

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## WORKING PARTY 5 ON BALANCE-OF-PAYMENTS IMPORT RESTRICTIONS

### Import Restrictions Imposed by Brazil during the Period July to December 1952

#### Statement by the Brazilian Delegation

1. In view of the Note by the Executive Secretary (document IC/W/4) of 2 September, 1952, concerning import restrictions imposed by the Brazilian Government for the period July to December, 1952, the Brazilian Delegation would like to make a few observations concerning the nature of these measures and the factors which led to their adoption.
2. The object of imposing import restrictions was as far as possible to avoid aggravating the disequilibrium in the balance of payments; and at the same time to make use of the currency earned by Brazilian exports in the manner most advantageous to the Brazilian economy. This is particularly justifiable in regard to the hard currency areas, from which most of the goods essential to Brazilian production come. Thus, imports into the country have to be allotted an order of priority, in accordance with the degree of importance of the different commodities to the Brazilian economy,<sup>1</sup> and with what the country can afford on the strength of her currency earnings from exports.
3. Fundamentally, the reason for Brazil's import restrictions is not to discriminate against any commodity or against any currency, but simply to try and keep the country's imports below the amount of revenue in foreign currency earned by exports, and to endeavour to control imports with an eye to catering for the basic sectors of Brazilian economy.
4. Again, the non-convertibility of a number of currencies seriously hampers arrangements for foreign currency cover for imports, so that the finance authorities are obliged from time to time, whenever it is feasible, to interrupt the normal flow of trade, so as to utilise any foreign currency assets they hold.
5. This situation is a reflection of problems which are essentially structural. Brazil has her own export scale, consisting mainly of primary commodities. This being so, the expansion of Brazilian exports is to a

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<sup>1</sup> Goods are regarded as of vital importance where the deficit in the balance-of-payments would be all the greater without them, owing to the repercussions in Brazil's exports.

great extent dependent on the expansion of the national income of the industrialised countries, while at the same time, Brazilian imports tend to increase at a rapid rate owing to the increase in population and the demand for imported goods. This demand is largely determined by technical developments in communications, which stimulate the desire of the man-in-the-street for a higher standard of living comparable to that seen in countries with more highly developed economies.

6. This state of affairs has been greatly aggravated by the deficit in the invisible items of the balance of capital and the relatively poor rate of inflow of foreign capital.

7. The inference to be drawn from all this is that the balance-of-payments in Brazil is conditioned by causes alien to the economic policy of the country.

8. Another point to be considered is that the terms of trade are traditionally unfavourable for Brazil, and even in periods when world economic activity has been given a fillip as a result of abnormal political circumstances, any improvement in Brazil's terms of trade tend to be offset by the measures taken in the industrialised countries as part of their economic policies - e.g. price control, stockpiling, etc.

9. Hence the Brazilian Delegation would like to point out that the import restrictions imposed by Brazil arise mainly from the peculiarities of Brazil's economic structure, as reflected in her balance of payments. This is a situation of long standing, and it is bound to continue to condition Brazilian trade policy for a long time to come.

10. With regard to document IC/W/4 (Note by the Executive Secretary) of 2 September, 1952, the Brazilian Government is anxious to explain that the trade policy measures adopted on 31 July, 1952, do not in any way alter the system of restrictions which has been in force in Brazil since 1947.

11. In point of fact, the way in which the exchange situation in Brazil has developed from 1949 until the present time is a perfect illustration of what we have said above.

12. When the prices of raw materials improved on the international market about the middle of 1950, as a result of the impetus given to trade by the introduction of emergency programmes in some of the larger industrial countries, the terms of trade seemed likely to improve in respect of Brazil's exchange position. The Brazilian authorities realised the danger to the country's economy inherent in the international political trends of the moment and bearing in mind the principle of freeing imports as far as the exchange situation would allow, stepped up the level of import quotas and issued an expanded list of import commodities, including a number of items less vitally important for the Brazilian economy and not included in the earlier lists.

13. In the course of 1951, the upward trend of prices for raw materials which had been apparent in 1950 ceased, and Brazil's terms of trade again became unfavourable<sup>2</sup>. The import licences granted previously on the strength of the improvement in the terms of trade, i.e. in accordance with the principle of lifting restrictions on imports, increased the volume of Brazilian purchases abroad to an inordinate degree; and when exports subsequently returned to their normal level, they proved inadequate to cover the currency requirements for those imports. Thus the equilibrium of Brazil's balance-of-payments was violently upset (see the annexed Table I) and this in turn had harmful direct repercussions on the balance-of-payments. It should perhaps be mentioned that Brazil's exchange situation at the present time shows a serious deficit; this is true even in respect of the countries which have bilateral trade agreements with Brazil. It may also be worth mentioning that commercial agreements have been Brazil's only instrument of trade policy, since her system of specific tariffs has gradually been devalued owing to the continual rise in prices on the international market. Furthermore, the Brazilian Government has endeavoured to stabilize for internal purposes the value of the national currency by following a sound financial policy aiming at balancing the budget, controlling and screening credit operations and cutting down public expenditure. The objects of this policy, however, have had to withstand the effect of the major difficulties facing the country's foreign trade. In view of what has been said it is clear that the recent introduction of import licences in June this year was both necessary and designed to reduce the number of products for import, priority being given to those regarded as absolutely essential to the Brazilian economy, e.g. fertilizers, insecticides, agricultural machinery, aluminium, cellulose, lead, nickel, copper, tin, etc. etc.

14. There is nothing new in this latest import restriction policy; it is merely a return to what was the normal situation prior to the period when the position of Brazilian products abroad was for a while less precarious than usual.

15. It may be well at this point to recall the statements made by the Brazilian representative in the Working Party on Import Restrictions at the VIth Meeting of the Contracting Parties. Examining the draft report on "Trends of Policy and Effects" Chapter 3, he pointed out that the improvement observable at that time in the financial position of the raw material producing countries - a point emphasised in the draft report in question -

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<sup>2</sup> The prices of a number of products exported by Brazil, e.g. cocoa, sisal, cotton, coffee, etc. have been falling on the international market, whereas the prices of manufactured products continue to rise. This phenomenon is attributable to a variety of circumstances, among them being price-control, stockpiling, slow down of industrial activity, etc. etc. Between December 1950 and June 1952 the average prices of goods exported by Brazil dropped from Cr. \$6,525 a ton to Cr. \$6,488 a ton while the average price of imports rose from Cr. \$2,265 a ton to Cr. \$3,880 a ton. (Department of Economic and Financial Statistics). Ministry for Economic Affairs.

was a precarious matter, owing to the fact that fluctuations in the price of these commodities are far greater than in the case of manufactured products. Hence, as the Brazilian representative argued, that situation could not be regarded in the long run as really sound and stable.

16. Subsequent events were to demonstrate the truth of that statement. As far as Brazil was concerned, the improvement actually did turn out to be short-lived, and the present balance of payments situation is a direct reflection of the position.

17. Hence, the Brazilian Delegation would like to reiterate that the import restrictions imposed as part of the Brazilian trade policy are attributable to the inadequacy of Brazil's foreign currency revenue from exports to cover her imports, which are growing at an ever-increasing rate, for the reasons already given. It also wishes to repeat that the measures introduced in July this year merely reflect the necessity for coping with the major difficulties which have arisen in connection with Brazil's balance of payments. The imports listed in Notice 287 of 31 July 1952, are designed to ensure the purchase of the indispensable minimum of goods essential to the economic workings of the country, while the currency earned by exports from Brazil - constituting practically the only source of revenue from abroad which the country possesses - will have to be used for covering essential imports and fulfilling the undertakings which arose out of the policy of expanded imports during the period between the second half of 1950 and the first half of 1952.

18. The system of restrictions in force does not discriminate against any product or against any currency; but it does reduce the total volume of imports so as to bring them below the level of the currency earned by exports. At the same time, the products to be imported are selected according to their relative vital importance.

19. The Brazilian Government takes this opportunity, however, to draw the attention of the Contracting Parties to the necessity for taking into account, when the question of import restrictions to safeguard the balance of payments comes up for discussion the structural problem by which those restrictions are conditioned. In this respect, very little attention has been paid to Article XVIII of GATT, which recognizes in principle, though without any great emphasis, the imperious necessity for these countries to safeguard their incipient agricultural and industrial activities.

20. The Brazilian Government is anxious to bring out the fact that in the case of countries with a rudimentary economy, development is the only really effective means of getting rid of import restrictions forced on them by inherent structural factors, and the only way of raising the level of trade.

21. The strengthening of the productive forces in these countries so as to improve their terms of trade, to raise the standard of living of the people and to combat the Malthusian danger, is a measure which cannot be avoided. Economic development, especially by way of industrial progress,

is absolutely vital if these countries are to be freed from the position of helpless victims of the cyclical fluctuations in the prices of raw materials on the international market.

22. With these principles in mind, the Brazilian Government wishes to state that its economic policy will continue to be aimed at stabilising the balance of payments and utilising foreign currency assets for the benefit of the basic sectors of the Brazilian economy and their development.

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The Trends of Brazilian Trade

(millions of cruzeiros)

	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
<u>1950</u>	<u>24,910</u>	<u>20,310</u>	plus <u>4,600</u>
<u>1951</u>			
Feb.	3,000	1,970	plus 1,130
March	2,710	3,180	- 470
April	2,100	2,640	- 540
May	2,600	2,730	- 130
June	2,680	3,110	- 430
July	2,800	3,510	- 710
Aug.	2,930	3,270	- 340
Sept.	2,820	3,470	- 650
Oct.	2,930	3,720	- 790
Nov.	2,990	3,060	- 070
Dec.	2,730	4,250	- <u>1,520</u>
		Debit balance .....	4,520
<u>1952</u>			
Jan.	2,560	3,800	- 1,140
Feb.	2,380	3,890	- 1,510
March	2,520	3,930	- 1,380
April	1,760	3,390	- 1,730
May	1,800	3,230	- 1,430
June	1,865	4,195	- <u>2,330</u>
		Debit balance .....	9,520

Total deficit for the period between February 1951 and June 1952 was Cr\$14,040 million, or approximately US\$750 million.

(Source: Department of Economic and Financial Statistics)  
- Ministry for Economic Affairs.