

GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

1985 CONSULTATION WITH BRAZIL
(SIMPLIFIED PROCEDURES)

Background Paper by the Secretariat

1. This paper has been prepared in accordance with Paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205-209) to assist the Committee in taking the decision referred to in paragraph 8 of the Declaration. It updates the background paper prepared for the full consultation held in 1983 (BOP/W/74).

I. Brazil's previous consultations

2. Full consultations have been held with Brazil in 1971, 1976, 1978, 1981 and 1983, and simplified consultations in 1978 and 1980.

3. At the last full consultation, held on 6-7 December 1983, 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, including 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. 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 import 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.

4. 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.

II. Main changes in Brazil's trade policies since the last consultation

(a) Import licensing suspensions

5. Since the last consultation, Brazil has notified to GATT in February 1984, November 1984 and August 1985 details of changes in the lists of products for which the issuance of import licences (guia de importação) is temporarily suspended. (See documents L/5618, L/5726, L/5857.) These notifications modify the information provided, before the last consultation, in L/5393 and analysed by the secretariat in document BOP/W/67, where it was estimated that the coverage of the suspensions in terms of 1980 import values had risen to US\$ 3.9 billion, or 20 per cent of 1980 imports.

6. The measures notified by Brazil in February 1984, taken in August 1983, suspended import licences on a further 147 tariff lines, mainly in the areas of chemical products, and of headgear, while suspensions were lifted on 150 tariff lines including wines and spirits, certain rubber, wood and paper products, synthetic fibres, specialized fabrics, iron and steel, aluminium, nickel and zinc products, hand tools and cutlery, and photographic equipment (L/5618). The measures taken in September 1985 and June 1985 notified in L/5726 and L/5857, lifted the suspension of import licensing on the majority of the agricultural and food products previously suspended as well as on most chemical and rubber products, all wood products, most paper and printed goods, synthetic and jute fibres, yarn and fabrics, rope and impregnated fabrics, certain stone and cement products, precious stones, real and imitation jewellery, a large number of items of machinery equipment and electrical tools, electrical cables, electrodes, brushes, etc, boats, photographic equipment, precision measuring instruments, dental equipment, upright pianos and furniture.

7. As of June 1985, therefore, the goods on which import licences remained suspended comprised only two areas of agricultural products, i.e. dairy products and eggs, and garlic and chives; among industrial products, cement, certain chemical elements, compounds and medicaments and plastics products, travel goods, fur articles, cork and straw products, certain types of paper, virtually all textiles of silk, wool and cotton, knitted and woven clothing, most footwear and headgear, certain stone and cement articles, household ceramic articles and pottery, some glass and glassware, precious stones, a few articles of cast iron, copper and nickel, aluminium structures, reservoirs, drums and domestic products, cutting and milling equipment and cutlery, miscellaneous metal products, ventilators, air-conditioners, refrigerators and various other non-electrical and electrical goods including water heaters, telephones, televisions, radios and lamps, motor vehicles except tractors, lenses and optical equipment, clocks and watches, record players and tape or video recorders, artists' supplies, toys and games. Overall, in terms of 1980 imports, it is estimated that some US\$1.3 billion, or 7 per cent remain subject to suspension.

(b) Other measures relating to import licensing

8. Brazil's system of import licensing remains as described in the background paper for the 1983 consultation (BOP/W/74, paragraphs 6, 7 and 11). However, a number of steps have been taken in the past two years to ease import procedures and reduce bureaucratic delays. In particular,

from January 1985 automatic approval was to be given by CACEX to all consignments of up to US\$100,000. Decentralization of processing of import applications to regional branch offices of CACEX was also expected to result in speedier processing of applications. CACEX would also give automatic approval to all imports under companies approved import programmes. Special licensing requirements, introduced by CACEX communiqué No. 41 of 6 October 1983 (see L/5535) provide for prior and express authorization on a case by case basis by the Special Secretariat for Data Processing for imports of machines, parts and equipment for a variety of electronic apparatus, including computers and their hard and software as well as any equipment containing digital numerical programmable controls.

(c) Import financing

9. Central Bank Resolution No. 767 (BOP/W/74, paragraph 7) was amended in April 1984 to allow for easier access for imports with financing or guarantees by foreign governments, bilateral or multilateral agencies in September 1984, the National Monetary Council was authorized and in Resolution No. 953 to review import financing terms periodically so as to adapt them to prevailing conditions in the international market. Exemptions from the terms previously in force were announced for items financed on terms equivalent to those offered by foreign governments, bilateral or multilateral agencies, for imports for projects aiming at import substitution or export production, or for imports by small and medium-sized firms.

10. In addition, Resolution No. 952 of 12 September 1984 withdrew the application of the "Law of Similar" by CACEX from imports financed over more than one year.

(d) Surcharges

11. In September 1984, the import surcharges which had been in force on unbound items since 1974 at 30 or 100 percentage points in addition to normal customs duties (BOP/W/74, paragraph 12) were eliminated or incorporated, after substantial reduction, into the ad valorem duties to which they applied (Customs Policy Council Resolution 679). The list of revised ad valorem duties was notified to GATT as an annex to document L/5726. Generally the surcharges were incorporated into tariffs at rates of either 10 or 30 per cent, and no surcharges were incorporated in the highest rates of tariff, which were therefore reduced from 205 to 105 per cent. It is estimated that the unweighted average nominal tariff was therefore reduced from around 80 to some 51 per cent. On the other hand, in September 1984 the Customs Policy Council was authorized to implement maximum tariff increases of 60 per cent.

(e) Financial Transactions Tax (IOF)

12. The IOF tax on the settlement of exchange operations has been eliminated for a number of imports during the period under review: on beans, cotton and unhusked corn for three months in April 1984, on refined soya oil in May, on beans, eggs, beef and some unrefined vegetable oils in August, on oil and a number of metals in September, on various products in December (NMC regulations 972-979), and on broken rice originating in LAIA countries in January 1985.

(f) Emergency foreign exchange measures

13. The global control of all foreign exchange transactions through the Central Bank, noted in BOP/W/74, paragraph 15, was eliminated in March 1984.

(g) Public sector imports

14. An annual ceiling remains imposed on imports by the public and semi-public sector. For 1983/84, the limit for the public sector was US\$2 billion and US\$2.27 billion in 1984.

III. Recent trends in Brazil's economy and foreign trade

15. Vigorous export expansion and a modest increase in domestic demand allowed the Brazilian economy to resume growth in 1984. Imports, meanwhile, again declined. After three years of a declining or practically stable level of real GDP, the economy grew by an estimated 4½ per cent, with most sectors participating in the recovery. A 27 per cent growth rate was achieved in the mining sector as a result of sharp output rises for iron ore, natural gas and - above all - crude petroleum.¹ Manufacturing production recorded a 6 per cent increase in 1984, recovering part of the 16 per cent decline over the three preceding years. Although activity was particularly brisk in branches producing capital goods (which had been the most affected during the 1981-1983 recession) output remained at a level one-third lower than in 1980. Agricultural production was also up 4½ per cent, with substantial gains in several crops, the main exceptions being coffee, cocoa, oranges and wheat.

16. Estimates suggest that the 2 to 3 per cent real expansion of domestic demand in 1984 was largely due to substantial increases in both public and private consumption spending, the latter reflecting the rise in real wages and employment in industry and somewhat higher agricultural income. High interest rates and cuts in investment outlays by state enterprises were among the factors that prevented total fixed investment from increasing in 1984 (its share in GDP, nearly 30 per cent in the mid-1970s, has since fallen to well below 20 per cent).

17. 1984 was the fifth consecutive year in which the Brazilian economy suffered from high inflation. Measured by twelve-month movements in the general price index, inflation was running at about 220 per cent by December 1984, a rate slightly higher than in the previous year. The monthly depreciation of the cruzeiro vis-à-vis the dollar remained on average about the same as in 1983, but its total depreciation during 1984 (69 per cent) was

¹The 40 per cent increase in the extraction of domestic petroleum was a further significant step in reducing Brazil's dependency on imported petroleum: imports accounted for slightly less than one-half of apparent oil consumption in 1984, down from 85 per cent five years ago. This trend has continued in the current year, with increased production and lower imports.

lower than in the previous year (when an additional one-shot devaluation had taken place); estimates indicate that the trade-weighted real effective exchange rate of the cruzeiro tended to appreciate in the second half of the year.

18. Volume growth pushed up exports to US\$27 billion in 1984, a record level 23 per cent higher than in the previous year. The United States market, which in 1983 was second to the EC, accounted for about one-half of that increase, thereby becoming Brazil's major customer in 1984, with a share of 28 per cent in total exports. Sales to EFTA and LAIA countries were also brisk in 1984 and rose by around 40 per cent in value, while exports to Eastern Europe stagnated.

19. Volume gains were on average much larger for manufactured exports, but unit values for manufactures generally declined. However, several primary product exports benefited from higher prices. Coffee sales (including soluble coffee) earned US\$2.9 billion in 1984, an increase of 22 per cent in value and 10 per cent in volume. Deliveries of soya products were on average lower but receipts remained at practically the same level as in 1983 (US\$2.6 billion); there was a marked shift from refined to unrefined soybean oil exports. Due to exceptionally favourable market conditions, orange juice exports were up two-thirds in volume and, with unit values 40 per cent above the 1983 level, their value more than doubled to US\$1.4 billion. Orange juice receipts thus overcame stagnating meat exports (US\$0.8 billion) and threatened to take third place in Brazil's exports from iron ore, sales of which rose only modestly in 1984 (US\$1.6 billion) due to lower prices. Both cocoa products and sugar exports made smaller gains, the former due to decreased volume, and the latter due to falling international prices. Manufactured exports, which by now account for 40-45 per cent of the value of total exports, progressed by some 28 per cent. Value increases of about one-third were achieved for iron and steel (to US\$2.2 billion), machinery (to US\$2 billion), and textiles (to US\$0.8 billion). Export growth for footwear (to US\$1.1 billion) and a few other minor manufactures, including paper products and clothing, was as high as 50 per cent.

20. The value of total imports declined again in 1984, by 9 per cent to US\$15.2 billion, as both volume and average prices decreased by about 4½ per cent. The petroleum import bill fell from its 1981 record of US\$11.7 billion to US\$8.9 billion in 1983 and US\$7.5 billion in 1984; continued volume reductions (by 14 per cent in 1984 alone) have accounted for most of the drop, although lower prices also played a role. According to estimates, the volume of non-petroleum imports virtually stagnated in 1984 at levels about as low as in 1971, less than one-half of the peak level in 1974 and 42 per cent below levels achieved in 1980. In dollar terms, non-oil imports were down 2 per cent, although a few items recorded increases: among them, the most significant were consumer-type leather products, wheat, fertilizers, chemicals and non-ferrous metals.

21. The effect on Brazil's trade balance of the 9 per cent improvement in the terms of trade in 1984 (after five years of continuous deterioration) was reinforced by an even larger rise in the export/import volume ratio, and the trade surplus was more than double that in 1983. At the same time, debt interest payments were relatively stable and the deficit on services declined slightly. Consequently, Brazil's current account posted a small credit

balance in 1984, after recording deficits never lower than US\$5 billion and often surpassing the US\$10 billion mark in the previous ten years. By the end of 1984, international reserves, excluding gold, had climbed to US\$11.5 billion, their highest level since end-1978.

22. Real GDP growth is officially forecast at 7 per cent for 1985 as a whole. Brisk expansion in all major sectors of the economy, mainly derived from booming consumption expenditure, has brought about a sharp drop in the unemployment rate and a substantial increase in the average use of installed capacity. The fast rate of inflation remains a particularly disturbing feature. However, the general price index shows a rise of 213 per cent in the twelve months to October 1985, practically the same increase as in the previous year.

23. Exports totalled some US\$20.8 billion in the first ten months of 1985, compared with US\$22.4 billion in the same period of last year. Imports into Brazil have also tended to decline in the current year, so that the trade surplus has remained at an only slightly lower level than in 1984.