

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/R/135  
15 December 1983

Limited Distribution

---

Committee on Balance-of-Payments Restrictions

REPORT ON THE 1983 CONSULTATION WITH BRAZIL

1. The Committee consulted with Brazil on 6-7 December 1983, in accordance with its terms of reference, pursuant to Article XVIII:12(a) of the General Agreement and the Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205). The consultation was held under the Chairmanship of Mr. J.N. Feij (Netherlands). The International Monetary Fund was invited to participate in the consultation in accordance with Article XV of the General Agreement.

2. The Committee had the following documents before it:

Basic Document	(BOP/239)
Secretariat Background Paper	(BOP/W/74)
Statistical Analysis of Licensing Suspension Scheme	(BOP/W/67)
Notification in Pursuance of Paragraph 3 of the Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance	(L/5555)
IMF Recent Economic Developments, dated 10 February 1983	
IMF Supplementary Background Material, dated 18 November 1983	

Opening statement by the representative of Brazil

3. In his opening statement, the text of which is attached as Annex I, the representative of Brazil recalled that, at the last consultations in 1981, the Committee had noted that the overall balance of payments of Brazil was expected to be in approximate overall balance by the end of 1981 and had expressed the hope that Brazil would, as a result, be in a position to reduce substantially its reliance on restrictive import practices. This assessment had, in his view, been overly optimistic. Structural weaknesses in the balance of payments, dating originally from the first oil shock of 1973, had been aggravated in the late seventies by the steep rise in international interest rates and by the second oil shock. The resulting trade and current account deficits could only be financed by increasing external indebtedness. In 1979 and 1980, Brazil could not entirely finance its deficits from external resources and international reserves had been significantly reduced. The overall equilibrium obtained in 1981 had merely concealed the long-term structural nature of the problems. In 1982, Brazilian exports and imports fell by approximately 15 per cent; interest payments, however, increased by 24 per cent. A small trade surplus of US\$800 million was swallowed up in the US\$16.3 billion current account

deficit, and an abrupt and substantial contraction of resources available on capital account led to an overall deficit of US\$8.8 billion and a grave deterioration of Brazil's reserve position.

4. There were thus, in his view, at present no grounds under GATT rules for the relaxation of import restrictions; rather, it was evident that such measures would need to be intensified unless Brazil could either greatly expand its exports, or increase its access to financial markets, or both. It was recalled that Brazil's main creditors were also its biggest trading partners. It was in this light that the measures taken by Brazil since 1981 - the further suspension of import licencing, the increase in the number of items subject to tariff surcharges, the reduction of import ceilings for government agencies and the centralization of control of foreign exchange transactions - should be considered. In the context of the balance-of-payments adjustment programme agreed with the IMF, Brazil committed itself to an adjustment of its balance of payments over the three year period which relies on trade surpluses essentially generated by reduction of imports. While it was expected that the present level of import restrictions would suffice, no relaxation of such measures could be expected unless a net and substantial improvement of the international reserve position took place. Moreover, it was recalled that tariff surcharges and the suspension of import licences did not apply to items bound by Brazil in GATT: commitments under Article II of the General Agreement were thus fully respected. In addition, the consistency of Brazil's measures with GATT rules had already been established by the Committee: in this instance the Committee was dealing only with a rise in the incidence of such measures.

5. Referring to the question raised in the 1981 consultations, whether a timetable could be fixed for the phasing out of the financial transactions tax, he noted that the IMF adjustment programme involved the implementing of policies which would lead to the elimination of such practices. He noted that, having adopted a realistic exchange rate policy early in 1983, Brazil was undertaking reductions in subsidies to exports as well as reductions in the rate and scope of the financial transactions tax, in compliance with its commitment to avoid as far as possible practices implying multiple exchange rates. He also noted that the combination of problems faced by Brazil could only be dealt with by a complex of measures.

6. The representative of Brazil drew attention to Paragraph 12 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes. He stressed that, as agreed by consensus in the Consultative Group of Eighteen, balance-of-payments adjustment should be based on export expansion, rather than import contraction. Currently, Brazil faced depressed prices for its export commodities, weakened import demand in main trading partners, and increasing restrictions on access to markets as a result either of protectionist actions or, in the case of many developing countries, adjustment policies. Noting that a large number of non-tariff measures were applied to Brazil's trade by its three main developed trading partners, he put forward three suggestions for consideration by members of the Committee:

- (a) that contracting parties should roll back, for the benefit solely of developing countries, all existing import restrictions inconsistent with the GATT which affected products of interest to developing countries with balance-of-payments problems;
- (b) that for the duration of adjustment programmes agreed with the IMF, all safeguard actions taken or under consideration against export products of interest to consulting developing countries should be suspended;
- (c) that no countervailing or anti-dumping duties should be imposed on products exported by such developing countries during the period of IMF adjustment programmes.

Finally, the representative of Brazil requested the secretariat to provide a list and analysis of all trade measures restricting the access of Brazilian exports to importing markets as well as to third markets, before new balance-of-payments consultations with Brazil take place, with a view to allowing the Committee to make clear recommendations on concrete actions by contracting parties for the removal of such barriers.

Statement by the representative of the International Monetary Fund

7. At the invitation of the Committee, the representative of the International Monetary Fund made a statement, the text of which is reproduced in Annex II.

Balance-of-payments position and prospects - alternative measures to restore equilibrium

8. One member, drawing attention to the burden that subsidies imposed on the budget, noted that serious efforts were being made by Brazil to reduce subsidies in the economy including agricultural credit and export credit subsidies, and asked if a time schedule could be set for the reduction of export credit subsidies. The representative of Brazil replied that although the more realistic exchange rate policy adopted should, in time, lead to a diminution in such subsidies, it would be difficult to give an exact schedule. Interest rates on export credits had already been increased substantially: however, Brazil needed seriously to promote exports as part of its adjustment effort. Agricultural subsidies had also been substantially reduced. The intention was to eventually eliminate all agricultural subsidies and subsidized export credit financing.

9. Several members, noting that the 1983 trade balance appeared to be well on target, asked how confident Brazil was that the projected 1984 trade surplus would not be affected by shortages of supplies for export industries resulting from import restrictions. Clarification was requested as to what, in the view of Brazil, constituted a substantial improvement in the international reserve situation which would allow some relaxation of restrictive measures. More information was also requested on the adjustment programme being pursued by Brazil in agriculture. The representative of Brazil agreed that supply bottlenecks could indeed result from the need to reduce imports. In the present situation there was no

alternative but to restrict imports; he hoped that more flexibility could be exercised next year if export performance improved substantially. The balance of payments equilibrium projected for 1983 depended on the availability of adequate external financing, and in any case would be reached with a low level of international reserves. In this connection, he noted that reserves representing two to three months' import value were generally regarded as an acceptable minimum. He also noted that the correction of the price structure in the economy was a vital part of the adjustment programme, and recalled that agricultural subsidies were now considerably lower than in 1981. It was planned to increase agricultural production substantially. Several members also noted with interest the statement by the IMF to the effect that the Brazilian authorities intended to introduce a trade system providing protection through tariffs rather than through quantitative restrictions. The representative of Brazil stressed that this statement had been made by the IMF representative, and that his delegation was not in a position to announce, in the framework of GATT, any commitment in that direction.

10. Questions were posed regarding the effects of surcharges and the financial transactions tax on the general level of Brazil's imports; and also on the rationale for the maintenance of such measures along with other measures in the light of paragraph 1(b) of the Declaration. The Brazilian representative, referring to Table 18 of the basic document (BOP/239), stated that some 8 per cent of imports were subject to surcharges in 1982. As regards the financial transactions tax, it was difficult to make a complete evaluation of its impact in terms of trade coverage, but it could be said that in general terms about 70 per cent of imports were exempt from the tax.

#### System, method and effects of the restrictive import measures

11. Members referred to the complexity of the Brazilian import regime. In this context, some members, referring to Paragraph 1(b) of the 1979 Declaration, said that this complexity contributed an additional burden on trade. The representative of Brazil stated that the multiplicity of the measures reflected the magnitude of the balance of payments problem, different measures having been introduced successively as the situation deteriorated. A number of Brazil's measures were currently under review with a view to their modification, simplification or phasing out, as the case might be.

#### Import licensing system

12. A number of questions were asked concerning the operation of the import licensing system. One member sought information on priorities for allocation of foreign exchange under the system and procedures to ensure transparency. He also called attention to reports according to which a large number of items not subject to suspension of import licenses were only authorized through one particular regional office of CACEX. Another member asked whether Brazil planned in the near future to significantly reduce the number of products for which Brazil did not issue import licenses. He also asked what factors determined that, even if goods were not on the suspended list, licences would not be issued for particular products such as computers or aircraft. A member asked about the operation

of the import programme system for individual firms and the way in which negotiations with such firms operated. Several members asked whether this import programme system was restricted to established importers or whether new traders could obtain approval by CACEX.

13. Questions were also asked about the legal basis and rationale for the "similars" system under which import licenses were apparently not granted for products made in Brazil, and the policy of reserving specific sectors such as informatics for national producers. It was questioned whether these two policies were pursued for balance-of-payments or for other reasons.

14. In reply, the representative of Brazil noted that the basic structure of the import licensing system, including the requirement that all importers be registered with CACEX, had been in existence for many years. Import programmes were a new aspect of the system since 1980. These were clearly discussed in paragraphs 68 to 72 of the basic document (BOP/239). They had been introduced as a temporary measure to alleviate balance of payments problems. Import programmes were negotiated directly between CACEX and the firms concerned; new importers could negotiate such programmes. The criteria for approval under import programmes were set out in paragraph 71 of BOP/239. He was not aware of any restrictive practices relating to imports of goods for which import licences were available.

15. The intensification of suspension of import licences had been made in 1982 in response to the serious balance of payments situation. The list of products affected had been fully notified (L/5393).

16. The "similars" rule had formed part of Brazil's trade policy for many years, and was not a balance of payments measure, but a general provision applying in cases where an importer wished to benefit from reductions in tariffs or other charges. Specific regulations on computers, steel products etc. had been introduced in 1974 for balance of payments reasons or to avoid speculative stockbuilding, certain pricing practices, etc. Policy on informatics was subject to objectives relating to the development of the sector and national security.

#### Foreign exchange and currency practices

17. Several members asked whether the centralization of foreign exchange authorization, introduced in August 1983, was seen as a temporary or longer term measure. This policy had had a disruptive effect on trade. The representative of Brazil recalled that this measure had been taken at a critical time and that it was Brazil's firm intention to phase it out by the end of 1983.

18. In reply to questions relating to import duty surcharges and the financial transactions tax in the context of measures equivalent to multiple exchange rates (paragraph 107 of BOP/239), the Brazilian representative stated that the gradual elimination of multiple exchange rates was part of the adjustment programme discussed with the IMF. The financial transactions tax had already been reduced to some extent; some export taxes were to be eliminated; other measures would be phased out as

the programme proceeded, subject to the development of the balance of payments. He noted that import surcharges had been among the first balance of payments measures adopted by Brazil in 1974/75. He recalled that import surcharges covered, in 1982, about 8 per cent of total imports, and that a certain number of products had been removed from the list in that year.

19. Two members asked questions concerning the operation of bilateral clearing arrangements with socialist and other countries, including the consistency of such arrangements with the non-discriminatory issuance of import licences. The Brazilian representative recalled the agreements which Brazil maintained with Latin American countries through LAIA, which were currently under renegotiation in order to attempt to regain earlier levels of regional trade. Brazil was also trying to develop its trade with socialist and African countries under bilateral clearing arrangements; those with socialist countries had shown historical surpluses in favour of Brazil. Such clearing arrangements followed standards laid down by the IMF. He was not aware of any new policy in this area.

#### Other points

20. In reply to a question about local content requirements as a condition for obtaining government contracts or for receiving investment incentives, the representative of Brazil said that tax incentives given to investments for export or other reasons were not balance-of-payments measures, but rather general policies relating to industrial development in Brazil.

#### Points relating to the external trading environment

21. The representative of Brazil, referring to the proposals made in his opening statement, said that the intention of his authorities had been to put forward some ideas for reflection, relating to the provisions of Paragraph 12 of the 1979 Declaration, with a view to contributing to the future work of the Committee in looking at how trade liberalization could assist countries in balance-of-payments difficulties. He did not expect concrete reactions at this meeting, realizing that governments would need to reflect on the complexity of the issues involved and the problems they might pose.

22. One member, supporting the proposals made by Brazil relating to reduction of trade barriers relevant to products of interest to consulting countries (paragraph 6 above) noted that the proposals were in line with Part IV of the General Agreement and with the 1982 Ministerial Declaration. He endorsed the proposal for an analysis of restrictive measures and suggested that this should be standard practice for all consulting parties, as well as for other contracting parties making use of IMF facilities. Another member supported the Brazilian idea that the secretariat should analyse all restrictive measures applied against the consulting countries' exports. He also endorsed the idea that the Committee should make appropriate recommendations with respect to these restrictions, with the understanding that this procedure should be applied in respect of all consulting countries with balance-of-payments difficulties. He disagreed

with Brazil that import restrictions inconsistent with the GATT should be eliminated in favour of only one group of contracting parties because such a selective approach would be inconsistent with the GATT obligations and would undermine the GATT systems.

23. One member clarified that measures mentioned in the secretariat paper (BOP/W/74) as being applied by her country were not countervailing duties, but temporary tariff surcharges applied on a non-discriminatory basis.

24. A number of members stressed that any examination of balance-of-payments problems in the Committee should take full account of all external and internal factors affecting the consulting country's situation. It was recalled that the main purpose of balance-of-payments consultations was the examination of measures taken by consulting countries. In addition, any examination of external trade measures affecting the consulting country should not be limited to specific types of measures or to measures taken by one or a few countries. Regarding the specific Brazilian proposals, a number of members expressed certain reservations. It was noted that many restrictive measures were taken for sound economic reasons and were legally justifiable under GATT Articles or related provisions, including MTN codes. Certain of the proposals might involve the surrender of contracting parties' GATT rights or imply the contravention of the m.f.n. principle. This would upset the balance of rights and obligations under the GATT. The right to take action under certain provisions of the General Agreement, for example Articles XIX and VI, was a necessary ingredient of the GATT system if the objective of trade liberalization was to be achieved. It was also noted that the Committee was not a negotiating body, and that its work should not duplicate that of other GATT fora. However, these members agreed that the specific Brazilian proposals, which raised a number of important issues, deserved closer examination.

25. The representative of Brazil replied that his proposals fell within the purview of Paragraph 12 of the 1979 Declaration. It had not been the intention of Brazil to imply a deviation from the m.f.n. principle in making the proposal concerning safeguard measures, which was related to products of interest to consulting developing countries. Nor did their proposals imply any surrender of GATT rights by other contracting parties. However, they addressed the question of how such rights might be used in the context of Paragraph 12.

#### Conclusions

26. The Committee noted that Brazil's balance-of-payments and reserves situation had deteriorated sharply since the last consultation, due to a number of factors. These included the impact of the world economic recession on external demand, difficulties of external financing and debt servicing, and problems of budgetary adjustment, amongst others, in the Brazilian economy. In addition, Brazil's export efforts were hampered by protectionist pressures abroad.

27. While recognizing the seriousness of Brazil's balance-of-payments problems and the need to maintain import restrictions in the current situation, the Committee noted that the Brazilian import system remained complex and lacking in transparency. The Committee welcomed the statement

by Brazil that a number of the measures included in its imports system were currently under review with a view to their modification, simplification or phasing out, as the case might be. The Committee expressed the hope that, in this review process, views expressed in the Committee relating to the multiplicity and complexity of Brazil's measures and the desirability of establishing a time frame for the liberalization of such measures would be taken into account, in accordance with the provisions of Paragraph 1 of the 1979 Declaration.

28. The Committee, noting the statements by Brazil on the extent to which import measures adopted by its trading partners impinged upon its balance of payments, recognized the importance of giving particular attention to the possibilities for alleviating and correcting balance-of-payments problems through measures that contracting parties might take to facilitate an expansion of the export earnings of consulting contracting parties. Accordingly, the Committee agreed that members should jointly consider this issue in the broader GATT context, in the light of further consultations. The Committee noted the specific proposals made by the Brazilian delegation concerning ways to improve Brazil's export prospects. It was agreed that members would reflect further on these proposals.

ANNEX I

Statement by the representative of Brazil

These consultations have been requested from us for the purposes of ascertaining (a) whether Brazil has raised, since its last consultations in December 1981, the level of restrictions it applies to its imports, for balance-of-payments reasons; (b) if so whether this was warranted by the worsening of Brazil's external payments position; and (c) whether the measures taken by Brazil are in conformity with its obligations towards other contracting parties in GATT.

2. Allow me, Sir, to indicate that after the Committee has concluded its examinations of the above mentioned questions, it is the intention of the Brazilian Delegation to invite the Committee to consider, in the light of the relevant provisions of GATT, particularly pars. 11 and 12 of the "Declaration on Trade Measures taken for Balance-of-Payments Reasons", first, in what ways restrictive trade measures taken by other contracting parties, many of them not consistent or not based on GATT, may be a source of, or may aggravate, the balance-of-payments problems encountered by Brazil; and second, in what ways and to what extent contracting parties with balance-of-payments surpluses could and should, in their very self-interest, contribute to facilitate the export earnings of Brazil.

3. At the last consultations, held exactly two years ago, this Committee noted that the overall balance-of-payments of my country was expected to be in approximate equilibrium by the end of 1981 and expressed the hope that Brazil would, as a

result, be in a position to reduce substantially its reliance on restrictive import practices.

4. A more careful examination of the evolution of the Brazilian balance-of-payments would have shown, however, that since 1974, - after the first oil shock and when the first import restrictions we are now considering were introduced - Brazil started to experiment substantial and successive trade and current account deficits. Such deficits could only be financed by large inflows of capital, mostly through the recycling of petrodollars in the euro-currency market. In other words, by increasing the external indebtedness of the country.

5. This structural weakness in our balance-of-payments was aggravated in the late seventies by the very steep rise in interest rates in the international money markets and by the second oil shock. Due to the intensive efforts in energy substitution and conservation programs, it was possible to keep the trade deficits at about the same level recorded in the mid-seventies. The increased current account deficits in 1979 and 1980 - which resulted from the rise in interest payments - could not, however, be entirely financed by external resources. As a consequence, for the first time in many years, Brazil faced in 1979 and 1980 two very sizable overall balance-of-payments deficits, with the corresponding reduction of our international reserves.

6. Seen in this broader context, it is clear to us that Brazilian balance-of-payments results for 1981 could not in fact warrant the optimistic expectations then voiced in this Committee. The overall equilibrium then obtained could

only very thinly hide the seriousness and the structural long-term nature of our balance-of-payments problems. Export receipts realized at great pains as a consequence of falling prices for our commodities were barely enough to cover imports of goods and were not even sufficient to pay for the imports of non-factor services. The main instrument at our disposal to finance the ever expanding interest bill and to avoid a contraction of imports below the 1980 level was again the increase in external indebtedness.

7. The Brazilian balance-of-payments figures for 1982 reveal in its full extent the dramatic impact of the deterioration of the world economic environment on the already fragile external position of my country. As a consequence of the economic recession and of renewed protectionism in the developed world, our exports fell by approximately 15% in that year; imports contracted in the same proportion; interest payments, however, increased by 24%. The small trade surplus of US\$800 million was totally submerged by an enormous current account deficit of US\$16.3 billion, equivalent to more than 5% of the gross national product, and 39% higher than the one recorded in 1981. In addition, well-known events in the world financial markets resulted in an abrupt and substantial contraction, in our case in the order of 30%, of the amount of resources available on the capital account. The inevitable outcome was an overall balance-of-payments deficit of US\$8.8 billion, with a grave deterioration of our international reserve position.

8. In the light of the above facts, it seems to us

to be abundantly clear that there were no grounds whatsoever, under GATT rules, for the relaxation of import restrictions previously imposed by Brazil for balance-of-payments reasons, which had been the object of discussion in this Committee two years ago. Quite the contrary, it was evident from the further worsening of our external problems, for reasons mainly beyond our control, that the intensification of the level of restrictive import measures would unavoidably and regretfully be necessary. Such an undesirable outcome could only have been prevented if Brazil were in a position to greatly expand its exports or alternatively, but less attractively, to increase its access to financial markets, or to do both.

9. The continued deterioration of Brazil's balance-of-payments as accurately reflected in the pronounced decline of its international reserves characterizes, without a shade of doubt, a situation in which we are entitled under the GATT to increase the level of restrictive import measures. We had to do so in order to defend the ability of the country to assure a minimum essential level of imports and to meet its debt-service obligations towards our creditors, which incidentally are our biggest trading partners.

10. It is under these circumstances, that one has to consider actions taken by Brazil after the 1981 consultations and which resulted not only in the further suspension of import licensing, in the increase in number of items subject to tariff surcharges and in the reduction of the import ceilings in state trading but also in the centralization of the control of foreign exchange transactions.

11. These severe balance-of-payments conditions led

led Brazil to resort in 1982 to the financial assistance of the IMF for the utilization of SDRs 4.5 billion of its extended facility over a period of three years, starting in 1983. In exchange for this specific IMF assistance and for the IMF help in arranging credit support from the international banking community, Brazil committed itself to an adjustment of its balance-of-payments over the three-year period which relies on trade surpluses essentially generated by restriction of imports. For 1983, the export target agreed with the IMF represents a 10% increase in relation to the preceeding year; the import goal of US\$16 billion, also agreed with the IMF, corresponds to a 20% decrease in comparison to 1982 and to a 30% reduction in relation to the 1981 level. That is to say, in order to achieve the aim of a US\$6.0 billion trade surplus, Brazil in 1983 will have to import US\$6.0 billion less than in 1981, the year which was the object of the particular attention of this Committee in our last consultations.

12. Notwithstanding the serious difficulties the country has to overcome, Brazil, as a result of the adoption early this year of a realistic exchange rate policy which raises the competitiveness of our exports, has felt itself in a position to take some liberalization measures as regards its trade and payments policies. This can be seen, for instance, in the reduction of the degree of subsidization extended to exports, at a moment, however, when some of our competitors are increasing their own subsidies; it can also be seen in the reduction of the rate and of the range of application of the financial tax on import transactions, in compliance with our commitment to

avoid as much as possible practices which imply multiple exchange rates.

13. The general objective of the adjustment policies pursued by Brazil in its economy as a whole and specifically in its external sector is to provide a solid basis for the resumption in the long-run of the process of economic development, and by so doing to restore its balance-of-payments equilibrium on a sound and lasting foundation. There should be no doubt that our wish is to achieve such aim at increasingly higher levels of trade, on the basis of export expansion rather than of import contraction. In adopting restrictive import measures or in increasing the level of their incidence, we are, first and foremost, imposing very severe and painful constraints on the very level of economic activity in our country, with all its social and political implications. Given the scope and intensity of the adjustment effort, it is to be expected that the present level of import restrictions will prove sufficient. On the other hand, relaxation of existing measures is not to be expected, unless a net and substantial improvement of our international reserve position can take place.

14. The figures and information which corroborate the view I have advanced are at the disposal of this Committee in Document BOP/239, circulated by Brazil as basic document for these consultations. The background material supplied by the IMF gives as well supporting evidence of our position. As foreseen in the relevant GATT provisions, it is to be expected that this Committee will be provided in these consultations, with the required determination by the IMF on the state of our international reserves.

15. Having supplied the Committee with what we believe are the legal grounds for maintaining import restrictions, and for increasing their level, allow me, now, Sir, to address myself to the question of the conformity of the specific measures adopted with our obligations under the GATT.

16. It seems to us easily perceptible from the record of trade practices of contracting parties in similar circumstances that the different restrictive import measures taken by Brazil are fully in line with the disciplines of the GATT. To begin with, Brazil has tried to apply measures which have the least disruptive effect on trade, as required under par. 1(A) of the Declaration on Trade Measures for Balance-of-Payments Purposes.

17. As regards notification, we have endeavoured to comply with our obligation to report to the GATT as fully as possible on the intensification of the restrictive measures. In this connection, I would like to bring to the attention of the Committee that Document BOP/74 does not take account of all notifications made by Brazil.

18. As seen in the last consultations of December 1981, actions taken for balance-of-payments reasons by Brazil are moreover of a non-discriminatory nature, as required by the GATT. Both tariff surcharges, and suspension of import licences apply only to items not bound by Brazil in GATT and as such fully respect commitments under Article II of the General Agreement.

19. In the present consultations, we are dealing in fact with only a rise in the incidence of measures whose

consistency as such with GATT rules had already been established in this Committee. I would like nevertheless to refer to doubts which were raised in two specific points in the 1981 consultations, to wit (a) the question of a time-table for the phasing out of the financial tax on import transactions and (b) the problem of simultaneous application of different measures.

20. On the first point, let me indicate that the Brazilian authorities maintain the objective of implementing policies which would lead to the elimination of such practices in the context of the adjustment program negotiated with the IMF.

21. As far as the simultaneity of different measures applied by Brazil, it should be borne in mind that, under the GATT relevant provisions, a contracting party applying restrictive measures to imports, is only expected to avoid the concurrence of measures in that direction. It goes without saying that under the extreme perverse balance-of-payments conditions at which one contracting party may find itself, the adoption of one single measure may clearly not be enough to produce the necessary limitation of imports. Complex and acute problems such as the ones faced by Brazil are not amenable to be dealt with, except by a combination of actions which are nevertheless consistent with obligations under the GATT.

22. As indicated at an earlier stage of this statement, the balance-of-payments adjustment policy pursued by Brazil is subjected to three main constraints. They are, to begin, the export limitations effect on our trade account,

arising from (a) depressed prices for our export commodities; (b) enfeebled import demand of our main partners; and (c) increasingly restricted access to the market of these partners as a result of protectionist actions and, in the case of some of our less developed trading partners, as a result of their respective adjustment policies agreed upon with the IMF.

23. The second very important constraint is the negative effect of the extremely high level of interest payments on our service account, a direct consequence, as admitted by the IMF, of the low level of fiscal discipline in industrialized countries. Only last year, in an address entitled "Restoring Fiscal Discipline", the Managing-Director of the IMF pointed out: "In spite of the decline in the inflation rate and the recession, the current level of nominal interest rates in the United States is high, and the level of real interest rates is extremely high, causing many serious problems for the U.S. and the rest of the world". This was confirmed by recent statements by U.S. authorities themselves. The Chairman of the Federal Reserve Board, Mr. Paul Volker, last October, stressed before the U.S. Congress that: "The persistence of large U.S. federal deficits complicates the effort to deal with the international debt situation".

24. The third main constraint in the correction of Brazil's balance-of-payments imbalance lies in the dramatic contraction of international financing on our capital account. Here we are dealing not only with the reduced availability in the volume of commercial loans but also with the steep decline in terms of direct investment and especially of official lending

assistance by Government and public financing agencies. Volume and quality of international lending are of course basic elements in any serious attempt to restore the equilibrium of the balance-of-payments of debtor nations. This is all the more relevant as these countries have a significant role to play in the recovery of world trade and in overcoming the present world economic recession.

25.               Given the nature of the responsibilities of GATT and of this particular Committee, I ask your permission to address myself in particular to the export constraints Brazil faces in its effort to restore a lasting and sound equilibrium in its balance-of-payments. In so doing, I would like to start by calling the Committee's attention to Art. 12 of the Declaration of Trade Measures taken for Balance-of-Payments Purposes and I quote:

"In the course of full consultations with a less-developed contracting party the Committee shall, if the consulting contracting party so desires, give particular attention to the possibilities for alleviating and correcting the balance-of-payments problem through measures that contracting parties might take to facilitate an expansion of the export earnings of the consulting contracting party, as provided for in paragraph 3 of the full consultation procedures". It will be recalled that, in informal consultations held under your Chairmanship three weeks ago, my Delegation expressed its desire to proceed in this manner.

26.               The obligation of contracting parties to cooperate with a trading partner in balance-of-payments

difficulties goes of course much beyond the letter of the above quoted provision. More than a legal duty, it can and should be seen as an action for the benefit of the expansion of world trade and as a promotion of their own national interest. This seems to us particularly true as regards contracting parties enjoying balance-of-payments surpluses, specially if they are major trade partners for the consulting country and in addition when they find themselves in the position of creditors of that deficit country.

27. It should be made clear that balance-of-payments adjustment should be based, as recognized by consensus in the last meeting of the Consultative Group of 18 of the GATT, on export expansion and not on import reduction. The need to extract practical conclusions from this view is even more acute when one considers that many countries are, at the same time, implementing adjustment policies which, to the extent that they are based on import restrictions, have a compounded depressive effect on the export earnings of these same countries in their trade relations with one another.

28. Without belittling the positive contribution economic recovery in the industrialized countries can have in terms of a higher demand and perhaps better prices for the exports of countries like Brazil, it is evident that the main thrust for facilitating the increase in our export earnings has to come from the dismantling of the extraordinary arsenal of trade barriers, mostly of a non-tariff nature, which block the access of our goods to the markets of our large trading partners in the industrialized world.

29. Our contention, Sir, is that such barriers are among the root causes of the structural nature of our balance-of-payments problems and that their constant increase constitute an aggravating factor in the external account imbalances we have to correct.

30. On behalf of the Brazilian Delegation, I would like at this point in time to place on record our appreciation for the effort made by the GATT Secretariat in Document BOP/W/74, paragraphs 18 through 24. Evidently, due to lack of time, it was only possible to list barriers to Brazilian export notified in 1983. This is of course only the tip of an iceberg but it certainly represents a first serious attempt this Committee should not fail to support, in giving practical application to the GATT provisions which recommend the evaluation of all external actions affecting the export earning of a consulting contracting party.

31. Having done some homework ourselves on some of the measures restricting our export trade, we can understand that the Secretariat did not have the time to list them all. There are simply too many of them, Mr. Chairman. Our preliminary count of non-tariff measures applied to Brazilian products by our three larger trading partners shows the following figures, based on the respective tariff lines: in the Japanese market - 68 products; in the U.S. market - 316 products; in the EEC market - 520 products.

32. As you can see, Mr. Chairman, the figures boggle the mind. Preliminary as they are, they seem to provide the

most direct reason for our inability to expand our exports. Particularly if you consider that, although alarming in themselves, these barriers do not seem to stop increasing. We in Brazil fully understand the meaning of a recent statement by Jacques Delleors, the French Minister of Finance, who said: "Each time a decision is taken to remove a non-tariff barrier, a hundred others spring up". Mr. Chairman, if we allow the current trend of "geriatric protectionism" to go unchecked, I wouldn't be surprised if soon all of our export products, and everybody else's as well, were subjected to one type of barrier or another. But by then, I'm afraid most of what we attempt to do in this building will have lost whatever meaning it still has.

33.               What I mean by this is that the least these contracting parties could do is to try to remove immediately the large number of these barriers, particularly in the field of QRs, which are inconsistent with GATT, that is to say plainly illegal. They would be doing nothing more than to comply with the commitment they undertook in that regard during the Ministerial meeting last year. It looks to us like an unbalanced exercise if a consulting contracting party, and a developing one at that, sits here to justify its balance-of-payments measures when several contracting parties go on maintaining illegal barriers to its exports trade.

34.               What is to be done? What contribution can this Committee give to fulfill its responsibilities under the GATT? More important still, what action are contracting parties prepared to consider, collectively or individually? We are

faced here, squarely, with the much discussed issue of the trade-finance link. In other words, to what extent and by which trade measures can contracting parties help to alleviate the payments problems of the debtor-countries.

35. One possibility that might deserve considered reflection by the members of this Committee would be, to our mind, for the big trading partners, to take the following immediate trade initiatives:

(a) to roll back, for the benefit solely of developing countries, all existing import restrictions inconsistent with the GATT, affecting in particular products of interest to developing countries with balance-of-payments problems;

(b) to suspend, for the duration of the adjustment program agreed upon with the IMF, all safeguard actions taken or under consideration to be taken against export products of a consulting developing country;

(c) refrain from imposing for the duration of the adjustment program agreed upon with IMF countervailing or anti-dumping duties on products exported by developing countries.

36. It is the understanding of the Brazilian Delegation that before any new BOP consultation with Brazil is convened, this Committee should have before it a Secretariat document listing and analysing all trade measures applied by Brazilian trading partners which restrict the access of Brazilian goods to their markets as well as to third markets.

37. This should be done with a view to allowing the Committee to make clear recommendations on concrete trade actions by contracting parties for the removal of such barriers.

38. Allow me to conclude, Sir, by invoking a highly authoritative testimony just given by the President of the Bank for International Settlements. Saying that increased protectionism in industrialized nations will reduce world trade and intensify the critical rise in international debt, Mr. Fritz Leutwiler, who is also Chairman of the Central Bank of Switzerland, stated in Philadelphia, before a gathering of political and financial leaders:

"In our own interest we must give developing countries a fair chance to expand their exports".

ANNEX IIStatement by the Representative of  
the International Monetary Fund

In 1981, the current account deficit <sup>1/</sup> of Brazil's balance of payments amounted to 5.6 percent of GDP. Brazil experienced no major difficulties in obtaining sufficient foreign credit to finance such a deficit, and in rolling over maturing foreign debt. Net international reserves increased by US\$0.8 billion during the year, and gross official reserves reached US\$7 1/2 billion at the end of 1981. However, real GDP declined by 3 1/2 percent, and only limited progress was made in reducing the 12-month rate of inflation—to 95 percent by end-1981, compared with 110 percent in December 1980.

Brazil's economic performance suffered a setback in 1982. Output was stagnant, inflation continued at nearly 100 percent, and the external situation weakened considerably. The effects of the deepening recession in industrial countries, a further deterioration of commodity prices, and financial difficulties in countries that had recently become important markets for Brazilian manufactures, were compounded in the second half of 1982 by the change in the attitude of international financial markets toward Brazil. For the year as a whole, both exports and imports declined by 12-13 percent, and the trade surplus fell to US\$0.8 billion, from US\$1.2 billion in 1981. Mainly due to higher interest and travel payments, the net deficit on services and transfers rose from US\$12.9 billion in 1981 to US\$17.2 billion. The current account deficit rose by more than US\$4 1/2 billion to US\$16.4 billion, equivalent to 7.6 percent of GDP, and gross official reserves declined by more than one half, to US\$2.8 billion at the end of 1982.

Brazil maintains a complex trade and payments system, featuring many distortions and restrictions. In September 1982, in order to stem the rapidly deteriorating balance of payments situation, the authorities prohibited a substantial number of imports, tightened regulations on certain payments, and subjected tourist expenditures abroad to the financial transactions tax. In October 1982, the requirements for the minimum financing terms for imports of machinery and equipment and of industrial durable consumer goods with exchange cover were tightened.

In December 1982, Brazil announced an economic program for 1983-85. In the short run, the program aimed at reducing external and internal imbalances and, in the medium term, at bringing about structural changes to permit a return to high and sustainable rates of growth of output and employment. The basic objectives of the program were to raise domestic savings, especially in the public sector, to reduce dependence on

---

<sup>1/</sup> The current account deficit includes reinvested profits.

external resources, and to make the economy more efficient by allowing relative prices to adjust, eliminating subsidies, and cutting back exchange and trade restrictions. The external targets of the program--which envisaged a sharp reduction in the current account deficit in 1983, followed by further reductions in 1984 and 1985--were a substantial reduction in the growth of external debt, and moderate surpluses in the overall balance of payments that would help rebuild foreign exchange reserves. Most of the improvement in the external position in 1983 was to come from a reduction in imports of goods and services. From 1985 on, however, a steady increase was expected in the U.S. dollar value of imports. Also, starting in 1984, increased conservation and domestic output was to reduce the oil bill, and thus to permit a significant recovery of non-oil imports, in line with the expected domestic economic recovery and the need to replenish inventories. The program called for a reduction in the public sector's financing requirement, which would be instrumental in scaling down foreign borrowing and reducing inflation. The program foresaw reductions in credit subsidies to agriculture, a substantial strengthening of domestic pricing policies, in particular with respect to prices of fuel products, and a tightening of incomes policies.

This program formed the basis for a request by Brazil for the use of Fund resources. On February 28, 1983, the Fund approved the use of resources totaling the equivalent of SDR 4,955 million. Of this total, SDR 4,239 million (425 percent of Brazil's quota in the Fund), was made available for drawing over a three-year period under an extended arrangement; SDR 249.4 million, the equivalent of Brazil's first credit tranche, and a drawing of SDR 466.3 million under the compensatory financing facility were made available immediately. The drawing under the compensatory financing facility was in respect of a shortfall in Brazil's export earnings during the calendar year 1982, and followed an earlier drawing of SDR 498.8 million in December 1982.

To date, Brazil has made substantial progress toward meeting the external targets of the program for 1983, although its foreign exchange situation remains under severe pressure. In late February 1983, the cruzeiro was depreciated by 23 percent in terms of the U.S. dollar. This action reversed the appreciation of the cruzeiro in real effective terms which had occurred since 1980. The February devaluation and the policy of frequent adjustment of the exchange rate in line with domestic inflation have contributed to positive results in the trade account. The trade surplus reached US\$4.9 billion in the first nine months of this year, an amount consistent with the targeted surplus of US\$6.3 billion for the year as a whole. Exports in the period January-September were US\$16.3 billion, about 8 percent higher than in the corresponding period of 1982. Partly as a result of being restrained by quantitative restrictions, especially by use of a comprehensive import budgeting scheme, imports declined by 23 percent. The current account deficit in the first half of 1983 was estimated at under US\$4 billion, slightly larger than projected, mainly because international interest rates

turned out to be higher than had been projected. Net capital inflows fell short of expectation, particularly as regards direct foreign investment and short-term financing provided by international banks. As a result, external payments arrears emerged during 1983, and reached US\$2.8 billion by end-September 1983.

Progress in external adjustment was not matched on the domestic front. There were delays in implementing some adjustment measures, especially curbs over public sector expenditure and corrective price increases. Also, tax revenues fell short of projection, as export taxes were eliminated sooner than originally planned and tax receipts in general did not keep pace with accelerating inflation. Under these circumstances, inflation exceeded the assumptions underlying the program estimates, and inflationary expectations were exacerbated. The strong demand from the public sector for credit was accompanied by credit stringency to the private sector.

In June 1983, measures began to be implemented to re-establish the thrust of the adjustment effort. These included substantive action relating to price, wage, fiscal, and monetary policy, and a strengthening of the mechanisms of control and monitoring of public finances. Fuel prices were increased by 45 percent, thereby ending the subsidization of oil products. The prices of these products have subsequently been adjusted in line with currency depreciation. The price of wheat was raised by 100 percent in June, and by another 40 percent on September 1, 1983. Subsidization of wheat will be eliminated by June 1984. Prices of steel and electricity are being raised so as to achieve an increase of about 5 percent in real terms. Prices of other public services are being kept under review, with prices being adjusted to take account of market and efficiency considerations of the firms in this sector.

Inflation moved up sharply in June 1983, and has been high since that time. Supply limitations in the agricultural sector contributed to this acceleration, and policies to change relative prices had the effect of raising the general level of prices, in part because of the high degree of indexation of the Brazilian economy. The curtailment of imports added to the inflationary pressures. The continuation of much higher-than-projected inflation rates, in spite of the strengthening of demand management policies in the second half of 1983, convinced the authorities of the need for a further tightening of monetary control and the reinforcement of public finances.

On November 9, 1983, the Brazilian Congress adopted Decree Law No. 2065, which provides for an average rate of indexation of wages to inflation of 86 percent, which is significantly below the rate of indexation under legislation in force in 1982. Also, the growth of money supply ( $M_1$ ) will be limited to only 50 percent in 1984, with credit policies designed to ensure positive real rates of interest. Adjustment of the public finances remains central to the overall economic program, and the public sector's overall financing requirement is expected to

decline from 18.6 percent of GDP in 1983 to a range of 9-11 percent in 1984. To ensure these results, the authorities have adopted further revenue measures and additional expenditure cuts. Monthly targets for the borrowing needs of the Central Administration, states and municipal governments, and state enterprises have been set. Performance in respect of these targets will be monitored closely by a new organization, COMOR, which will signal whenever compensatory action is deemed necessary.

The balance of payments aims for 1983 under the program appear likely to be fulfilled: the current account deficit is now projected at about US\$8.7 billion (4.0 percent of GDP), compared with US\$16.4 billion in 1982 (7.6 percent of GDP). The overall balance of payments is projected to be in equilibrium, provided the external financing assumed in the program materializes. In addition, the program calls for the elimination of all external payments arrears by end-1983, and the authorities also intend to eliminate certain external payments restrictions. The current account deficit for 1984 is expected to be reduced to US\$7.0 billion (3.0 percent of GNP). The authorities have affirmed their intention to introduce a trade system providing protection to domestic activity through tariffs rather than through quantitative restrictions. The authorities intend to present specific proposals for legislative action by mid-1984.

In summary, after a long period of rapid economic growth the need for a change in economic strategy became evident in mid-1982. Brazil faced an external environment fundamentally different from that prevailing over much of the previous two decades, and the measures that had been introduced to cope with the balance of payments problems that emerged in the wake of the two major oil price increases and the increase in real interest rates were shown to be insufficient to redress growing domestic and external imbalances. The comprehensive medium-term economic program that has been adopted by the authorities accordingly involves a shift in the strategy of growth based on foreign borrowing to one that emphasizes the efficiency of the economy and a strengthening of domestic savings. In the external sector, the adjustment calls for a reduction in the current account deficit of the balance of payments to levels that can be sustained over the medium term. Domestically, the program aims at reducing inflation and restoring economic growth. Maintenance of the competitiveness of Brazilian exports and improvement in resource allocation requires the continuation of the policy of small and frequent adjustments of the exchange rate in line with domestic inflation. The flexible exchange rate policy will help in the restoration of an orderly payments system through the elimination of external payments arrears, and it will facilitate the relaxation of exchange and trade restrictions.

The Fund welcomes the determination of the authorities to carry out the comprehensive adjustment efforts, whose success will also require the support and cooperation of the international financial community and Brazil's trading partners. The Fund believes that, with such efforts and support, conditions will have been created for the restoration of a liberal trade and payments system.