgaria, Cuba and mainland China were signed from 1960 until now.

The only discriminatory exchange treatment between convertible and inconvertible currencies is a 5 per cent discount on certain inconvertible currencies conducted only by Bank of Brazil. Even this discriminatory treatment has been reduced from 1960 until now. At that time discounts at auctions reached 15 per cent and the main reason for such orientation was to discourage exports and foster imports from traditional debtors to Brazil. Exchange sold at auction in convertible currencies had to be future (120 days) compared with spot exchange in inconvertible currencies, bringing about an actual discount higher than those of the auctions. This situation does not exist any more.

Besides these general regulations Brazil is whole-heartedly engaged in the Latin American Free Trade Area (LAFTA). Political and economic considerations make advisable the setting up of a system of preferential treatment on imports from other Latin American countries.

Even if the actual trade among LAFTA countries is presently low there are real possibilities of a fast improvement in exports to countries in the area.

Different stages of economic development among the nine countries now formally members of LAFTA make possible an intensification on almost all levels of elaboration of production, from raw material and foodstuffs to manufactures and capital goods.

Brazil considers it of utmost importance to assure outlets for production of certain industries to bring about a decline in costs beneficial to domestic as well as foreign consumers.

One outstanding example is the automobile industry now producing five different types of vehicles at competitive prices, as proved recently with exports to LAFTA and non-LAFTA countries of buses, trucks, jeeps and others.

LAFTA has to be understood as a market for additional production facing difficulties to participate in the important markets represented by the United States and the Common Market in Europe.

Since June 1961, the Treaty of Montevideo came into force and negotiations held during the period August-November 1961 began to be applied on 1 January 1962. Among the main results of such negotiations are the "general category treatment" for several commodities classified in the special category if imported from LAFTA countries.

Besides, Brazil exempted imports from other LAFTA countries from subscription of Bank of Brazil notes.

4. Commodities or groups of commodities affected by various forms of restrictions

(A list of commodities, in Portuguese, included in the General Category was submitted to the secretariat and is available for reference.)

5. Use of State trading or government monopoly in restricting imports

There is only one important instance of State trading in Brazil. It is the monopoly exercised by Foreign Trade Department on wheat imports. There is no intention of restriction in this case. On the contrary, wheat is one of the basic items of urban population diet. So, the main reason of the monopoly is to make sure that no shortage of the product will happen. On the other hand, the origin of wheat is as much as possible our traditional suppliers, as Argentina. Only as a residual or when a crop failure occurs in the traditional suppliers have the Brazilian authorities negotiated wheat with United States authorities under provisions of PL 480.

Various industrial enterprises of the Brazilian Government or in which the Brazilian Government participates guide their import policy purely on commercial considerations and so are not included under this heading.

6. Measures taken last year in relaxing or otherwise modifying restrictions

The main point in this regard is the exchange reform carried through by Regulations 204 and 208 of SUMOC.

As said above the exchange reform abolished the weekly auctions, held in the Exchanges throughout the country to sell the exchange quota previously established by the Monetary Board (Council of SUMOC). From Regulation 204 on, exchange for imports previously obtained at auction is freely purchased at the free market. Later all other transactions were transferred to the free market.

Besides these specific measures to liberalize imports the exchange rate policy in force since March 1961, based on the need to maintain closely related internal and external values of Brazilian monetary unit, brought about in 1961 a sharp revival of exports. Compared with 1960 Brazilian minor exports increased by more than US\$120 million, i.e., a 25 per cent increase over 1960 on the same products or a 10 per cent rise on total exports. It is clear the benefits of such surge of exports to augment the commercial and financial payments abroad.

The reduction of reliance on bilateralism was noted above. By now there are only six payments agreements with non-central planned economies compared with thirteen in May 1960.

The Customs Policy Council in charge with transfers of commodities from the special to the general categories has followed closely the liberalization policy of the monetary authorities. In fact from May 1960 fifty-one items were transferred to the general category and there was no transfer to the special category.

7. Effects of restriction on trade and general policy in the use of restrictions for balance-of-payments reasons

The Brazilian Customs Tariffs approved in 1957 is the only instrument basically adopted by the authorities for protective purposes.

The "special category" of imports as stated in the Tariff Law is maintained as long as it deems necessary to combine the exchange control with tariffs.

Clearly it reflects only a protection of the balance of payments against the pressure of highly elastic demand of certain commodities resulting from the income redistributions brought about by the inflationary process.

Brazilian authorities believe that a comprehensive anti-inflationary programme now in force will make possible to rely less and less on the special category for balance-of-payments reasons.

However, it is easily understood that unfavourable international markets for Brazilian major exports combined with a certain pressure arising from an inflation even at declining tempo render difficult to give up suddenly the special category.