

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

Committee on Balance-of-Payments Restrictions

DRAFT

REPORT ON THE 1983 CONSULTATION WITH BRAZIL

1. The Committee consulted with Brazil on 6-7 December 1983, in accordance with its terms of reference, pursuant to Article XVIII:12(a) of the General Agreement and the Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205). The consultation was held under the Chairmanship of Mr. J.N. Feij (Netherlands). The International Monetary Fund was invited to participate in the consultation in accordance with Article XV of the General Agreement.

2. The Committee had the following documents before it:

Basic Document	(BOF/239)
Secretariat Background Paper	(BOP/W/74)
Statistical Analysis of Licensing Suspension Scheme	(BOP/W/67)
Notification in Pursuance of Paragraph 3 of the Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance	(L/5555)
IMF Recent Economic Developments, dated 10 February 1983	
IMF Supplementary Background Material, dated 18 November 1983	

Opening statement by the representative of Brazil

3. In his opening statement, the text of which is attached as Annex I, the representative of Brazil recalled that, at the last consultations in 1981, the Committee had noted that the overall balance of payments of Brazil was expected to be in approximate overall balance by the end of 1981 and had expressed the hope that Brazil would, as a result, be in a position to reduce substantially its reliance on restrictive import practices. This assessment had, in his view, been overly optimistic. Structural weaknesses in the balance of payments, dating originally from the first oil shock of 1973, had been aggravated in the late seventies by the steep rise in international interest rates and by the second oil shock. The resulting trade and current account deficits could only be financed by increasing external indebtedness. In 1979 and 1980, Brazil could not entirely finance its deficits from external resources and international reserves had been significantly reduced. The overall equilibrium obtained in 1981 had merely concealed the long-term structural nature of the problems. In 1982, Brazilian exports and imports fell by approximately 15 per cent; interest payments, however, increased by 24 per cent. A small trade surplus of US\$800 million was swallowed up in the US\$16.3 billion current account deficit, and an abrupt and substantial contraction of resources available on capital account led to an overall deficit of US\$8.8 billion and a grave deterioration of Brazil's reserve position.

4. There were thus, in his view, at present no grounds under GATT rules for the relaxation of import restrictions; rather, it was evident that such measures would need to be intensified unless Brazil could either greatly expand its exports, or increase its access to financial markets, or both. It was recalled that Brazil's main creditors were also its biggest trading partners. It was in this light that the measures taken by Brazil since 1981 - the further suspension of import licencing, the increase in the number of items subject to tariff surcharges, the reduction of import ceilings for government agencies and the centralization of control of foreign exchange transactions - should be considered. In the context of the balance-of-payments adjustment programme agreed with the IMF, Brazil

committed itself to an adjustment of its balance of payments over the three year period which relies on trade surpluses essentially generated by reduction of imports. While it was expected that the present level of import restrictions would suffice, no relaxation of such measures could be expected unless a net and substantial improvement of the international reserve position took place. Moreover, it was recalled that tariff surcharges and the suspension of import licences did not apply to items bound by Brazil in GATT: commitments under Article II of the General Agreement were thus fully respected. In addition, the consistency of Brazil's measures with GATT rules had already been established by the Committee: in this instance the Committee was dealing only with a rise in the incidence of such measures.

5. Referring to the question raised in the 1981 consultations, whether a timetable could be fixed for the phasing out of the financial transactions tax, he noted that the IMF adjustment programme involved the implementing of policies which would lead to the elimination of such practices. He noted that, having adopted a realistic exchange rate policy early in 1983, Brazil was undertaking reductions in subsidies to exports as well as reductions in the rate and scope of the financial transactions tax, in compliance with its commitment to avoid as far as possible practices implying multiple exchange rates. He also noted that the combination of problems faced by Brazil could only be dealt with by a complex of measures.

6. The representative of Brazil drew attention to Paragraph 12 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes. He stressed that, as agreed by consensus in the Consultative Group of Eighteen, balance-of-payments adjustment should be based on export expansion, rather than import contraction. Currently, Brazil faced depressed prices for its export commodities, weakened import demand in main trading partners, and increasing restrictions on access to markets as a result either of protectionist actions or, in the case of many developing countries, adjustment policies. Noting that a large number of non-tariff measures were applied to Brazil's trade by its three main developed trading partners, he put forward three suggestions for consideration by members of the Committee:

- (a) that contracting parties should roll back, for the benefit solely of developing countries, all existing import restrictions inconsistent with the GATT which affected products of interest to developing countries with balance-of-payments problems;
- (b) that for the duration of adjustment programmes agreed with the IMF, all safeguard actions taken or under consideration against export products of interest to consulting developing countries should be suspended;
- (c) that no countervailing or anti-dumping duties should be imposed on products exported by such developing countries during the period of IMF adjustment programmes.

Finally, the representative of Brazil requested the secretariat to provide a list and analysis of all trade measures restricting the access of Brazilian exports to importing markets as well as to third markets, before new balance-of-payments consultations with Brazil take place, with a view to allowing the Committee to make clear recommendations on concrete actions by contracting parties for the removal of such barriers.

Statement by the representative of the International Monetary Fund

7. At the invitation of the Committee, the representative of the International Monetary Fund made a statement, the text of which is reproduced in Annex II.

Balance-of-payments position and prospects - alternative measures to restore equilibrium

8. One member, drawing attention to the burden that subsidies imposed on the budget, noted that serious efforts were being made by Brazil to reduce subsidies in the economy including agricultural credit and export credit subsidies, and asked if a time schedule could be set for the reduction of export credit subsidies. The representative of Brazil replied that although the more realistic exchange rate policy adopted should, in time,

lead to a diminution in such subsidies, it would be difficult to give an exact schedule. Interest rates on export credits had already been increased substantially: however, Brazil needed seriously to promote exports as part of its adjustment effort. Agricultural subsidies had also been substantially reduced. The intention was to eventually eliminate all agricultural subsidies and subsidized export credit financing.

9. Several members, noting that the 1983 trade balance appeared to be well on target, asked how confident Brazil was that the projected 1984 trade surplus would not be affected by shortages of supplies for export industries resulting from import restrictions. Clarification was requested as to what, in the view of Brazil, constituted a substantial improvement in the international reserve situation which would allow some relaxation of restrictive measures. More information was also requested on the adjustment programme being pursued by Brazil in agriculture. The representative of Brazil agreed that supply bottlenecks could indeed result from the need to reduce imports. In the present situation there was no alternative but to restrict imports; he hoped that more flexibility could be exercised next year if export performance improved substantially. The balance of payments equilibrium projected for 1983 depended on the availability of adequate external financing, and in any case would be reached with a low level of international reserves. In this connection, he noted that reserves representing two to three months' import value were generally regarded as an acceptable minimum. He also noted that the correction of the price structure in the economy was a vital part of the adjustment programme, and recalled that agricultural subsidies were now considerably lower than in 1981. It was planned to increase agricultural production substantially. Several members also noted with interest the statement by the IMF to the effect that the Brazilian authorities intended to introduce a trade system providing protection through tariffs rather than through quantitative restrictions. The representative of Brazil stressed that this statement had been made by the IMF and not by his delegation.

10. Questions were posed regarding the effects of surcharges and the financial transactions tax on the general level of Brazil's imports; and also on the rationale for the maintenance of such measures along with other measures in the light of paragraph 1(b) of the Declaration. The Brazilian representative, referring to Table 18 of the basic document (BOP/239), stated that some 8 per cent of imports were subject to surcharges in 1982. As regards the financial transactions tax, it was difficult to make a complete evaluation of its impact in terms of trade coverage, but it could be said that in general terms about 70 per cent of imports were exempt from the tax.

System, method and effects of the restrictive import measures

11. Members referred to the complexity of the Brazilian import regime. In this context, some members, referring to Paragraph 1(b) of the 1979 Declaration, said that this complexity contributed an additional burden on trade. The representative of Brazil stated that the multiplicity of the measures reflected the magnitude of the balance of payments problem, different measures having been introduced successively as the situation deteriorated. A number of Brazil's measures were currently under review with a view to their modification, simplification or phasing out, as the case might be.

Import licensing system

12. A number of questions were asked concerning the operation of the import licensing system. One member sought information on priorities for allocation of foreign exchange under the system and procedures to ensure transparency. He also called attention to reports according to which a large number of items not subject to suspension of import licenses were only authorized through one particular regional office of CACEX. Another member asked whether Brazil planned in the near future to significantly reduce the number of products for which Brazil did not issue import licenses. He also asked what factors determined that, even if goods were not on the suspended list, licences would not be issued for particular products such as computers or aircraft. A member asked about the operation

of the import programme system for individual firms and the way in which negotiations with such firms operated. Several members asked whether this import programme system was restricted to established importers or whether new traders could obtain approval by CACEX.

13. Questions were also asked about the legal basis and rationale for the "similar" system under which import licenses were apparently not granted for products made in Brazil, and the policy of reserving specific sectors such as informatics for national producers. It was questioned whether these two policies were pursued for balance-of-payments or for other reasons.

14. In reply, the representative of Brazil noted that the basic structure of the import licensing system, including the requirement that all importers be registered with CACEX, had been in existence for many years. Import programmes were a new aspect of the system since 1980. These were clearly discussed in paragraphs 68 to 72 of the basic document (BOP/239). They had been introduced as a temporary measure to alleviate balance of payments problems. Import programmes were negotiated directly between CACEX and the firms concerned; new importers could negotiate such programmes. The criteria for approval under import programmes were set out in paragraph 71 of BOP/239. He was not aware of any restrictive practices relating to imports of goods for which import licences were available.

15. The intensification of suspension of import licences had been made in 1982 in response to the serious balance of payments situation. The list of products affected had been fully notified (L/5393).

16. The "similar" rule had formed part of Brazil's trade policy for many years, and was not a balance of payments measure, but a general provision applying in cases where an importer wished to benefit from reductions in tariffs or other charges. Specific regulations on computers, steel products etc. had been introduced in 1974 for balance of payments reasons or to avoid speculative stockbuilding, certain pricing practices, etc. Policy on informatics was subject to objectives relating to the development of the sector and national security.

Foreign exchange and currency practices

17. Several members asked whether the centralization of foreign exchange authorization, introduced in August 1983, was seen as a temporary or longer term measure. This policy had had a disruptive effect on trade. The representative of Brazil recalled that this measure had been taken at a critical time and that it was Brazil's firm intention to phase it out by the end of 1983.

18. In reply to questions relating to import duty surcharges and the financial transactions tax in the context of measures equivalent to multiple exchange rates (paragraph 107 of BOP/239), the Brazilian representative stated that the gradual elimination of multiple exchange rates was part of the adjustment programme discussed with the IMF. The financial transactions tax had already been reduced to some extent; some export taxes were to be eliminated; other measures would be phased out as the programme proceeded, subject to the development of the balance of payments. He noted that import surcharges had been among the first balance of payments measures adopted by Brazil in 1974/75. He recalled that import surcharges covered, in 1982, about 8 per cent of total imports, and that a certain number of products had been removed from the list in that year.

19. Two members asked questions concerning the operation of bilateral clearing arrangements with socialist and other countries, including the consistency of such arrangements with the non-discriminatory issuance of import licences. The Brazilian representative recalled the agreements which Brazil maintained with Latin American countries through LAIA, which were currently under renegotiation in order to attempt to regain earlier levels of regional trade. Brazil was also trying to develop its trade with socialist and African countries under bilateral clearing arrangements; those with socialist countries had shown historical surpluses in favour of Brazil. Such clearing arrangements followed standards laid down by the IMF. He was not aware of any new policy in this area.

Other points

20. In reply to a question about local content requirements as a condition for obtaining government contracts or for receiving investment incentives, the representative of Brazil said that tax incentives given to investments for export or other reasons were not balance-of-payments measures, but rather general policies relating to industrial development in Brazil.

Points relating to the external trading environment

21. The representative of Brazil, referring to the proposals made in his opening statement, said that the intention of his authorities had been to put forward some ideas for reflection, relating to the provisions of Paragraph 12 of the 1979 Declaration, with a view to contributing to the future work of the Committee in looking at how trade liberalization could assist countries in balance-of-payments difficulties. He did not expect concrete reactions at this meeting, realizing that governments would need to reflect on the complexity of the issues involved and the problems they might pose.

22. One member, supporting the proposals made by Brazil relating to reduction of trade barriers relevant to products of interest to consulting countries (paragraph 6 above) noted that the proposals were in line with Part IV of the General Agreement and with the 1982 Ministerial Declaration. He endorsed the proposal for an analysis of restrictive measures and suggested that this should be standard practice for all consulting parties, as well as for other contracting parties making use of IMF facilities. Another member, expressing satisfaction with the attention paid in these consultations to external factors, strongly supported the specific Brazilian proposals. However, with regard to the roll-back proposal, this should not apply vis-à-vis developing countries only but in respect of all contracting parties using balance-of-payments restrictions.

23. A number of members stressed that any examination of balance-of-payments problems in the Committee should take full account of all external and internal factors affecting the consulting country's situation. In addition, any examination of external trade measures affecting the consulting country should not be limited to specific types of measures or to measures taken by one or a few countries. Regarding the specific Brazilian proposals, a number of members expressed certain reservations. It was noted that many restrictive measures were taken for sound economic reasons and were legally justifiable under GATT Articles or related provisions, including MTN codes. Certain of the proposals might involve the surrender of contracting parties' GATT rights or imply the contravention of the m.f.n. principle. This would upset the balance of rights and obligations under the GATT. The right to take action under certain provisions of the General Agreement, for example Articles XIX and VI, was a necessary ingredient of the GATT system. It was recalled that the main purpose of balance-of-payments consultations was the examination of measures taken by consulting countries. It was also noted that the Committee was not a negotiating body, and that its work should not duplicate that of other GATT fora. However, these members agreed that the specific Brazilian proposals, which raised a number of important issues, deserved closer examination.

24. The representative of Brazil replied that his proposals fell within the purview of Paragraph 12 of the 1979 Declaration. It had not been the intention of Brazil to imply a deviation from the m.f.n. principle in making the proposal concerning safeguard measures, which was related to products of interest to consulting developing countries. Nor did their proposals imply any surrender of GATT rights by other contracting parties. However, they addressed the question of how such rights might be used in the context of Paragraph 12.

Conclusions

25. 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. These included the impact of the world economic recession on external demand, protectionist pressures abroad, difficulties of external financing and debt servicing, and problems of adjustment in the domestic economy.

26. 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 imports 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.

27. 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 cooperate in considering 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.

Annex I

Statement by the Representative of Brazil

[To be added]

Annex II

Statement by the Representative of the
International Monetary Fund

[To be added]