GENERAL AGREEMENT ON TARIFFS AND TRADE

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Contracting Parties

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Working Party 7 on Brazilian Internal Taxes

Explanatory Note submitted by the Brazilian delegation

At the last meeting of Working Party 7 on Brazilian Internal Taxes, the French delegation alleged that the addition made to No. 2 in Paragraph XIX of Table d of the Consolidated Laws on Consumption Taxes under Law 494 of 26 November 1948, would result in further protection for the national cognac industry.

As the Brazilian representative has already had occasion to explain orally, the amendment introduced in 1948 is not designed to protect the national industry against competition from like foreign products.

Nor, as the French representative concluded, does it represent a specification in the classification of a product similar to cognac, a well-known beverage of French origin.

What we call "conhaque de alcatrão, conhaque de mel, conhaque de gengibre," is a type of beverage to which have been added aromatic or medicinal substances which make it quite distinct from the type of cognac known throughout the world as such.

The expression "as well as cognacs obtained from the distillation of home-produced natural grape wine" only serves to extend the classification adopted in Decree-Law No. 4 327, of May 1942 to the

product of wine distillation to which aromatic or medicinal substances have been added.

The law provides that the generic name of this product shall be expressed in the Portuguese form, accompanied by the description "alcatrão, mel ou gengibre" (tar, honey or ginger), so as to avoid any confusion with cognac (written in French) known throughout the world.

It is sufficient to point out that home-produced cognac similar to foreign cognac is liable to a much higher tax than the other mentioned above (in Portuguese: "conhaque" and not "cognac").

In the case of cognac proper, the foreign product pays twice the duty paid by the like national product (Note 2 - Paragraph XIX - Beverages).

In view of the facts stated above we are led to believe that the doubts expressed by the French delegation can only be explained by the complexity of Brazilian legislation on the subject. Indeed, were the French delegation's arguments justified, the Brazilian legislature would actually have substantially reduced the protection given to the national product. Further, the like foreign product would only be liable to a very low tax since a litre of foreign cognac, which at present pays 36 cruzeiros, would only have to pay 7.20 cruzeiros.

The absurdity of this result shows that the conclusion drawn is quite erroneous.