

GENERAL AGREEMENT ON TARIFFS AND TRADE

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REVIEW OF THE OPERATION OF THE PROVISIONS OF ARTICLE XVI PURSUANT TO PARAGRAPH 5 THEREOF

Notifications submitted under Article XVI

The following statements have been received from the Governments of Brazil and France and should be regarded as replacing and bringing up to date the notifications by those Governments as reproduced in document L/880:

BRAZIL

Notification of 30 October 1958

The bonus system in force in Brazil does not represent the allocation of subsidies for the purpose of competing in world markets. Considering, on the one hand, that the fixed rate of exchange of Brazilian cruzeiros is 18.50 to US\$1 and, on the other, there are certain inflationary pressures, the bonuses paid to exporters should be considered as a monetary device necessary to readjust, to some extent, the par value to a real exchange rate.

Actually the weighted average of bonuses paid to exporters brings the cost of exchange to Cr\$80.00 per US\$1.

Background and Authority

Exchange control was introduced in Brazil in 1931 and at various times has been amended. In October 1949 practically all imports and exports were made subject to official authorization. On 7 January 1953 Law No. 1 807 was enacted, establishing a free market for invisible and capital items, as well as for exchange transactions connected with imports and minor exports. On 9 October 1953 Instruction No. 70 of the Council of the Superintendency of Money and Credit abolished the free market arrangements for exports and established the auction system for private imports, as well as bonuses for exports. On 5 January 1954 Decree No. 34 893 was issued, containing the regulations pursuant to Law No. 2 145 of 29 December 1953. The Law abolished the Export and Import Department of the Bank of Brazil and created a Foreign Trade Department in the Bank. The Foreign Trade Department was to handle the issue of export and import licences, enforce import, exchange and price controls, to which reference is made later, classify imports of merchandise in accordance with their nature and degree of essentiality for the purpose of the exchange auctions and, in special cases, to finance the importation of highly essential products and consumption goods. In August 1957 the new tariff law established two import categories. The Customs Policy Council presides over changes in the categories of imports commodities subject to the approval of the Minister of Finance.

Exchange Rate System

The par value is Brazilian Cr\$18.50 = US\$1. The official rates are Cr\$18.36 buying, Cr\$18.82 selling, per US\$1. However, the effective rates for most private import transactions are obtained by adding to the Cr\$18.82 rate the prices of the related exchange certificates obtained at auction. These prices and, consequently, the effective rates fluctuate. The effective rates for the proceeds of exports are obtained by adding fixed and other bonuses to the Cr\$18.36 rate. There are five categories of export commodities, one with transactions taking place at a fluctuating free market rate, and for each other category two different bonuses are established:

- (1) a bonus for proceeds in sterling, Deutsche mark, Netherlands guilders, Belgian francs, Italian lire and French francs, convertible currencies and Argentine clearing dollars;
- (2) another bonus for proceeds in all other currencies.

Moreover, for exports of coffee there is a special, additional bonus that varies with the price of coffee, and for exports of textiles there is a special, additional bonus of Cr\$36 per US\$1. All transactions in invisibles not directly related to the movement of goods and most capital transactions take place at a fluctuating free market rate.

Exports and Export Proceeds

All exports are subject to export license, with the exception of coffee exports, which are subject to authorization by the Brazilian Coffee Institute. Export licences are granted without limitation except when

- (1) the export is contrary to national security or to obligations arising from international agreements;
- (2) payment is to be made in an inconvertible currency the acceptance of which is considered by the Exchange Department of the Bank of Brazil to be inconvenient; or
- (3) an accumulation of stocks to guarantee domestic supplies is advisable.

All exports are subject to shipping permits issued by the Exchange Department.

Export proceeds must be surrendered to an authorized bank, which in turn must sell the proceeds to the Bank of Brazil. Exports are classified into five categories, each of which receives one of two bonuses, according to the currency in which the proceeds are received, as follows (the bonuses are expressed in cruzeiros per US dollar):

Category I (coffee): Cr\$18.70 for proceeds in convertible currencies, Argentine clearing dollars, and "multilateral currencies" and Cr\$17.19 for proceeds in other currencies.

Category II (raw cotton, cocoa beans, cocoa cake, cocoa paste, all types of crude leather): Cr\$24.70 for proceeds in convertible currencies, Argentine clearing dollars and "multilateral currencies" and Cr\$22.95 for proceeds in other currencies.

Category III (cotton linters and spinning scraps; bananas and other table fruits, Brazil nuts, peanuts, carnauba wax, and other unprocessed and processed agricultural products; raw wool and rawskins of any type; cedar and other unfinished wood and sawn pine wood; iron ore, manganese ore, piezoelectric quartz and raw quartz): Cr\$36.64 for proceeds in convertible currencies, Argentine clearing dollars and "multilateral currencies" and Cr\$34.41 for proceeds in other currencies.

Category IV (common sugar - sackarose; cotton, not carded or combed; ground nuts (peanuts); meat, fresh or chilled, frozen, dried, smoked, in brine, or similarly treated, viscera, meat offals, and other edible parts, in brine, salted, salted and dried or similarly treated; bladders, stomachs and guts of animals, glands and extracts; other; Brazil nuts, in the shell or shelled; boar and pig bristles and bristles of other swine; raw hides and skins, fresh, of domestic animals; sleepers for railway and tramway lines and for similar purposes; pig iron and cast iron; black beans and beans of any kind; tobacco in leaves; jute, raw or prepared; wool, raw or washed; cotton linters and cotton waste; wood in the rough: cut, squared or sawn lengthwise, not including pine; menthol; cotton seed oil, menthol oil, linseed oil including seeds, castor seed oil, oiticica oil, tung oil including seeds, crude mineral oil; cotton waste, including pulling or garneted rags, all kinds of waste textiles; sisal; oleaginous pies, not including cocoa pie): Cr\$48.64 for proceeds in convertible currencies, Argentine clearing dollars and "multilateral currencies" and Cr\$45.92 for proceeds in other currencies.

Category V (all other exports): transactions taking place at a fluctuating free market rate.

An additional, variable bonus is paid on coffee exports when the export value of a 60 kilogramme bag of coffee is higher than US\$42. The bonus is equal to a percentage of the cruzeiro proceeds of the foreign exchange surrendered to the Bank of Brazil, the percentage being equal to the difference between the sale price in US dollars of the 60 kilogramme bag and the base price of US\$42. (The bonus is effective until 30 June 1958.) Another additional bonus of Cr\$36.00 per US\$1 or the equivalent in other currencies is paid to exporters of textiles.

FRANCE

Notification of 17 October 1958

EXPORT SUBSIDIES

Since the last notification to GATT (L/809) France has found it necessary to correct the disparity between French prices and world prices, first by establishing a system in the domestic market whereby a 20 per cent levy is imposed on purchases of foreign exchange and a 20 per cent premium is paid on sales of foreign exchange (Decree of 10 August 1957), and later by converting this operation into a currency adjustment (Decree of 20 June 1958).

The system introduced by the Decree of 10 August 1957 was not immediately extended to all foreign trade transactions, and for a time imports and exports of a number of goods, including ores, metals, textiles and certain chemical products, were excluded from its scope.

The Decree of 26 October 1957 made the system introduced by the Decree of 10 August applicable to all foreign trade transactions and confirmed it as a measure changing the par value of the French franc. The new exchange rate, which was more in accordance with the state of affairs, permitted the gradual abolition of the export aid system in operation since 1950, under which exporters were refunded the social and fiscal charges paid on the goods exported. An Order of 10 August 1957 rescinded all the earlier provisions regarding that aid, which was maintained only for products exempt from the 20 per cent levy and premium. By another Order of 26 October 1957 those provisions were rescinded in respect of all goods.

As a transitional measure, however, the refunding of social and fiscal charges was continued, first up to 31 December 1957, and then up to 15 February 1958, for contracts entered into before 10 August 1957 and invoiced in French francs.

The above-mentioned form of subsidy finally ceased to exist on 15 February 1958.

The French Government has also deemed it desirable to include in this report some particulars about the assistance given to textile producers under the Fund for the Encouragement of Textile Production, as part of this assistance concerns France's exports. This fund was set up by the Act which came into force on 15 September 1943 and is financed by a tax on sales and imports of products composed wholly or largely of textile fibres. The tax is levied on undertakings in the textile industry which are subject to the tax on value added.

Since 1 January 1954 the rate of the tax for the encouragement of textile production has been 0.75 per cent.

From 1943 to 1953 inclusive the functioning of the textile fund was governed by the legislation concerning the Treasury's special accounts.

Since 1 January 1954 it has formed section VIII of the Economic Affairs budget. Money from the textile fund may be obligated and disbursed only up to the amount of appropriations voted by Parliament each year and after consultation with the Supervisory Committee set up under article 19 of Act No. 48-23 of 6 January 1948 as amended by article 5 of Act 53-1316 of 31 December 1953.

However, under the terms of Decree No. 58-1139 of 13 November 1956 issued in pursuance of the Loi-Cadre of 23 June 1956, 30 per cent of the yield of the tax for the encouragement of textile production is allocated as a lump sum for a period of five years (from 1 January 1957) to a special fund designed to permit the payment of planting bounties and price supports for textiles produced in the Overseas Territories, the Camerouns and Togoland.

The Textile Fund has so far been used to encourage production in two ways:

first, to provide direct assistance for activities intended to develop or improve production (research, collective, technical improvement programmes, efforts to develop new markets, investments for the launching of new products);

secondly, to finance price supports for certain fibres produced in metropolitan France (linen, hemp, silk, wool up to 1947) and for the main textile products of French Overseas Territories (cotton, sisal and jute fibres).

Appendix A shows subsidies paid out of the Fund for the Encouragement of Textile Production in 1957.

AGRICULTURAL PRODUCTS

Strictly speaking, there are no subsidies in agriculture at the production stage.

Trade associations or State bodies only assist export in occasional cases in pursuance of the general agricultural policy laid down in the Third Modernization and Equipment Plan.

The basic objectives of the plan - to increase income and plan production - are closely linked with price policy. It is clearly incumbent upon the authorities, when faced with an imbalance which might seriously affect prices, to bring certain market-regulating machinery into operation.

Such Government activities include measures that ~~directly~~ affect import or export transactions and which, in the case of exports, are designed to bring the prices of export goods into line with world prices. Such systems have been applied to cereals, sugar, meat and dairy produce.

The basic statutes are the decrees of 1953 on the organization of agricultural markets and the functioning of private economic control bodies, the decrees of 1955 on the establishment and functioning of the Mutual Guarantee and Agricultural Production Planning Fund and the decrees of 18 September 1957 on the conditions governing the establishment of agricultural prices.

The operation of the control machinery for the main agricultural products is described below.

Cereals: Wheat

Government policy is designed to maintain French wheat production at its present level by increasing yields and reducing the area sown to wheat. This production must be sufficient - with due regard for the fact that in agriculture production slightly in excess of requirements must be planned for in order to allow for fluctuations in yield - to satisfy domestic demand (human and animal consumption) and also to meet export commitments under commercial agreements.

Government policy thus defined is based on three essential elements:

the establishment of target prices for 1961 lower than in 1957;

the establishment of a production quota above which producers will receive only the average price of sales made (i.e., in practice the international price);

within the quota, the levying of a progressive tax, known as the surplus disposal tax, the yield of which, together with the proceeds from extra-quota deliveries, is used to defray losses on sales of wheat exported or denatured.

Under this system, the larger the surpluses the larger the producers' share of the cost of surplus disposal.

As this is a long-term policy no final conclusions can be drawn from the figures for the last crop-year. It should also be noted that in the figures given below for the crop-years 1955-56 and 1957-58 the State's share is considerably less for substantially the same volume of exports, i.e., 19 million quintals.

<u>Revenue</u>	<u>1955-56</u>	<u>1957-58</u>
	<u>(in millions of francs)</u>	
From producers		
Surplus disposal tax	11,000	11,500
Connected with quota	1,000	22,200
From the State		
Budget	24,000	14,000
Import duties	<u>3,000</u>	<u>-</u>
	39,000	47,700
<u>Expenditure</u>		
Export subsidies	36,700	32,000
Denaturing costs	<u>2,300</u>	<u>15,700</u>
	39,000	47,700

Sugar

Under the Sugar Plan drawn up in 1957 the State has set a production target of 2 million tons of sugar per year, sufficient to meet the consumption requirements of the franc area and to leave a certain surplus available for export.

The price of sugar is fixed each year on the basis of production costs and productivity.

In export transactions the difference between the French price and the world price is borne in part by sugar beet producers, sugar cane growers and sugar refiners, who pay dues to an inter-trade support fund.

State assistance is limited to a maximum quota of 300,000 tons, over and above which sugar may be exported without assistance. The rate of State assistance is fixed at 30 per cent of the difference between real prices and world prices.

So far this form of State assistance has been granted almost exclusively in transactions within the franc area, for which the metropolitan country and the overseas departments are the traditional source of sugar.

During the last three seasons, the rebate made from the Budget has been lowered in turn from 14 to 13 and then to 9.2 francs per kg. of No.3 granulated sugar, while exports to foreign countries have been reduced to a very low level.

Meat

France's situation is such that it can definitely claim to be regarded as a meat exporter.

Although increased meat production is one of the basic targets of the 3rd Plan, the seasonal fluctuations in production, the particular tastes of the French consumer and the high cost of animal feeding stuffs make it necessary, for the time being, for the authorities to control and, where necessary, to intervene in the market, primarily in order to raise farm income by the target date.

In the present transitional period imports, exports and "technical" exchanges are used to regulate the market.

The Meat Market Improvement Fund is the keystone of this organization. The action taken by the Fund varies according to the circumstances, the products and the importing country and may take one of the following forms:

financial assistance;

mere market supervision;

repayment, when the volume of transactions threatens market equilibrium;

so-called "technical" exchanges, whereby exports of certain kinds of surplus meat such as beef forequarters, lard, fat and tinned meat are linked to imports of kinds in short supply for the time being (mutton, ham, pork shoulder, hindquarters, offal).

The Meat Market Improvement Fund is financed by a 5.5 per cent levy on the meat turnover tax which the Treasury collects and pays into the Fund, thereby associating the market with the Fund's regulatory action.

Butter and Other Dairy Produce

During the last three seasons the authorities have had to grapple with the problem of finding outlets for dairy produce, particularly butter, milk production having risen to such an extent that France, previously an importer, is now an exporter of these products.

Exports, which are regarded as one of the means of stabilizing the market, have been arranged with the help of the Fund for the Improvement of the Dairy Produce Market.

Previously, these operations were financed by a 6 per cent levy on the yield of the meat turnover tax - the two markets being interrelated. The legal provisions enacted, however, provide for the direct participation of milk production in this operation in the form of a surplus disposal contribution.

In 1957, for export licences issued for 11,000 tons of butter, the blocked credit balances amounted to some 3,000 million francs.

Eggs

As a result of the slump in the world egg market in 1957, support was given to exports from March to June 1957. This support was financed out of the Mutual Guarantee and Agricultural Production Planning Fund and represented on average 3.5 francs per egg exported, the total amount involved being 138 million francs.

Since October 1957, in pursuance of the measures adopted to attain the target prices of the Modernization and Equipment Plan, the authorities have established floor and ceiling prices at which the market-regulating machinery can be set in motion.

As the floor prices were not reached during the 1957-58 season, there was no need to resort to this procedure.

APPENDIX A

SUBSIDIES GRANTED IN 1957 (in Francs)

Recipients	Amount of subsidies	Purpose of subsidy
<u>A. Direct encouragement</u>		
<u>I. Research organizations</u>		
French Textile Institute	340,000,000.-	Annual subsidy for operating expenses
Cotton and Overseas Textiles Research Institute	385,000,000.-	-
Troyes Hosiery Industry Research Centre	48,000,000.-	Subsidy for investments
Mulhouse Textile Research Centre	29,000,000.-	
<u>Total I</u>	802,000,000.- =====	
<u>II. Technical activity</u>		
National Inter-trade Wool Committee	180,000,000.-	To finance a collective technical activity programme
Algerian Sheep Association	138,000,000.-	-
French Angora Inter-trade Union	14,000,000.-	-
Sericultural Organizations	25,382,000.-	-
French Company for the Development of Textile Fibres (cotton in French West Africa, Togoland, Camerouns, Morocco and Madagascar)	250,000,000.-	-
<u>Total II</u>	607,382,000.- =====	

Recipients	Amount of subsidies	Purpose of subsidy
<u>III. Development of new products</u>		
Co-operative of Broom Growers of Southern France	12,400,000.-	To defray cost of broom growing and exploitation of wild broom
<u>Total III</u>	12,400,000.- =====	
<u>IV. Action at market level</u>		
<u>Haute Couture</u>	207,000,000.-	To assist the Paris <u>Haute Couture</u> firms
Fairs and Exhibitions abroad	42,000,000.-	To finance the participation of the French textile industry in fairs and exhibitions abroad
General Textile Publicity Fund	110,000,000.-	Collective publicity programmes for the garment textile industries
<u>Total IV</u>	359,000,000.-	
<u>Grand Total A</u>	1,780,782,000.- =====	
<u>B. Price support</u>		
<u>I. Assistance to producers in metropolitan France</u>		
LINEN: <u>crop-year 1956-57</u> (flax-growing, landretting, retting and scutching)	1,556,000,000.-	Bounties per kg. produced

Recipients	Amount of subsidies	Purpose of subsidy
SILK: <u>crop-year 1957-58</u> (sericulture, egg production, spinning)	174,000,000.-	-
HEMP: <u>crop-year 1956-57</u> (hemp cultivation and production of fibre)	74,000,000.-	-
STAPLE FIBRE: <u>fiscal year 1957</u> (assistance to producers)	450,000,000.-	-
<u>Total I</u>	2,254,000,000.- =====	
II. <u>Assistance to producers in the Overseas Territories</u>		
Lump sum allocated to the Fund for the Support of Overseas Textile Production, established by the Decree of 13 November 1956	1,470,000,000.-	
<u>Grand Total B</u>	3,724,000,000.-	
Total A + B :	5,504,782,000.- =====	

