

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Balance-of-Payments Restrictions

REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION UNDER ARTICLE XVIII:12(b) WITH BRAZIL

1. In accordance with its terms of reference the Committee has conducted the consultation with Brazil under paragraph 12(b) of Article XVIII. The Committee had before it the following documents: (a) a basic document for the consultation prepared by Brazil (BOP/92 and BOP/92/Rcv.1 and Addenda 1 and 2); (b) the Executive Board Decision taken on 25 April 1969 at the conclusion of the International Monetary Fund's consultation with Brazil; and (c) a background paper dated 9 April 1969 provided by the International Monetary Fund.
2. The Committee regretted that some of the documentation, and in particular BOP/92/Rev.1 and Addenda 1 and 2, had not been made available in sufficient time for study in capitals. In conducting the consultation the Committee followed the plan for consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation was held on 3 July 1969. This report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with the consultation with Brazil. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Brazil. The statement was as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of April 25, 1969 taken at the conclusion of its most recent Article XIV consultation with Brazil and particularly to paragraphs 2 to 5 which read as follows:

- '1. This decision is taken by the Executive Directors in concluding the 1968 consultation with Brazil pursuant to Article XIV, Section 4 of the Articles of Agreement.
- '2. In 1968 there was a strong rise in economic activity and an improvement in the net foreign reserve position of the monetary authorities, but there was no further progress in reducing the rate of inflation. While the fiscal deficit was held to about the amount that had been planned, bank credit rose much faster than had been envisaged in the financial program,

including operations financed from a sharp increase in the commercial banks' short-term foreign indebtedness.--The trend toward a deceleration of the rate of increase of money wages that has been evident since 1964 was interrupted in the second half of 1968, as workers were compensated for reductions in real wages that had emerged in previous years as an unintended effect of the application of the official wage formula.

'3. The Government's financial program for 1969 aims at a sharp reduction in the rate of price increase - to about 15 per cent - concomitant with a satisfactory rate of growth and sound balance of payments position. To achieve these objectives the program calls for a major cutback in the rate of expansion of bank credit, based in part on important measures adopted to reduce the fiscal deficit but also entailing a much tighter policy on credit to the private sector. In addition, the continued application of the wage formula is expected to result in a resumption of the declining rate of money wage increases, and the flexible exchange rate policy is to be maintained.

'4. The Fund believes that the fiscal plan which has been adopted for 1969 as a whole is suitable for the achievement of this year's stabilization goal, and it will be essential to adopt whatever additional measures may be needed to ensure that the fiscal deficit does not exceed the targeted amount. Implementation of the credit policy that has been established for 1969 will require an abrupt change from the recent trend, and the Fund notes the critical importance of improving the monetary authorities' control over credit, including the official banks' operations with the private sector. In this connection, the Fund would also advise careful surveillance over commercial bank use of short-term foreign credits with a view to avoiding undesired swings in bank credit or balance of payments difficulties.

'5. The Fund notes with satisfaction the progress Brazil has made in recent years in reducing its reliance on bilateral payments agreements, and it hopes that further steps will be taken in this direction. The Fund welcomes the intention of the authorities to avoid introducing new restrictions or multiple currency practices, and to pursue a flexible exchange rate policy consistent with the maintenance of a satisfactory balance of payments position. It would be desirable to use the flexible exchange rate policy as a basis for new initiatives to liberalize further the trade and payments system. In the meantime, the Fund does not object to the maintenance on a temporary basis of Brazil's multiple currency practices and restrictions on payments for current international transactions, as described in SM/69/48, Part II.'

"On April 25, 1969 the Fund approved a stand-by arrangement authorizing Brazil to draw up to the equivalent of \$50 million for a period of 12 months beginning April 29, 1969. This stand-by is in support of policies directed toward a slowdown in the rate of price increases, achievement of a sound balance of payments position and maintenance of a satisfactory rate of growth.

"In 1968, official net foreign reserves rose by \$117 million compared with a decline of \$112 million in 1967, but the net foreign reserves of the monetary authorities and the commercial banks (taken together) declined, reflecting the drawings made by the commercial banks on short-term credits.

"At the present time the general level of restrictions of Brazil which are under reference does not go beyond the extent necessary to achieve a reasonable rate of increase in its reserves."

Opening statement by the representative of Brazil

4. In his opening statement, the full text of which is reproduced in an Annex, the representative of Brazil referred to the increasing negative balances of current transactions in Brazil's balance of payments since 1966. The revenue was almost entirely generated by exports while the deficitary position derived from invisible items. Exports consisted mainly of primary commodities, for which trading conditions were still markedly unstable. Although coffee remained the principal export item, cocoa, cotton, hematite and manganese ores and other commodities were contributing significantly to export proceeds. Exports of manufactured goods, encouraged and assisted by the Government, had doubled between 1964 and 1968, and their proceeds were now second only to coffee. At the same time the policy of import substitution had altered the pattern of imports from durable and non-durable consumer goods to imports of equipment and industrial raw materials. Today, the Brazilian economy was highly dependent on imports of equipment and industrial raw materials. Therefore, it was difficult to reduce imports without harming the development process. Despite the rising level of imports, the representative of Brazil emphasized that no quantitative restrictions had been imposed on imports.

He recalled that a new flexible exchange rate system had been adopted in August 1968 in order to gear Brazilian prices to those prevailing on international markets. A continuation of exchange and monetary measures, linked to measures aimed at controlling inflation, had relieved the market of speculative pressures and stimulated exports. A large inflow of foreign capital in 1968 had offset the structural deficit in current transactions. This structural deficit was due to expenses on services, deterioration of the terms of trade and restricted access to developed markets both for Brazilian primary commodities and manufactures.

He pointed out that in 1962 and 1964, Brazil's external debt had been rescheduled and since that date, the country's foreign financial commitments had been paid on the stipulated dates. Resort to compensatory credits had diminished

since 1966, and the net debt position had declined from US\$1,024 million on 31 December 1965 to US\$656 million at the end of 1968. Outlining the different stages of economic development his country had gone through since the end of the Second World War, he pointed to the shift that had taken place from a policy of import substitution, which had called for administrative and exchange controls to a policy of expansion and diversification of exports, with the elimination of controls and the effective application of the new ad valorem customs tariff.

Recalling the deterioration in the terms of trade, he said Brazil attached great importance to the reform of existing international trade structures. Discriminatory practices and obstacles to trade hampered the expansion of primary commodity exports and frustrated efforts to diversify exports. Quantitative restrictions, internal taxes, discriminatory practices, as well as technological developments in the production of synthetic materials, increasing competition from subsidized production in developed countries and certain customs tariff structures, were some of the factors inhibiting a growth of exports. In this context he recalled one of the conclusions adopted by the CONTRACTING PARTIES at their twenty-fourth session to the effect that contracting parties should give particular attention, in the consultations on balance-of-payments and other trade problems of developing countries, to the possibilities of alleviating these problems and facilitating the expansion of export earnings of these countries.

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

5. Members of the Committee welcomed the statement by the representative of Brazil and expressed their governments' satisfaction and appreciation of the efforts made by Brazil during the past years to reduce its quantitative import restrictions, to eliminate some of the more severe restrictions, and of the important measures taken to increase its exports. They noted with particular satisfaction the result of various measures on the economic growth of the country and the price stability attained as compared to previous years. General satisfaction was shown at the economic achievements obtained in industrial production.
6. In reply to a question on the prospects for the balance-of-payments situation in 1969, the representative of Brazil said that his authorities expected exports to reach, for the first time, the US\$2 billion level - a tentative figure of US\$2.1 billion was forecast. An increase in imports was also expected - to reach US\$1.9 billion. Reserves were expected to increase by US\$80 million in 1969.
7. One member of the Committee remarked that the new system of exchange rate adjustment which had been adopted in mid-1968 by Brazil was to some extent comparable to systems adopted by other countries consulting in this Committee. He noted that Brazil had made frequent minor adjustments in its exchange rate under this system and wondered whether the Government intended to continue applying this system. The representative of Brazil assured him that competent authorities in Brazil were not considering any change in the system.

8. Commenting on the problem of inflation, a member of the Committee remarked that this was a common problem to many developing and developed countries. He asked what views the Brazilian authorities held on the question of what was the appropriate rate of increase in prices without sacrificing the growth of the economy. If price rises were contained within too tight limits the growth of the economy could be hampered, while too rapid increases in prices were equally harmful. The representative of Brazil recalled that the rate of inflation in his country in 1963 had been of 86 per cent. On that basis it had been forecast at the time that the rate of inflation for 1964 would reach 144 per cent. However, there had been a change of Government and of economic policy, and prices had risen by only 60 per cent instead of 144 per cent. By 1968 the rate of inflation had been reduced to 25 per cent, and forecasts for 1969 indicated a rate of 20 per cent. The authorities in their fight against inflation had to take into account the need for economic growth. Population in Brazil was increasing at a rate of 3.1 per cent per annum and it was essential to keep economic growth at least at twice the level of population growth. This had been a criterion in the choice of a gradual approach to decelerating inflation.

9. Turning to the question of the Government's budget, a member of the Committee remarked that the budget for 1969 seemed well drawn up and balanced and should have a good chance of success. This, in turn, would be beneficial for the balance-of-payments position. However, much would depend on the Government's expenditure and the issue of money. A deficit of NCr\$528 million had been forecast for 1969; this was less in constant prices than the deficit for previous years. It would be financed partly by the Central Bank. However, he wondered whether any extra expenditure such as the Government's paying-off of maturing bonds would upset this figure of NCr\$528 million, or whether such elements had been taken into account in the projected figure. The representative of Brazil said that all such expenditure had been foreseen and through June 1969 no deficit had been incurred yet; the budget situation was thus under control.

10. The delegation of Brazil was congratulated on its Government's measures for liberalization of imports. It was noted, however, that a few import restrictions had been adopted lately, in particular on luxury items. The representative of Brazil stated that Decree No. 398 of 30 December 1968 provided for increased duties on a limited number of non-essential products, this on a temporary basis until December 1971. He remarked that the authorities could have used other measures to restrain imports on those items but had preferred to take tariff measures. He added that these could not be termed "import restrictions" in the context of the balance-of-payments position.

11. Commenting on the balance-of-payments position one member of the Committee said that the emphasis placed on invisibles by the representative of Brazil as the source of strain in the current account seemed to him less significant than the very rapid growth in imports. These payments for invisibles in recent years had remained at about the same (negative) level, while imports had doubled. This represented a classical situation for a developing country; imports of capital equipment and raw materials were essential in terms of long-term development, but

in the short-term were likely to cause problems in balance-of-payments terms. In his view, in order to counter these effects some form of restraint of import demand, possibly by the use of more stringent domestic credit policies was necessary to avoid strain resulting from debt servicing in the future. The representative of the United States said that it was his Government's hope that Brazil would place less emphasis on curbing import demand and more on appropriate measures to promote exports. The representative of France considered that the problem of the balance of trade was most important and recalled the position of his Government which was favourable to the increase and stabilization of prices for primary commodities.

12. In reply to a query about what additional measures Brazil might be considering to promote its exports, and specifically, whether the export financing fund provided for in its basic 1966 legislation on the new export system had been put into effect, the representative of Brazil explained that there were three schemes in Brazil for export financing. The first concerned export credits of not more than six months which were handled through the Bank of Brazil Exchange Department; the second covered export financing of more than six months up to two years through a fund administered by the Foreign Trade Department of the Bank of Brazil; the third method of financing was through the Inter-American Development Bank and covered capital goods only. The first and second schemes were functioning but at low levels; the third - the most interesting for Brazil - had not yet been fully utilized. On the question of promoting exports, the representative of Brazil said that the UNCTAD/GATT Trade Centre had undertaken a large market research study for Brazilian products. The results of the study were expected in July this year and it was hoped that its conclusions would help towards further expansion of Brazilian exports.

13. In reply to a question concerning difficulties encountered by Brazil as a result of barriers to its exports, the representative of Brazil referred to his opening statement in which he had mentioned the rôle of quantitative restrictions and other trade obstacles. He did not wish to expand on this matter in this Committee in order to avoid duplication of other GATT work.

14. A member of the Committee referred to Decree Law No. 491 of 5 March 1969 which provides for fiscal incentives for exports of manufactured products. While his Government had expressed satisfaction with the increase of Brazilian exports, particularly of manufactured goods, he wondered whether the Brazilian authorities had examined the provisions of this Decree in the light of the General Agreement and whether it could assure this Committee that the incentives would be consistent with the principles of the GATT. The representative of Brazil confirmed that there were incentives to exports of manufactured goods. While he did not have the details of Decree 491 at hand, he explained that Brazil as a developing country in need of further industrialization was yet unable to fully compete on foreign markets. He assured the Committee that the help and encouragement extended to exporters of manufactured goods were not harmful to contracting parties, and they did not differ from incentives which were granted by developed countries. In this context the Chairman recalled that Brazil was not a signatory to the Declaration giving effect to the provisions of Article XVI, paragraph 4 of November 1960 and therefore was not subject to the same requirements as the signatories of this Declaration.

System and method of the restrictions and effects of the restrictions

15. Members of the Committee expressed general satisfaction concerning Brazil's progress toward liberalization of trade since the last consultation. Elimination of the Special Category was especially welcome as it had removed the necessity to obtain exchange for imports of many goods in the auction market at high cost. The rationalization and lowering of the ceiling on rates of duty had also been moves in the same direction. Duties had also been reduced across the board by 20 per cent on the occasion of the major devaluation in 1967, (duties of 10 per cent or less excepted). In answer to the question whether progressive devaluation of the currency might be accompanied by regular adjustments in tariff duties, the representative of Brazil stated that there was no policy of that kind. The 1967 measure had been to combat inflation and devaluation would not necessarily be accompanied by duty adjustments on other occasions.

16. At the same time, there were some new measures which gave rise to concern. One such measure was the special duty or surcharge amounting generally to 100 per cent in addition to the normal customs duty, applicable to a variety of imports which were regarded as non-essential and applied under Decree Law 398 of 31 December 1968 for a period of three years to the end of 1971. In response to questions the representative of Brazil noted that this measure had been taken on balance-of-payments grounds, partly in response to factors which members had themselves recognized, namely Brazil's need to restrain in some way the pace at which imports were increasing in relation to exports. He added that there was certainly no intent to extend the special duties beyond the term fixed in the decree law, but whether it would be possible to relax or eliminate the measure earlier would obviously depend on the evolution of the balance-of-payments situation.

17. With reference to the scope and importance of this measure as a possible aid in overcoming Brazil's balance-of-payments difficulties members made the point that according to information before the Committee the total imports of such commodities had been only \$12 million in the first ten months of 1968, so that it was difficult to understand how even a near prohibition of such imports, as might be involved in the total charge on these imports, could effectively contribute to that end. Moreover, if domestic producers benefiting from such high protection had any say in the matter, it was not difficult to predict the fate of a proposal to withdraw the protection three years later. The representative of Brazil stated that the extent of trade in these non-essential items had been much understated and that it amounted in reality to around ten times the figure cited. Moreover, most of the products in question were not produced in Brazil so that even the heavy charges involved were unlikely to create domestic opposition to their removal when the balance-of-payments position permitted.

18. A second measure about which a question was raised was the requirement that goods bearing a tariff of more than 50 per cent ad valorem be covered by an exchange contract prior to the issuance of an import certificate. Goods subject to lower duty might be cleared through customs without such prior exchange contract. This provision, which included in its scope all of the goods subject to the special surcharge, appeared to members to create an undue disincentive to less essential goods. The representative of Brazil confirmed that this regulation was in effect, but noted that the goods affected were all in the less essential category, for which it was policy to create an import disincentive.

19. In reply to a further question, the representative of Brazil stated that with respect to decisions concerning permitted terms for financing of imports the general rule was that normal trade credits up to one year's duration were permitted without special registration with the Central Bank, but that if the requested period of financing was more than one year this could be granted only for essential equipment, and then only after a detailed schedule of planned remittances for interest and amortization had been approved by the Central Bank.

20. Questions were also put concerning the procedure of assessing customs duties on the basis of fixed minimum values. Members were glad to see that the list of products subject to this procedure had been made available to contracting parties (BOP/92/Rev.1/Add.2) but expressed interest and concern regarding the operation of this system. They enquired whether the list of products subject to the system, and the values established, could change from time to time, how the values had been calculated and whether there was a possibility that the system, established by Decree Law 63 of 21 November 1966, might be reviewed or eliminated. The representative of Brazil referred in this connexion to information before the Committee indicating that minimum values had generally been based on export prices quoted for the commodities in question by traditional trade partners in Western Europe and the United States. For example, on steel products (which had been omitted from the list in the document under reference) prices quoted in the United States and SAE standards were used. Such values had been imposed on some sixty products formerly under the special category régime as an abrupt decline in protection would otherwise have threatened domestic industries. A separate provision enabling the Customs Policy Council to establish minimum values upon request of domestic industry had been used very sparingly, in only six cases. Members of the Committee indicated that they had some difficulty in accepting that a protective purpose was a proper justification for a measure of this type and maintained the view that it was doubtful if the minimum value system, as applied by Brazil, was fully consistent with the provisions of Article VII. They were particularly concerned regarding the authority given to the CPA to establish minimum values upon request from domestic industries and expressed general interest in elimination of this system. They noted that the measure had been in part intended to restrain imports from low-cost suppliers and wondered whether it might not be possible for higher-cost suppliers to be exempted from it. The representative of Brazil stated that the measure was in fact under review.

21. A further measure about which questions were asked was the rule of "national similars", which members considered involved substantial additional protection; they asked whether any liberalization was contemplated. In reply, the representative of Brazil pointed out that the criteria involved were well defined by law and were strictly applied. To qualify, a Brazilian industry had to prove that it could supply a product equal to the imported goods in quality, in price and in delivery terms. He was not aware of any intention on the part of his Government to modify this law, which had now been in force for two years. Brazil had applied the rule in its tariff negotiations and it was a policy which could well be justified on development needs.

22. Members of the Committee noted that Brazil had terminated several bilateral trading and payments agreements over the past few years and congratulated Brazil on this reduced reliance on bilateral trading and payments arrangements. They expressed the hope that these would not be followed by more informal and possibly unpublished agreements having similar effects. The representative of Brazil expressed surprise at the suggestion that any bilateral agreements had not been made public. Whereas in the early 1950's there had been some twenty bilateral agreements in force, there were today only the ten of which the majority were with centrally-planned economies. As the system of these countries changed, Brazil would certainly initiate discussions looking towards termination of the bilaterals.

23. One member of the Committee also enquired concerning restrictions maintained against most countries on balance-of-payments grounds but not applicable to other members of LAFTA. He also asked for clarification concerning the justification for application by some States of Brazil of an internal excise tax on fresh fruits which in fact was applied only to foreign products imported from non-LAFTA countries; he enquired what steps were being taken to remove these discriminations. The representative of Brazil stated that in the interest of promoting regional integration Brazil tried, when restrictions were imposed, to exempt goods of LAFTA partners from the application of the measures. With regard to fresh fruits, he drew attention to the fact that up to March 1967 these products had been among those subject to Special Category procedures involving purchase of foreign exchange at a cost as much as 250 per cent of the cost at the par value exchange rate. Since then, fruits had been transferred to the General Category and the duty was also reduced from 40 to 37 per cent. Imports from the United States had increased impressively between 1967 and 1969, in fact more than doubled. As for the State taxes to which reference had been made, he would welcome details concerning specific cases. The questions posed by the Committee member had been directed not so much to the level of the tax on fruits or the amount of other possibly discriminatory charges as towards emphasizing that these were measures which discriminated against certain trade partners, including the United States. He asked again what measures were maintained against third countries but not against members of LAFTA. The representative of Brazil stated that all of the measures in force were explained in the documentation before the Committee with the possible exception of the fresh fruit tax, about which he would seek further information; none, he noted, were strictly "restrictions" in the sense usually associated with that term in this Committee. Moreover, he noted, the LAFTA agreement had been reviewed by the CONTRACTING PARTIES.

24. Members of the Committee also noted that they had received various complaints from traders not so much concerning the content of regulations but rather the complexity of the rules and the methods of their application. Such matters as documentation and samples requirements were so complex as to constitute barriers; penalties were also severe, even for minor infractions. They suggested that a simplification of rules would be most welcome, and that possibly a step in that direction would be codification. The representative of Brazil took note of these

comments and stated that Brazil was well aware of these difficulties and anxious to alleviate them. Much progress had already been made with respect to exports, where a similar problem had existed, and the same thing is being accomplished in the field of imports. Members welcomed these encouraging replies.

Conclusion

25. The Committee thanked the representative of Brazil for the very complete documentation which had been supplied and for the co-operative way in which their many questions had been answered. With respect to the measures and policies most directly relevant to the consultation they were pleased at the extent to which Brazil had been able to move towards a system permitting fuller competition between domestic production and imports over a wide range of products. They noted the encouraging progress in elimination of restrictive practices, which they hoped would continue. They hoped that the domestic measures would be sufficiently successful to maintain the considerable gains already made. There was some concern, however, over the potential effects on trade of some of the recently adopted measures which operate through the price mechanism.

ANNEX

Opening Statement by Representative of Brazil

May I be allowed to start my statement on the 1969 consultations with Brazil under Article XVIII:12(b), by quoting the conclusion of the basic document for the consultation (BOP/92), which reads:

"The effects of the remaining restrictions are very slight in comparison with those which have already been eliminated."

This is a fair statement, which imposes itself when one considers the results of the Brazilian policy of trade liberalization, pursued since 1964. These results have been achieved in spite of many difficulties; some of them have been overcome; many others unfortunately still lie ahead.

I do not think it necessary to make a thorough analysis of Brazil's balance-of-payments situation. Besides the documents available on the subject, the Brazilian delegation will be quite willing to provide any additional information the Committee may require. However, I would like to advance a few remarks on this rather arid subject, drawing on the Committee's patience.

A quick look at the balance of payments of Brazil shows a progressive worsening in the movements of goods and services for the years 1966, 1967 and 1968. The current transactions presented increasing negative balances: US\$33 million in 1966, US\$277 million in 1967 and US\$443 million in 1968.

This behaviour of the current items is one of the main characteristics of our external accounts. They present, on one side, a revenue almost entirely generated by exports; on the other side, a highly deficitary position derived mainly from invisible items, such as maritime freight, capital income, commissions, payments for patents, royalties, as well as technical assistance expenses. The pressure exerted by the payment of services on our external transactions emphasizes the importance of exports and the flow of foreign capital to our economy; the balance of payments' equilibrium is, therefore, basically dependent on these items.

Exports. Brazil's exports consist mainly of primary commodities, for the majority of which trading conditions in foreign markets are still markedly unstable. The dependence of the economy on export earnings has led the Brazilian authorities to adopt an export policy geared to a progressive increase of their receipts, through diversification of exportable goods and through the searching of new markets for traditional as well as non-traditional products, including, in particular, manufactures.

Fifteen years ago the per capita export income of Brazil was about US\$30 a year. In our days, it has dropped to US\$22. In 1968, our exports amounted to US\$1.9 billion, whereas, in order to maintain the per capita export income level of 1953, we should have had to raise our level of exports to US\$2.5 billion. As a matter of fact, that would have been the total value of Brazilian exports last year if the 1953 price levels had been maintained.

As to the composition of Brazilian exports, coffee still keeps its outstanding position. But it has not today the same relative importance of a few years ago. Besides coffee; - cocoa, cotton, hematite and manganese ores have a significant weight in our exports proceeds. Other products are showing an increasing importance among the country's exports, such as sugar and manufactures. Sugar, a traditional export product, used to present until 1964 an irregular pattern. Lately income derived from sugar has improved. As to manufactured goods, exports reflect in large measure the efforts of the private sector, encouraged and assisted by the Government, to sell manufactures in foreign markets. The results of such efforts are still more evident if we consider that receipts in the years 1967 and 1968 increased twice by comparison with 1964. At present, the value of exports of manufactured goods is second only to coffee in the overall exports proceeds.

Imports. After a short period of economic contraction, in 1964 and 1965, when imports fell to relative low levels, they began in 1966 to expand again in consistency with the requirements of an increasing gross national product, the growth rates of which, in real terms, jumped from 3.5 per cent in 1964/65 to 4.8 per cent in 1967 and 6.5 per cent in 1968.

The policy of import substitution for durable and non-durable consumer goods and some items of capital goods changed the structure and the pattern of Brazilian imports. The Brazilian economy is highly dependent today on imports of equipments and industrial raw materials.

This feature brings forth an important aspect of Brazil's imports policy: after a certain point, it became difficult to reduce imports without harming the development process. Thus, the possibility for further substitution is now restricted to a few items, such as petroleum and its by-products and certain foodstuffs.

Brazilian imports amounted to US\$1,303 million in 1966, US\$1,441 million in 1967 and US\$1,856 million in 1968. In spite of the strong up-trend of the demand for imported goods (plus 38 per cent in 1966; plus 10 per cent in 1967; plus 29 per cent in 1968), I want to emphasize that no exchange restrictions have been imposed on imports.

Exchange system. On 27 August 1968, a new system for fixing the exchange rate was adopted. It consists of periodical readjustments of the rate by the Monetary Authorities, at frequent, but irregularly timed intervals and is geared, in general, to the need of adjusting Brazil's prices to those prevailing in the international markets; the two other determinant factors for this readjustment are the position of our foreign reserves and the general behaviour of Brazil's exports.

This new system differs from the previous one only in regard to its promptness and effectiveness to cope with the economic, financial and commercial realities of a changing market. It has the advantage of preventing speculative moves, which were frequent in the preceding system due to the over-valuation of the rate as time elapsed from the previous readjustment. The over-valuation of the rate had an even more negative consequence on the exchange receipts, desestimating exports in the absence of an adequate compensation, due to the distortion of the relation between internal costs of production and the prevailing rate.

The combination of exchange and monetary measures, linked with measures aiming at the gradual control of inflation resulted in the elimination of speculative pressures on the market and provided a greater stimulus to export activities.

Autonomous capital movements. The political and social stability and the rate of development of the Brazilian economy were basically responsible for a large inflow of foreign capital (public and private), as loans and direct investments, in 1968. This exceptional inflow of capital of around US\$1 billion offset the structural deficit in current transactions, a deficit that, as I explained previously, is basically due: (a) to the expenses on services; (b) to the deterioration of terms of trade; (c) to the restrictions in the access to developed markets both for commodities and manufactures, as I shall explain later.

Foreign capital has played an important rôle in complementing domestic savings for the acceleration of the development process. However, the excessive utilization of short and medium-term credits, between 1956 and 1961, put a heavy pressure on the balance of payments, compelling the Government to negotiate in 1962 and 1964 the rescheduling of the external debt, in order to bring it in line with the country's payment capacity. Since 1964, our foreign financial commitments have been paid on the stipulated dates.

With respect to compensatory credits, it should be noted that, since 1966, their utilization by Brazil has been small: US\$39 million in 1966 and US\$25 million in 1967. In this latter year, US\$167 million of compensatory credits were repaid.

In 1968, Brazil made use of a "stand-by credit" of US\$75 million put at its disposal by the International Monetary Fund. Also last year, Brazil repaid former debts with that institution corresponding to US\$87 million.

The net debt position on compensatory loans declined from US\$1,024 million on 31 December 1965 to US\$656 million at the end of 1968.

The increase in the internal demand for manufactured goods which resulted from the increase in the per capita income and from the demographic expansion, led Brazil, after the Second World War, into a period of industrial development, turned towards the national market. This process, coupled with the progressive deterioration in Brazil's terms of trade, led to an increase in the country's external indebtedness.

Consequently, until some time ago, the Brazilian foreign trade policy comprised selective and rigid controls of imports, aimed at utilizing our import capacity as effectively as possible in order to serve the main objective of

industrial expansion. Our imports gradually switched from light manufactured goods to capital goods and industrial equipment, so that today, these items represent around two thirds of our foreign purchases.

As the cycle of industrial development for import substitution draws to a close, the Brazilian Government is concentrating its efforts to expand both the internal and the external markets. The emphasis has thus shifted from import controls to a policy of expansion and diversification of exports.

The import substitution policy relied mainly on administrative and exchange controls, including multiple exchange rates. Brazil had a customs tariff based on specific duties, and, even though in 1957 we adopted a new ad valorem tariff, the exchange controls continue to be applied for a period of ten years as a result of the prevailing conditions.

The success of our recent financial and exchange policies enabled us to eliminate administrative and exchange controls, so that the customs tariff mechanism established in 1957 could come into full effect.

As a consequence of the deterioration in the terms of trade, during the period between 1954 and 1966, Brazil lost \$5 billion of export income, i.e. more than the entire foreign aid received during the same period. Between 1961 and 1967, the export volume grew at twice the rate of the export value, which meant, effectively, a liquid transfer of resources abroad and a serious aggravation of internal inflationary pressures. If we add to this the notion that the per capita export income is far from satisfactory, and even decreased in the period, it is easy to understand why Brazil attributes such importance to a reform of existing international trade structures.

There exist, at present, discriminatory practices and trade obstacles that not only make it difficult to expand commodity exports, but also place efforts to diversify our exports on a precarious basis. It becomes difficult to include in our export trade an increasing quantity of manufactured products, that could lessen the effects of the deterioration of terms of trade.

There are, for example, trade barriers that affect our commodity exports, such as quantitative restrictions in certain developed markets, and internal taxes which hinder the expansion of the consumption of certain goods, such as coffee and cocoa. There are, on the other hand, discriminatory practices which affect Brazilian export trade. Underlying these restrictive practices is the basic instability and deterioration of prices of our export products.

Technological progress has aggravated this situation, due to the production of synthetic materials, and to the greater rationalization in the use of raw materials per unit of processing. It should be also noted that developed countries are becoming competitors of developing countries in commodity trade, by the adoption of incentives to internal production - often uneconomic - and even to subsidized exports.

In manufactures, the situation is still more complex and unfavourable. In developed markets, we could say that there is an effective discrimination through concession of equal treatment to unequal parties, while, in commodity trade, this discrimination results from unequal treatment to equal parties. The essential discrimination in manufactures is the result of the unqualified application of the most-favoured-nation clause, disregarding the differences that exist between highly industrialized countries and those which are only beginning to industrialize.

Developing countries are faced with protectionist policies which contradict the very principles of GATT. These policies include the application of quantitative restrictions, and, above all, a customs tariff structure which aims at preserving for developed countries an industrial monopoly, even when this only implies the simple processing of raw materials produced in the developing countries themselves. For this purpose, there is a tariff escalation which increases the duties in direct proportion to the degree of processing. And we all know that, in these cases, the real effect of this tariff incidence is twice the nominal incidence itself.

I have touched upon some of the difficulties we face in international markets because, in the view of my delegation, the Committee on Balance-of-Payments Restrictions, especially in the context of the present consultation, provides the appropriate forum for such considerations. When I say that, I have in mind one of the conclusions on the future work programme of GATT the CONTRACTING PARTIES adopted at their twenty-fourth session which says:

"The CONTRACTING PARTIES agreed that the consultations on the balance of payments and other trade and development problems of developing countries provided for in the General Agreement should give particular attention to the possibilities for alleviating and correcting these problems through measures contracting parties might take to facilitate an expansion of the export earnings of these countries."

I just mentioned some problems confronting Brazil in the field of international trade and their consequences on our balance of payments. In spite of being a developing contracting party, we believe that Brazil has done more than its share in liberalizing international trade, by gradually and progressively eliminating restrictions which hampered the free flow of goods and services.

I therefore hope that the CONTRACTING PARTIES will give particular attention to the possibilities for alleviating and correcting at least some of these problems, as they have promised to do in the document they subscribed at the end of the twenty-fourth session.