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**TARIFFICATION PLAYS MAJOR ROLE IN BRAZIL'S
TRADE LIBERALIZATION AND ECONOMIC REFORM**

In the face of serious economic difficulties, Brazil has undertaken a major liberalization effort, according to the GATT Secretariat's report on Brazil's trade policies and practices. "This has brought about a marked change in direction in its long tradition of inward-looking policies," says the report, "and impressive results have been obtained in the area of trade policy reform."

In the twenty-year period until March 1990, Brazil relied on a complex system of non-tariff barriers and export incentive schemes to regulate trade. Direct restrictions on imports, tariff escalation and fiscal incentives and subsidies provided high effective protection to specific sectors. The system of trade controls lacked transparency and predictability. The multiplicity of legal instruments relating to trade gave the Government wide discretionary powers. However, "activities benefiting most from protection, such as the motor vehicle and electronics industries, had apparently no better record of productivity growth than other non-assisted activities," says the report.

Since March 1990, Brazil's structural adjustment programme has been aimed both at stabilizing the economy and at increasing the efficiency and competitiveness of industry. A main element in this process is a comprehensive trade liberalization through the removal of non-tariff barriers, streamlining of internal regulations and reductions in tariffs. "Through this, a highly restricted and regulated trade régime has been changed in a relatively very short time into one largely free of

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quantitative restrictions," says the report, "and has become considerably more transparent and less discretionary as a result."

The report, however, warns that "in the prevailing environment of persistent macroeconomic imbalances, the sustainability of these liberalization efforts should not be taken for granted. Price and exchange rate stability and the achievement of sustained economic growth are a necessary condition for consolidation of the reforms. Failure to control inflation, to revive economic activity, and to tackle rising unemployment, would increase the political odds against the success of the liberalization experiment, by encouraging existing pressures to retard the tariff reduction programme or to revert to a more protectionist industrial policy."

The report points out that, as a member of the Southern Cone Common Market (MERCOSUR), Brazil is also giving priority to further trade liberalization within the regional arrangement where tariffs on trade are expected to be cut to zero and quantitative restrictions eliminated by the end of 1994. "However, given the product composition and direction of Brazil's external trade, the country is likely to benefit more from multilateral liberalization rather than from bilateral or regional trade groupings," emphasizes the report. "The GATT and the Uruguay Round negotiations are thus considered by the Brazilian Government as trade priorities, and the GATT is seen as the most important forum to protect Brazil's trade interests against discriminatory or protectionist policies of major trading partners."

Notes to Editors

1. The GATT Secretariat's report, together with a report prepared by the Brazilian Government, will be discussed by the GATT Council on 14-15 October 1992 under the Trade Policy Review Mechanism (TPRM). The TPRM enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.
2. The current reports cover all aspects of Brazil's trade policies, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment. Attached are summary extracts from these reports. Full reports are available for journalists from the GATT Secretariat on request.
3. A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, will be published in Spring 1993 as the complete trade policy review of Brazil and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

4. Since December 1989, the following reviews have been completed:
Argentina (1992), Australia (1989), Austria (1992), Bangladesh (1992),
Canada (1990 and 1992), Chile (1991), Colombia (1990), the European
Communities (1991), Finland (1992), Ghana (1992), Hong Kong (1990),
Hungary (1991), Indonesia (1991), Japan (1990), Korea, Rep. of (1992),
Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991),
Singapore (1992), Sweden (1990), Switzerland (1991), Thailand (1991),
the United States (1989 and 1992), and Uruguay (1992).

TRADE POLICY REVIEW
BRAZIL

Report by the GATT Secretariat - Summary Observations

Brazil, the tenth largest economy in the world, is richly endowed in natural resources and human capital. Its economy grew considerably from the mid-1960s to the end of the 1970s. However, during the 1980s, economic performance faltered; macro-economic instability, high inflation and increased indebtedness characterized the decade. One of the main challenges facing Brazil is to restore growth and confidence in the economy, through sound, forward-looking policies which are seen as a credible alternative to past tradition.

Brazil presently faces serious economic difficulties. GDP has stagnated in recent years, with consequent declines in real per capita income. Income distribution is the most skewed among Latin American countries, with serious poverty. Inflation, although having fallen, remains high. On the other hand, the external debt burden, which effectively drove external economic policies, has declined, and recently-concluded rescheduling may provide further relief.

Brazil has undertaken a major liberalization effort in the face of these economic problems. This has brought about a marked change in direction from its long tradition of inward-looking policies. Specific reforms have concentrated on trade liberalization, deregulation and privatization. Impressive results have been obtained in the area of trade policy reform, as well as in reducing administrative mechanisms empowering the Government to allocate resources, and in transferring to the market some State-owned manufacturing and other activities.

In March 1990, virtually all non-tariff barriers were eliminated. Imports in some industrial sectors, such as capital goods, may still be restrained by internal regulations and remaining non-border measures, such as local content requirements for Government procurement and official financing. Liberalization of imports of computers and software will be completed in October 1992. Despite the liberalization of border measures, which has taken place, the trade balance remains in substantial surplus. This partly because liberalization has been offset by the effects of exchange rate devaluation; however, the reduced volume of imports is also a result of declining domestic activity under the current stabilization programme.

Brazil in World Trade

Brazil's share in world merchandise exports was 0.9 per cent in 1990, down from 1.3 per cent in 1985. Brazil is, however, a leading exporter of a number of products such as coffee, soy meal, orange juice, iron ore, and steel products. The importance of foreign trade for Brazil's economy is relatively low; in 1990, merchandise trade (imports plus exports) was around 11 per cent of GDP.

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Following the debt crisis of 1982, the servicing of Brazil's foreign debt required the creation of large trade surpluses. This was achieved by import contraction. Between 1982 and 1990 the value of merchandise imports fell from around 7 to 4 per cent of GDP, while the ratio of exports to GDP remained at 7 per cent. The merchandise trade surplus peaked at 5 per cent of GDP in 1988. In 1990, around 20 per cent of export revenue (down from 63 per cent in 1980) was estimated as necessary to service Brazil's international debt requirements.

The structure of merchandise exports has changed markedly since the mid-1960s, with the development of manufacturing industry behind protective barriers. In 1965, coffee represented almost 45 per cent and manufactures close to 8 per cent of total exports. In 1990, the corresponding figures were 4 and 52 per cent. The most important manufactured exports were iron and steel, chemicals and motor vehicles.

The structure of Brazilian imports has also changed. The oil shocks of 1974 and 1980 both led to large increases in the share of petroleum from some 12 per cent of total imports in the early 1970s to about one-half in 1985. However, lower oil prices and the development of local oil and sugar-based fuel-alcohol production reduced this share to about one-quarter by 1990.

Brazil's leading trading partners are the European Communities, the United States, Japan and Argentina. The United States is the largest single-country export market, representing around 24 per cent of Brazil's merchandise exports in 1990; the EC as a group represented 36 per cent in the same year. During the past decade, the direction of Brazil's exports has shifted towards the United States and developing countries, particularly in East Asia. The share of Latin American countries has declined from 18 per cent to around 12 per cent during that period, reflecting unstable economic conditions in those markets.

The United States and the EC are also Brazil's principal suppliers. The United States' share has risen from 19 per cent of merchandise imports in 1980 to 23 per cent in 1989. Japan accounted for 6 per cent of Brazil's merchandise imports in 1989. Latin America's share of the Brazilian market also increased from 12 per cent in 1980 to 21 per cent in 1989. Within this, the MERCOSUL countries and Chile are the main suppliers.

Institutional Framework

Brazil does not have a basic trade law. Trade policies are formulated and implemented through specific laws and regulations. The Constitution also regulates various aspects of the economy. All trade legislation is approved by Congress, but the Executive holds much of the responsibility for formulating and implementing trade and industrial policies.

The legal regulatory framework for foreign trade appears to be complex, with a large number of laws and decrees accumulated over several administrations. The present Government has eliminated and simplified many regulations dealing with specific trade and tax concessions or exemptions.

A unified trade law is being considered. The complex investment code has been simplified and liberalized, although a number of constraints remain.

Until the recent reforms, the economy was subject to extensive regulation, including institutional approval for industrial projects, price controls and discretionary access to long-term credit, which inhibited the operation of a competitive market economy. The rôle of the Government is, however, being reduced as part of a new strategy to make the private sector the main engine of economic development. In particular, the liberalization of trade measures has considerably reduced the discretionary power of the Executive, including lower level administrative bodies.

Reforms in the institutional framework related to trade policy have resulted in improved transparency and efficiency in decision-making. Brazil's main economic agency is the Ministry of Economy, Finance and Planning (MEFP). With its various Secretariats and agencies it covers almost all aspects of economic policy in Brazil. Within the MEFP, the National Secretariat of Economics has the responsibility for trade policy formulation and implementation. The main regulatory agency within this Secretariat is the Foreign Trade Department (DECEX), replacing CACEX, the foreign trade department of the State-owned Banco do Brasil, which formerly administered the extensive import licensing system. The Ministry of Foreign Affairs has significant responsibilities in connection with international trade and economic relations and negotiations with other countries.

In the formulation of trade and trade-related policies, the Government maintains a variety of formal and informal contacts with the private sector, which may contribute to the formulation and evaluation of trade policies through the participation in sectoral chambers and special committees. More formal participation by consumers and the private sector would provide greater transparency in the decision-making process, as well as ensuring that the interests of all economic agents are taken into account when formulating economic policies.

A number of economic research institutes carry out studies on government policies. However, there is no independent statutory body with a mandate to publicly and regularly review and assess economic policies.

Trade Policy Features and Trends

Brazil is a founding member of the GATT and has participated actively in all negotiating rounds. In the Uruguay Round, Brazil's negotiating priorities - which cut across the entire agenda - are for an agreement achieving the reduction of protection in all areas under negotiation, in particular those of export interest to developing countries, and for the reinforcement of GATT rules and disciplines. It is a member of the Cairns Group. Brazil has signed five Tokyo Round Agreements - Technical Barriers to Trade, Subsidies and Countervailing, the Arrangement Regarding Bovine Meat, the Anti-Dumping Agreement and the Customs Valuation Agreement - and is an observer in four other MTN Codes. GATT has the status of domestic

law in Brazil; thus, individual citizens or companies can invoke GATT rules before national courts.

Brazil accords m.f.n. treatment to both GATT and non-GATT members. Around ninety per cent of its imports come from m.f.n. sources. The major exception is tariff preferences for imports from LAIA members which enter Brazil under complex product-specific bilateral and regional agreements. Brazil has signed such agreements with all members of LAIA. Preferences on 108 tariff lines are also granted by Brazil under the Global System of Trade Preferences among developing countries (GSTP).

Brazil is a member of the Southern Cone Common Market (MERCOSUL; MERCOSUR in Spanish), created within the framework of LAIA by Brazil with Argentina, Paraguay and Uruguay in November 1991. Its objective is the constitution of a common market with free circulation of goods, services, capital and labour from 1 January 1995. Tariffs are to be progressively, linearly and automatically reduced and non-tariff restrictions eliminated across the board. Each country maintains a list of exceptions, which are to be phased out by that date. Brazil's list contains 260 tariff lines. A common external tariff to be applied on third countries' imports is yet to be defined. The success of this regional trade agreement in increasing welfare will depend very much on the willingness of all members to pursue outward-looking, market-oriented policies. In this respect, the level of the future common external tariff will be very important in giving a signal to the international community.

Brazil is a beneficiary under all developed countries' Generalized Systems of Preferences (GSP) schemes; some 23 per cent (in 1988) of Brazil's exports are covered. However, direct trade gains for Brazil from GSP are estimated to be relatively minor (1.4 per cent of total exports).

Recent evolution

In the twenty-year period until March 1990, Brazil relied on a complex system of non-tariff barriers and export incentive schemes to regulate trade. Direct restrictions on imports, tariff escalation and fiscal incentives and subsidies provided high effective protection to specific sectors. The system of trade controls lacked transparency and predictability. The multiplicity of legal instruments related to trade gave the Government wide discretionary power.

These trade policies, linked both to industrial development policy and balance-of-payments considerations, involved extensive misallocation of resources and had considerable transaction costs. Such measures reduce general economic welfare and encourage economic inefficiencies by fostering directly unproductive, rent-seeking activities. Thus, high transaction costs encouraged parallel markets, undermining attempts to establish clear economic rules enabling markets to function efficiently. Moreover, government revenue was reduced through the use of non-tariff barriers rather than tariffs. Activities benefiting most from protection, such as the motor vehicle and electronics industries, had apparently no better record of productivity growth than other, non-assisted activities.

During most of the 1980s, key features of trade-related policies in Brazil were the importance of direct controls; rapidly growing government intervention in economic activity; and instability of policies. Trade and exchange rate policies were important elements in Brazil's stop-go policy approach of alternately stabilizing prices and correcting the external balance.

Since March 1990, economic policies have changed direction. Brazil's structural adjustment programme is aimed both at stabilizing the economy and at increasing the efficiency and competitiveness of industry. A main element in this process is a comprehensive trade liberalization, through the removal of non-tariff barriers, streamlining of internal regulations and reductions in tariffs. Through this, a highly restricted and regulated trade régime has been changed, in a relatively very short time, to one largely free of quantitative restrictions. Brazil's trade régime has become considerably more transparent and less discretionary as a result.

The current top industrial and trade priority for the Brazilian Government is to increase efficiency in the production and trade of goods and services by modernizing and restructuring industry, including through extensive privatization, and improving infrastructure. A supportive external trade and economic environment would, naturally, be a key factor in achieving these goals. The GATT and the Uruguay Round negotiations are thus considered as trade priorities for the Brazilian Government. In this connection, the GATT is seen as the most important forum to protect Brazil's trade interests against discriminatory or protectionist policies by major trading partners.

Type and incidence of trade-policy instruments

Following the elimination of most non-tariff barriers, ad valorem tariffs are Brazil's principal import policy instrument. Manufactured tobacco is the only imported product to bear a specific duty. A clear, pre-planned programme of tariff reductions will bring down the simple average rate from 25.3 per cent in 1991 to 14.2 per cent in July 1993 and reduce tariff dispersion.

The emphasis on tariff protection has the benefit of greater transparency in the costs of protection to consumers and user industries, as well as increasing government revenues and reducing the scope for discretion associated with quotas and licensing.

Although tariffs have been reduced and quantitative restrictions eliminated, the Brazilian trade régime still lacks clarity in some areas, such as the large number and complexity of trade laws. Moreover, despite tariff reductions, there will still be, by July 1993, a number of sectors benefiting from high effective rates of protection.

Tariff predictability is presently affected by a low level of tariff bindings, covering around 6 per cent of all items. The Brazilian authorities have, however, offered to bind the entire tariff schedule for industrial products at 35 per cent in the framework of the Uruguay Round.

Agricultural products are not included in this offer, unlike those by Brazil's MERCOSUL partners of Argentina and Uruguay.

The transparency of the present Brazilian import régime has been enhanced by the elimination of tariff quotas, variable import levies, minimum import prices, import quotas, or import surveillance. Remaining quantitative import restrictions in the informatics sector will be eliminated by October 1992.

Despite the tariffication of non-tariff barriers in 1990, and the announcement of tariff reductions up to July 1993, there still remains a relatively heavy fiscal charge on imports, resulting from additional taxes such as the port tax (ATP), the merchant marine renewal tax (AFRMM) and the internal taxation system. These taxes can increase considerably the cost of imported products, harm the competitiveness of exported products and reduce the transparency of the tariff instrument.

Automatic import licensing covers the vast majority of products imported into Brazil. Documents must be issued prior to shipment of the merchandise. Non-automatic import licensing is now limited to security, health and sanitary considerations. The automatic nature of the current import licensing régime has eliminated the large discretionary power retained by the Brazilian authorities under the previous restrictive régime applied until March 1990.

Among remaining internal obstacles to trade are local-content requirements for government procurement and official financing. Domestic-content requirements may have been a useful technique for promoting import substitution industrialization, but they have the potential for increasing the cost of production, thereby hampering the international competitiveness of Brazilian products. Consumers are also affected by the resulting higher prices.

Although the Government has fixed at 60 per cent the local-content requirement attached to official credits and government procurement, it is impossible to assess the real impact of these practices. It is also difficult to assess how far State enterprises and sectoral agencies follow this rule, since they are now operating with greater autonomy.

Government procurement in Brazil is not centralized. It is usually the responsibility of each purchasing body, under general guidelines set by law. To participate in the bidding process, foreign firms are required to associate with national firms. There are no restrictions on the eligibility of foreign suppliers, but a preference is given to local suppliers when offers are similar. Tendering procedures may provide scope for discretionary decisions, especially when selective tendering is used. The transparency of government procurement practices can be increased. Minimum local-content requirements and preference for local suppliers may also result in more expensive public purchases.

Other trade-related measures affecting imports into Brazil include health, safety and technical regulations or standards. For example, most

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agricultural imports are subject to strict sanitary and phytosanitary controls which are enforced with a view to prevent the importation and dissemination of plants and animal diseases. Brazil's standards policy is to follow international norms. Standards are uniformly applied to imported and domestic goods. The GATT Secretariat has no evidence of standards-related barriers to entry into Brazil, nor is it aware of any complaints by trading partners.

The importation of a few products, such as luxury boats, is prohibited. Brazil also applies import prohibitions in compliance with resolutions of the United Nations or the Organization of American States.

Brazil has an important free-trade zone in Manaus. Experience with this zone shows that the system mainly resulted in increased production destined to the domestic market. However, it was an important factor in promoting the development of the region. Firms and individuals located in the region benefited greatly from fiscal incentives.

Brazil has no specific legislative requirement for countertrade transactions. In the past, however, it was considered as one of the leading exponents of countertrade.

Until recently, Brazilian exports were largely controlled, with licences required for all products. Export licensing is now restrained to a few products. All export taxes have been eliminated, except on raw hides and skins which remain subject to a tax of 9 per cent. The export of certain goods is controlled for reasons of insufficiency of internal supply or for protection of wild flora and fauna.

Export subsidies and fiscal incentives have also been eliminated; however, the export financing scheme (PROEX) may contain a subsidy element to the extent that it acts as an interest rate equalizer.

Indirect tax incentives for exports are now directed to avoiding double taxation of value added. In the past, export incentives were designed mainly to neutralize the anti-export bias created by the structure of protection. Some export promotion policies stimulated particular activities such as textiles, automobiles and capital goods, at the expense of other, possibly more efficient activities mainly in the agricultural sector, thus encouraging an inefficient use of resources.

The current Government has achieved some success, such as in the process of trade facilitation (streamlining trade procedures) in increasing the transparency and predictability of the export régime. However, exchange rate volatility may reduce the effects of export incentives, distort the structure of protection to domestic industries and increase uncertainty by exacerbating inflation expectations.

The export competitiveness of Brazilian products is heavily affected by the internal taxation system and high port costs stemming from inefficient port services. Legislative changes concerning port services are under discussion in Congress. These will allow for restructuring,

reductions in costs and greater participation of private enterprises in port operations.

Until recently, voluntary export restraints were applied on exports of iron and steel products to the United States and the European Communities. Restraints are also applied under the MFA on certain textile and clothing products when exported to Canada, the European Communities and the United States. In certain foreign markets, a number of Brazilian exports, such as orange juice, iron and steel products, chemicals, footwear, textiles and clothing, are significantly affected by anti-dumping and countervailing measures. Brazil's potential for increasing exports of its agricultural products is also curbed by prevailing distortions and restrictions in international farm trade.

Sectoral policies

Over the past four decades, industry was generally favoured at the expense of agriculture, under Brazil's policy of creating a domestic import-substituting industrial base. Tariff, tax and exchange rate biases in favour of industry slowed agricultural development and transferred resources from agriculture to less efficient applications. Within agriculture, protection of wheat and sugar producers may have resulted in a transfer of resources away from other, more efficient domestic market and export crop producers, benefiting neither consumers, nor, in aggregate, agricultural producers. At the same time, a number of other agricultural products suffered from negative protection, the removal of which would lead to efficiency gains in both domestic food and export crop production.

Around one-quarter of the agricultural budget in the late 1980s was absorbed by subsidies to the Proalcool sugar-fuel programme and by subsidies to wheat processors, and, to a lesser extent, wheat producers. Both policies were justified by Brazil on the grounds of their rôle in promoting food and fuel self-sufficiency with a view to saving foreign exchange. While, in aggregate, these expenditures reduced the total net transfer from the agricultural sector, they were an ineffective means of agricultural support.

Agriculture-specific policy interventions are currently concentrated in the areas of rural credit, price support and research and development. During the 1980s, minimum price schemes replaced credit policies as the principal instrument of agricultural policy. Such programmes provided a relatively effective means of reducing farmers' uncertainties regarding price expectations and to maximize their incomes. However, the costs associated with this policy may have been relatively high.

Brazil applied a very restrictive policy in developing its domestic informatics industry. Although the sector grew rapidly, the policy may have impeded the development of industry overall by inhibiting access to new technological advances. The measures applied under the Informatics Law have already been partly liberalized and are to be eliminated by October 1992.

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The significant lowering of trade barriers has contributed to making the Brazilian industrial policy environment more neutral. In the manufacturing sector, the overall level and spread of protection have declined. However, tariff escalation contributes to higher than average effective protection in sectors such as motor vehicles, tobacco, beverages and electronics and communication equipment.

Temporary measures

Brazil has never taken emergency protective measures under the provisions of Article XIX of the GATT.

Since mid-1991, Brazil has increasingly had recourse to anti-dumping and countervailing measures. Before 1990, Brazil made limited use of such procedures, reflecting the high overall level of protection afforded until then by other non-tariff measures. The United States, Canada and South Africa are the main targets of anti-dumping measures. By July 1992, four definitive and four provisional anti-dumping duties were in force, together with two price undertakings; four active anti-dumping investigations were also under way; and two countervailing measures were in force.

Brazil's anti-dumping and countervailing measures have a statutorily-defined sunset clause of five years. Concerns have been raised by some trading partners in respect of certain practices, mainly in respect of the application of provisional measures.

There are some expectations that anti-dumping and countervailing measures will be used more frequently by Brazil as domestic industries are increasingly confronted with international competition and as domestic producers learn how to use these mechanisms. While these practices may prove to be a useful instrument to protect the domestic industry against unfair trading practices, there is always scope for their use as disguised protective devices, although the sunset clause alleviates this to some degree. Moreover, consumers' interests and the interests of user industries are not taken into consideration when deciding the imposition of anti-dumping or countervailing duties.

New initiatives

Brazil has eliminated almost all non-tariff barriers and moved to a mostly tariff-based trade policy as part of efforts to open the economy to market forces, modernize its productive capacity, and make it capable of competing internationally. However, in the prevailing environment of persistent macroeconomic imbalances, the sustainability of these liberalization efforts should not be taken for granted. Price and exchange rate stability and the achievement of sustained economic growth are a necessary condition for consolidation of the reforms undertaken so far by Brazil. Failure to control inflation, to revive economic activity, and to tackle rising unemployment, would increase the political odds against the success of the liberalization experiment, by encouraging existing pressures

to retard the tariff reduction programme or to revert to a more protectionist industrial policy.

Within the time frame established for the programme of tariff reductions, it is essential for Brazil to restore sustainable growth and avoid excessive real exchange rate appreciation, to reduce structural adjustment costs and the risks of balance-of-payments problems. These imperatives require a successful stabilization effort, but also underline the link between the future of Brazil's trade policy and its external financial obligations. In this respect, the recent debt restructuring agreement signed by Brazil with commercial banks, covering around US\$44 billion, should ease some of the pressures on economic management.

The Government is currently revising all existing legislation related to trade, with a view to consolidating it in a single basic foreign trade law. Priority is also given to further trade liberalization within MERCOSUL. Tariffs on trade within the regional arrangement are expected to be cut to zero and quantitative restrictions eliminated by the end of 1994. To the extent that MERCOSUL itself pursues liberal policies towards the outside world, concerns regarding welfare-reducing trade diversion will be lessened. However, given the product composition and direction of Brazil's external trade, the country is likely to benefit more from multilateral liberalization rather than from bilateral or regional trade groupings.

Trade Policies and Foreign Trading Partners

Since March 1990, Brazil has considerably liberalized its economy. Reduction in the scope of non-tariff measures and reliance on ad valorem tariffs have made Brazil's trade régime more open and transparent. Further benefits for foreign trading partners will result from the liberalization of domestic regulation.

Brazil's trade policies are not generally biased against specific countries and, as noted, some 90 per cent of Brazil's trade is conducted on an m.f.n. basis. Trade preferences are mainly given to regional trading partners.

Brazil's recent unilateral liberalization is contributing to the strength of the multilateral trading system. Brazil has benefited from the multilateral trading system under GATT and has used GATT mechanisms to solve trade disputes. Brazil could contribute further to extending and reinforcing its participation in GATT through greater tariff bindings, as offered in the Uruguay Round, and through wider participation in the MTN Agreements. A successful conclusion of the Uruguay Round, leading to significant liberalization by major participants, would help consolidate Brazil's liberalization measures and provide greater opportunities for economic growth in Brazil, through improved market access.

TRADE POLICY REVIEW
BRAZIL

Report by the Government of Brazil - Summary Extracts

INTRODUCTION

Openness, transparency and deregulation: these are the main features of an economic program aimed at eliminating inflation, increasing investments and ultimately resuming sustained economic development in Brazil.

In the implementation of this program, the Brazilian Government has followed two fundamental guidelines: the search for economic stability and the introduction of structural reforms.

Stabilization measures adopted by the Government since it took office in March 1990 have been able to recoil hyperinflationary trends, to promote a significant fiscal adjustment, to restore the efficiency of economic policy instruments and to establish an exchange market where rates are allowed to fluctuate freely.

Structural reforms emphasize the reduction and modernization of the role of the State, the deregulation of the economy, the privatization of public enterprises and services and the liberalization of foreign trade.

The reorientation of the macroeconomic policies towards a more market-oriented economy, in addition to the stabilization efforts implemented simultaneously, aims at reversing growth stagnation trends experienced during the last decade.

The resumption of sustained economic growth will be based on the strengthening and dinamization of the capital market, in view of its importance in attracting long term investments and in enhancing capitalization by firms; on the implementation of industrial and foreign trade policies, aimed at increasing efficiency in the productive sector through technological innovation, improvement of quality, opening and specialization of the economy; and on the modernization of the economic infrastructure.

A new model of development has been adopted, which is more integrated with international economy and in which economic agents are constantly compelled, by the forces of internal and external competition, to a continuous and permanent process of productive improvement.

With the objective of increasing the economic efficiency and of promoting technological innovation through a larger exposure of the Brazilian productive sectors to foreign competition, a comprehensive reform of the foreign trade régime is under way.

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Such reform materializes in a deep reduction of import tariffs, in the extinction of the suspended imports list, in the automatic issuance of licenses, in the elimination of fiscal incentives for exports, in the simplification of administrative procedures and in the abolition of restrictive measures taken for reasons of Balance of Payments.

A schedule of gradual and selective tariff reductions for the period of 1991 to 1994 has been published, giving a clear sign to the Brazilian productive sector and to foreign investors of the degree of adjustment required by the trade liberalization process.

These liberalizing measures, introduced by the Government since 1990, substantiate a trade regime which is impregnated with the same features of the wider governmental economic program: it is open, transparent and deregulated.

Objectives of trade policy

The main general objective of foreign trade policy is to increase the efficiency in the production and commercialization of goods and services. This is to be attained by fostering the integration of Brazil into the international economy through greater access for Brazilian exports of goods and services in foreign markets and greater access of foreign goods and services to the Brazilian market.

In order to achieve these policy objectives, the Brazilian Government attaches high priority to a successful conclusion of the Uruguay Round of Multilateral Trade Negotiations, in which agreements should be reached on a substantial global dismantlement of protection in all areas under negotiation, in particular in those of export interest to developing countries, and on a reinforcement of GATT rules and disciplines.

Brazilian trade liberalization policy is characterized by a comprehensive elimination of non-tariff barriers and a significant reduction of tariff rates. Reform of trade policy has been accelerated since early 1990, resulting in a substantial opening of the market for a large number of goods. Rapid and significant change in the rules applying to trade policy has been based on the following guidelines:

- reformulation of the exchange rate régime: exchange rates were allowed to fluctuate in a free inter bank market instead of being pegged as in the past;
- revision of the protection system by increasing the exposure of Brazilian producers to foreign competition and restoring the rôle of the tariff as the main instrument of protection;
- reformulation of export promotion policy with significant elimination of fiscal incentives;
- improvement of the transparency and efficiency of decision-making related to trade policy through a wide reform of relevant governmental institutions and a simplification of norms and procedures.

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Structural reforms are being introduced together with efforts to stabilize inflation and renegotiate the foreign debt. It is expected that trade policy reform will play an important rôle in enhancing competition in the Brazilian market, thus reducing domestic prices. Liberalization shall improve the growth potential of the economy by reducing the cost of investment and by enhancing export competitiveness through access to more efficiently produced inputs.

Success, however, hinges to a large extent on access to export markets. Trade liberalization which has taken and is taking place in developing countries should be matched by trade liberalization measures of equivalent magnitude by major trading partners. Worldwide liberalization would considerably reduce costs of adjustment in developing countries.

Changes in the Brazilian Trade Policy

The Brazilian economy suffered two external shocks in recent history which explain, to a large extent, the sharp deterioration of its previous economic performance.

The 1973-74 sharp rise in oil prices was met in Brazil by a combination of foreign indebtedness and import substitution which allowed the continuation of significant economic growth with the inflation rate reasonably under control. In order to prevent a further deterioration of the foreign trade balance, the Government decided to apply, from 1975 on, some import-control measures, such as a compulsory deposit on the value of imports and the temporary suspension of issuance of import licenses for a range of products.

At that time, two important decisions which envisaged a long-term change in the profile of Brazilian import requirements were announced: the launching of the II National Development Plan, a program of investments in selected capital and intermediate goods industries; and PROALCOOL, a program aimed at reducing the dependence on oil imports by the use of sugar cane alcohol as fuel for cars. At its peak in the late 1970s, oil accounted for more than 50 per cent of total Brazilian imports.

The strategy of increased reliance on foreign indebtedness and import substitution and control produced some slackening in external constraints. In 1979, attempts towards a foreign trade liberalization were made: compulsory deposit on imports was abolished and the phasing-out of fiscal incentives to the exportation of manufactured goods was started. These measures were partly offset by a 30 per cent devaluation of the currency in December 1979 that should be followed by the acceleration in the rate of devaluation during the next three years.

Nevertheless, it was impossible to maintain macroeconomic external and internal balance after a new rise in oil prices in 1978-79, which was followed by a substantial increase in real interest rates as a result of tight monetary policies in developed countries and of the reduction in economic activity - especially in the US.

The sharp balance of payments deterioration was further worsened by the interruption of capital inflows in the aftermath of the 1982 world debt crisis.

Successful adjustments were made, especially until 1984-85, by means of exchange rate devaluations and import restrictions which, in turn, produced large trade surpluses. Inflation rate, however, rose and remained at very high levels as exchange rate devaluations were passed on to domestic prices and fiscal imbalances accentuated.

During the first half of the 1980's, the Government went back to relying on a combination of export promotion and import restriction, so as to generate large trade surpluses in a short period of time.

The most important export incentives were those provided by the BEFIEX program (access to imported inputs and capital goods with the exemption or reduction of import tariff and other taxes, in exchange for export performance commitments), subsidized credit and income tax reductions.

The second half of the 1980s was marked by stop-and-go policies involving price stabilization elements - generally based on inflation desindexation and temporary massive reductions in liquidity - and different modalities of foreign debt service reduction, mainly unilateral ones.

Such stop-and-go policies were unable either to cope with high inflation or to create the conditions required to negotiate the foreign debt on a permanent basis. Stop-and-go policies resulted in a very unstable GDP growth pattern. GDP per capita decreased during the 1980s, in sharp contrast with long term trends. GDP in 1980-89 increased at the yearly rate of 2.2 per cent whereas it had increased at the yearly rate of 7.1 per cent in 1973-1980 and 11.2 per cent in 1967-1973. In 1990 it decreased by a further 4.0 per cent, recovering only 1 per cent in 1991.

As export subsidies were reduced as a joint result of the fiscal constraint and the adoption of the Tokyo Round Subsidies Code, it became clear that a reform of the import régime should not be further delayed.

In spite of the persistence of external debt problems, successive waves of liberalization, starting in 1987, reduced import duties, abolished taxes on foreign trade and reduced quantitative restrictions including those related to the temporary suspension of import licences.

After the new government took office in early 1990 the scope of reform was widened, its pace quickened and its intensity increased: the foreign exchange market was freed; import controls were eliminated (company and firm-specific import programs, suspension of issuance of import licences for some products, minimum external financing requirements); substantial progressive tariff reduction was scheduled (reduction from average 32 per cent in 1990 to 14.2 per cent in 1993); the number of products whose import required prior authorization was substantially reduced; trade policy decision-making was restructured and administrative procedures were simplified.

MORE

The export régime was also significantly altered after the beginning of 1990 as the Government made it clear that its emphasis on export expansion as an element of economic strategy did not imply the utilization of export incentives. This change of policy resulted in the discontinuation of both BEFIEX - which guaranteed fiscal advantages to firms willing to agree to predetermined export targets - and income tax exemptions related to profits generated by exports.

In July 1991 Brazil notified the Committee on Balance-of-Payments Restrictions of its disinvocation of Article XVIII:B of the General Agreement. This action confirmed Brazil's intent of pursuing trade liberalization policies.