

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Limited Distribution

Committee on Balance-of-Payments Restrictions

1980 CONSULTATION WITH BRAZIL
(Simplified Procedures)

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (L/4904) to assist the Committee on Balance-of-Payments Restrictions in taking the decision referred to in paragraph 8 of this Declaration.

I. Brazil's last full consultation

2. At the last full consultation with Brazil, which took place on 14 and 15 November 1978, the Committee concluded, *inter alia*, that "extensive import restrictions, other than on a very temporary basis, were not the appropriate means of restoring equilibrium on the current account". It expressed doubts whether Brazil's import restrictions, "in the absence of fixed dates for their liberalization, could be fully justified under Article XVIII:B". The Committee urged the Brazilian authorities "to adopt alternative and more fundamental policies as indicated in the conclusions of the 1976 consultation" and "to undertake expeditiously a simplification of the import system with a view to reducing and eliminating the severity, multiplicity and complexity of the restrictions in force" (BOP/R/103). Following the adoption of the Committee's report by the Council the representative of Brazil said that "the Committee seemed to have underestimated the balance-of-payments difficulties faced by Brazil" and noted that "the very nature of balance-of-payments difficulties of developing countries did not allow measures to restore balance-of-payments equilibrium over a short period of time". He further said that the Committee should have taken into consideration Article XVIII:11 according to which no contracting party should be required to withdraw or modify restrictions on the grounds that a change in its development policy would render unnecessary the restrictions which it had been applying (C/M/132).

3. The last full consultation was preceded by one simplified consultation in 1978 and two full consultations in 1971 and 1976.

II. The main changes in Brazil's trade policy since the last full consultation

4. The following is a list of the main changes in Brazil's import control system since the last consultation in November 1978.

Date (Legal Basis)	Description of the measure	Notification to GATT
<u>24 January 1979</u> (Central Bank Resolution No. 508)	<u>Import deposit requirement</u> The prior import deposit requirement was reduced from 100 to 90 per cent of the f.c.b. value of imports. Further reductions of 10 per cent per semester until 30 June 1983 were announced.	L/4776
<u>27 June 1979</u> (Central Bank Resolution No. 555)	Imports of book and newspaper printing equipment for which there are no national similars were exempted from the import deposit requirement.	L/4909
<u>7 December 1979</u> (Central Bank Resolution No. 584)	The Central Bank decided to terminate as of 1 January 1980, the prior import deposit requirement. It was further decided on 7 December 1979 to devalue the cruzeiro vis-à-vis the dollar by 30 per cent.	L/4963
<u>25 June 1979</u> (Decree-Law No. 1685)	<u>Surcharges</u> The legislation related to temporary surcharges was extended until 30 June 1980. (Under the legislation items bound in GATT are excluded from the surcharges).	L/4909
<u>12 March 1980</u> (Decree-Law No. 1775)	The legislation related to temporary surcharges was further extended until 31 May 1981.	L/4985

Date (Legal Basis)	Description of the measure	Notification to GATT
<p><u>29 May 1980</u> (Central Bank Resolution No. 619)</p>	<p><u>Tax on sale of foreign exchange for import purposes</u> The financial transaction tax (IOF) was extended to the sale of foreign exchange for import purposes. The tax rate was set at 15 per cent, to be lowered to 10 per cent as of 1 September 1980. (The IMF, through Executive Board Decision of 9 July 1980, has approved this measure until 31 July 1981 or the completion of the 1981 Article IV consultation, whichever is earlier).</p>	-
<p><u>27 August 1980</u> (Central Bank Resolution No. 634)</p>	<p>The decision of the National Monetary Council to postpone the lowering of the IOF from 15 to 10 per cent was put into effect.</p>	-
<p><u>22 January 1979</u> (CACEX communication 79/3)</p>	<p><u>Import licensing</u> The list of products for which the issuance of import licences remains suspended was reduced. In terms of 1975 import figures the product coverage is now US\$196.2 million (which compares with a coverage of US\$272.3 million as of 2 January 1978.)</p>	L/4777 L/4777/Add.1
<p><u>24 October 1979</u> (CACEX communication 79/34)</p>	<p>The product coverage was further reduced to US\$190.4 million in terms of 1975 import figures</p>	-
<p><u>7 December 1979</u> (Decree No. 84268)</p>	<p><u>Purchases by public entities</u> Since 1976 the Government fixes an annual global ceiling for imports by federal ministries, agencies and enterprises. For 1980 this ceiling was fixed at 80 per cent of the 1979 ceiling. Imports for certain programmes in the areas of iron and steel, electric energy and petroleum, although subject to specific limitations, are excluded from the global ceiling.</p>	-

5. The reduction of the import deposit rate to 80 per cent during the course of 1979 and the termination of the deposit requirement at the end of that year represented a substantial trade liberalization. The deposit requirement had added 40 per cent to the cost of imports and had covered about 21 per cent of imports in July 1978 (cf. BOP/R/103, pages 9 and 10). The cost of imports was however again increased when the 15 per cent tax on foreign exchange sales for import purposes was introduced in May 1980. The surcharges, unchanged since the last consultation, appear to have had a restraining impact on imports without however reducing them. While total imports (in f.o.b. US\$ terms) increased between 1978 and 1979 by 32 per cent, imports subject to the surcharge rose during the same period only by 9.4 per cent. The licensing system has been liberalized since the last consultation with US\$190 million of imports in 1975 figures covered by licensing suspensions as of 24 October 1979, against US\$271 million as of 21 September 1978. The impact of the decision to limit imports by public entities in 1980 to 80 per cent of the 1979 ceiling is difficult to estimate with the information available to the secretariat. The 80 per cent limitation was calculated on the basis of the global 1979 ceiling not actual 1979 imports and it appears that in 1979 the public entities used only 75 per cent of the import ceiling. In this case the decision would have merely implied a ceiling on import growth, not a reduction of imports. The exclusion of imports for certain programmes in the areas of iron and steel, electric energy and petroleum from the 1980 ceiling would also need to be taken into account in evaluating its practical significance.

III. The main trends in Brazil's foreign trade since the last full consultation

6. Brazil's merchandise exports increased by 20 per cent in 1979, to a total value of \$15.2 billion. Exports of farm products (raw and processed), which still account for roughly one-half of total exports, have not progressed much in volume in recent years, due to the successive setbacks in agriculture. Their volume declined once more in 1979, and little growth was obtained in earnings, despite somewhat higher prices. Among mineral exports, there was a further expansion of iron ore exports which, due to both volume and price increases, were up 25 per cent, to \$1.3 billion. The share of manufactured exports in total exports rose to nearly 38 per cent in 1979.¹ Earnings from exports of machinery and transport equipment (primarily motor vehicles) were up by 26 per cent, reaching \$2.4 billion, while exports of semi-manufactures

¹According to the Brazilian classification, the share of "manufactures" (also including some processed food items) in total exports was 40.5 per cent in 1979.

increased by over one-half.¹ Brazil became in 1979 a net exporter of iron and steel, with exports of \$760 million and imports of \$470 million (only four years earlier net imports amounted to \$1.15 billion).²

7. In 1979, out of a total increment of \$4.7 billion in the c.i.f. value of imports (to \$19.7 billion), exactly one-half was due to increased imports of fuels, which reached \$7.3 billion. Food and chemical imports also expanded fast, together accounting for about one-third of the total increase. Imports of capital goods continued to lag behind other imports and rose by less than 10 per cent in value terms; in volume, these imports registered a small decline.

8. In January-July 1980, exports were valued at nearly \$11 billion and imports (f.o.b.) at some \$13.2 billion. Petroleum imports accounted for about 40 per cent of total imports and their c.i.f. value was equivalent to over one-half of the amount earned from exports. The value of imports of fuels and lubricants reached \$5.5 billion (c.i.f.) in the first six months of 1980, compared with \$2.9 billion in the same period of the preceding year.

¹According to the Brazilian classification, exports of "semi-manufactures" (also including sawn wood and vegetable oils) rose by 32 per cent in 1979.

²Under Chapter 73 of the Brazilian nomenclature (iron and steel and fabricated metal products), exports were \$325 million and imports \$466 million in 1979, while net imports in 1975 amounted to \$1.26 billion.