

GENERAL AGREEMENT ON TARIFFS AND TRADE

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AGRICULTURAL POLICY

Report of Committee II on the Consultation with Brazil on Agricultural Policies

1. In accordance with the Decision adopted by the CONTRACTING PARTIES at their fourteenth session that consultations should be held with the individual contracting parties regarding their agricultural policies, the Committee carried out the consultation with Brazil. The Committee had before it:

- (i) document COM.II/73 dated 18 May 1960 which contained a synopsis supplied by the Government of Brazil of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers;
- (ii) document COM.II/79 dated 27 May 1960 and document COM.II/79/Add.1 dated 27 May 1960 which contained detailed information also supplied by the Government of Brazil on commodities entering importantly into international trade.

In conducting the consultation the Committee followed the plan for consultations contained in Annex A to COM.II/5 and adopted by the CONTRACTING PARTIES at their fourteenth session. The consultation was completed on 28 May 1960.

A. General Agricultural Policies

2. The representative of Brazil commenced his opening statement by explaining that Brazil had an area of approximately 8.5 million square kilometers and a population of 65 million inhabitants which was increasing at a rate of about 2.5 per cent per annum.
3. Gross national income amounted to slightly over \$130 per capita. Whilst this figure was, in itself, unsatisfactory when compared to the per capita gross product of more developed countries, the rate of increase had been remarkable in that the index had risen, between 1948 and 1957, from 100 to 168.6. During the same period the real per capita income had increased from 100 to 136.4.
4. Agriculture continued to play a leading part in the Brazilian economy, its share representing 28 per cent of total national income. About 60 per cent of the total active population was engaged in agriculture, although the accelerated rate of industrial development has brought about a downward trend in the ratio of the agricultural compared with the overall population.

5. Agriculture accounted for 90 per cent of the total value of Brazilian exports in 1959, 60 per cent of which consisted of coffee; coffee exports were valued at \$733 million. These figures afforded sufficient evidence of the importance of agriculture in the general economy of the country. Brazil's ability to import the volume of equipment necessary to meet the growing needs of industrial development was directly dependent on exports of agricultural products.

6. An analysis of the progress achieved during recent years in the various sectors of the Brazilian economy revealed that agriculture had lost ground compared with other sectors of the economy. While the index of real income in the industrial sector had increased from 100 to 182 between 1948 and 1957, the rise for agriculture had been from 100 to 141. The situation appeared in a still more unfavourable light when it was remembered that the increase for agriculture was almost entirely accounted for by coffee, of which there was obvious over-production.

7. The representative of Brazil stressed that, despite the unfavourable position of agriculture at the present time, conditions in Brazil were on the whole favourable to agriculture and undoubtedly afforded good prospects for expansion. Agricultural holdings numbered 2,064,642, with a total area of 232 million hectares. The area of individual holdings varied greatly from region to region, but medium to large size holdings were the general rule. Holdings of less than 100 hectares numbered 711,000, representing 17 per cent of total area; those between 100 and 1,000 hectares were in the majority, making up 33 per cent of total area; there were also 31,000 holdings of between 1,000 and 10,000 hectares, or 31 per cent of the total, and 1,611 holdings of over 10,000 hectares, representing 19 per cent of the area. However, when dealing with a country of such a vast area and of such varying conditions as Brazil, average figures did not give a proper picture of the actual structure of Brazilian agriculture. The Amazon region, whilst covering 42 per cent of the country's total area, accounted for only 4 per cent of its population, while the north-eastern region, which was affected by periodical droughts, covered 18 per cent of the country's total area and accounted for 35 per cent of its population. The north-eastern region was the area where vegetable oils, such as oiticica, babassu and castor oil were produced. The area along the coast where rainfall conditions were favourable produced some of the most important crops from an economic standpoint, including sugar, cocoa, tobacco and cotton; but, economically speaking, the most significant part of the country was what might be termed the mid-southern region, which was the section where most of the coffee, sugar-cane, cotton, cereals and fruit were produced, and where livestock was important for the production of meat, milk products, wool etc. Agriculture in this region, which covered 40 per cent of the country's area and embraced 60 per cent of its active population, was technically the most advanced in Brazil. This was also the part of the country where the largest urban centres were located, and where, consequently, a change in the existing structure of agriculture to a more intensive pattern was needed to meet the high and growing demand for such items as vegetables, milk, fruit, eggs.

8. While the natural resources of the country were favourable, the standard of equipment and technical facilities in agriculture was still very low. The use of fertilizers was inadequate, so was the use of tractors, of which there were only 48,773 in operation in the entire country in 1958. The adoption of technical methods to improve crops and livestock had generally been slow. To offset this lack of progressive methods, farmers were constantly transferring to remote virgin or wooded areas where a higher yield could be obtained owing to the natural fertility of the soil. The recent transfer of the capital to the inland site of Brasilia and the building of new roads were expected to give a further impulse to this resettlement of farmers and to the opening up of new areas to agricultural production.

9. Among the main objectives of the Brazilian agricultural policy was increased production with a view to improving domestic food supplies and raising the volume of exports, both essential to the country's economic development. Such increased production was to cover some products which were hitherto imported, resulting in a heavy drain on foreign exchange. The Brazilian Government thus hoped to alleviate the critical balance-of-payments situation and to provide the steadily growing rural population with the means of turning the country's natural resources to more efficient use.

10. A second important objective was to improve the productivity of rural labour through increased use of fertilizers, of tractors and of sound farming methods and practices. The third main objective was to improve the social and economic conditions of farm labour through the establishment of reasonable standards in working contracts and land leases.

11. The Brazilian representative stated that to achieve these objectives the Brazilian Government had adopted a policy noteworthy for its liberal features, avoiding heavy-handed interventions in matters of production, prices and consumption of most products, the only exceptions being coffee, sugar-cane and wheat. While the rate of advance in the country's agricultural development had not been as fast as was desirable, the Brazilian Government could not afford to assist agriculture by the type of special support measures warranted by the circumstances, since the funds that would be needed could not be diverted from other sectors of the national economy which had not yet reached a stage of development which would permit such a transfer.

12. Members of the Committee expressed considerable interest in the influence of the exchange control system as a means of channelling trade and enquired whether there was likely to be any relaxation of the system during the next few years. The Brazilian representative informed the Committee that there had already been considerable changes in the system during recent years. At present there were only three products, coffee, cocoa and castor beans which were not traded on the free exchange market. A Committee member stated that he realized that, owing to the difficulties confronting exports of Brazilian coffee in other markets the policy of the Government was to discourage any expansion of coffee production. He asked whether the lower rate for cocoa beans and castor beans could be attributed to the wish of the Brazilian Government to promote exports of the finished products and to restrict the accessibility of competing countries to raw Brazilian cocoa beans and castor beans.

The Brazilian representative explained that due to the overall balance-of-payments difficulties it was essential for Brazil to expand exports. In the case of castor beans he explained that many countries permitted the free entry of castor beans but restricted importations of castor oil; Brazil had a large production capacity for castor oil. He expressed the view that Brazil, which produced this product, should also have the right to process it. He added that unless this situation of restricted markets, particularly in Europe, changed there would be few possibilities for altering the present system. The Committee member felt that such a policy denied countries with traditional oil-processing industries access to raw materials and so made the liberalization of imports of finished products in such countries rather difficult.

13. A member of the Committee asked whether the exchange control system was intended primarily as an instrument of agricultural policy or as an instrument to deal with the general economic situation of Brazil. The representative of Brazil stated that the system was designed to deal with the general economic situation. Agricultural producers were generally not in sympathy with the system since, for example, it was directed towards the discouragement of the further expansion of coffee by means of an exchange rate of 76 cruzeiros per dollar as compared with the free-market rate of 180 cruzeiros. The general trend in exchange rates was at present directed towards a free-market rate. For example, freight on the import or export of all products was now paid on a free-market rate basis.

14. A member of the Committee noted that the classification of commodities into different categories and the allocation of various foreign currencies in different ways, might give rise to discriminatory treatment of imports from different sources. He asked, therefore, whether there were any prospects for adopting alternative measures which would reduce the possibility of discrimination. The representative of Brazil explained that the number of categories had decreased considerably during the past few years. At present only two categories remained. The intention of the Government was to go as far as possible in the direction of the use of freely convertible currency. However, this did not depend entirely on Brazil which was bound by a number of bilateral trade and payments arrangements. He informed the Committee that the number of such bilateral arrangements had decreased considerably during recent years.

15. In response to a question the representative of Brazil stated that the tendency was to transfer commodities from the special category, which contained less essential articles, to the general category, which included raw materials, industrial machinery, popular consumer goods, etc. A member of the Committee pointed out that the maintenance of a large difference in the rates of exchange between the two categories created protection for the national production of commodities included in the special category. The representative of Brazil stressed that protection for domestic industry was achieved through the customs tariff and in general any exchange or import restrictions implemented were for balance-of-payments reasons. He stated, however, that the classification of products into categories was to ensure that the limited foreign exchange available was directed mainly to imports necessary for economic development. He assured the Committee that it was not the intention of the

Brazilian Government to protect domestic agriculture through exchange measures. In the opinion of a member of the Committee, however, the Brazilian exchange controls had protective effects which went beyond those incidental to measures for the protection of the balance of payments.

16. A member of the Committee was of the understanding that by fixing exchange rates at lower levels than the free rate there was a surplus for the Bank of Brazil. He enquired whether this amount was directed towards the promotion of domestic agriculture. The representative of Brazil stated that the difference was used by the Government to implement agricultural credits, to purchase coffee which could not be exported etc. Until 1957 Brazil had had a very low tariff; the exchange rates were then used as a substitute for the tariff. The present difference in the exchange rates was linked in the main with the important position of coffee as a source of revenue in the Brazilian economy.

17. A member of the Committee noted that the support of coffee prices was rather in conflict with the Government's policy of restricting coffee production. The representative of Brazil explained that the difference was employed by the Government to support coffee production, not with the object of obtaining higher prices, but in order to avoid difficult social situations.

18. The opinion was expressed by one member that under the exchange control system existing in Brazil there was discrimination against imports from countries with whom Brazil did not have bilateral agreements. Such a system encouraged importers to purchase from countries with bilateral agreements, even though prices might not necessarily be lower. He expressed the view that a global quota would on the whole, result in a saving of foreign exchange. The Brazilian representative agreed that there was a small difference between the exchange rate for free currency and for currency under bilateral agreements. This was not an objective, but a consequence of the system. In the past this difference had been as much as 50 per cent. The amount varied with the availability of foreign exchange which was dependent on the balance-of-payments situation but the maximum difference permitted at present was 15 per cent.

19. It was noted by a member of the Committee that wheat was imported at a favourable rate of exchange of 100 cruzeiros per United States dollar, whereas the rate on the free market was 180 cruzeiros. Since the Bank of Brazil, which imported the wheat, sold it to the mills at higher prices, it seemed that the exchange rate of 100 cruzeiros had no real significance. The representative of Brazil explained that the Government allocated ~~exchange~~ at "cost" price as a method of stimulating certain activities. The Government used the "cost" exchange rate to encourage industrialization by permitting imports at the favourable rate. At present the only agricultural commodity imported under the "cost" exchange rate was wheat. He emphasized that the lower exchange rate could not be other than favourable to foreign wheat exporters supplying the Brazilian market. On the other hand, the Government made sales to millers at higher than import prices, the difference being paid into a fund which was divided amongst domestic producers. The representative of Brazil went on to state that it was the Government's policy to develop wheat production. Brazil imported 1.5 million tons of wheat

annually and produced 400,000 tons. By means of the grant derived from the difference between the purchase price in cruzeiros at the "cost" rate and selling price in cruzeiros for imported wheat the producer was currently receiving a fixed price in cruzeiros similar to the price of wheat on the world market converted at the free rate. He stressed again that Brazil was aiming at one free exchange market and therefore the system of "cost" exchange would gradually be abolished.

20. It was noted by a member of the Committee that the system of guaranteed prices in Brazil worked through the purchase of products by the Government. The representative of Brazil explained that the minimum prices were usually set at a level much lower than current prices. It was rarely that the Government had had to implement the system. The mere presence of the system gave a degree of stability.

21. A member of the Committee noted that the Brazilian agricultural policy aimed at increasing agricultural production to meet domestic needs; to achieve this production a free market was permitted to operate so as to provide incentive. He noted also, however, that certain retail prices were controlled in an effort to keep prices to consumers low. The representative for Brazil recalled the serious inflation experienced by Brazil in recent years. Based on a general price index of 100 in 1948, prices reached 550 in 1959. The consumers therefore had exerted considerable pressure on the Government to fix certain prices. The Government had attempted to balance the needs of both consumer and producer through the Federal Commission of Food Supply and Prices. The Federal Commission has, for example, fixed prices to producers for live cattle; on the basis of these prices, fixed retail prices for meat had been established.

22. A Committee member referred to one of the functions of the Federal Commission of Food Supply and Prices which was stated to establish prices for products which, due to specific conditions of marketing, were easily controlled; for example, imported foodstuffs. The representative of Brazil advised the Committee that nuts, figs, etc., sometimes imported during festive seasons, and codfish, had been the only imported goods included in this category for some time. He emphasized that there were no controls on the prices paid for these imports, the control being placed only on the margin of profit earned by the importer.

23. It was noted by a member of the Committee that minimum prices were stated to have been established at low levels not with the objective of raising prices, but only to avoid drastic drops in prices in years of good harvest. He enquired how the fixed prices were determined. The Brazilian representative stated that it had been the practice to consider the cost of production as a basis on which the minimum prices were determined. However, in view of accelerated inflation and of the difficulty of determining costs, it was the policy to use world prices as a guide and to fix minimum prices at a somewhat lower level than normal market prices.

24. In response to a question on the fixed price for sugar, the Brazilian representative explained that conditions were extremely favourable for the production of sugar in Brazil. He pointed out, however, that in the first few years sugar production required considerable investment which was not easily obtainable; the Government, therefore, had decided on the policy of a fixed incentive price. Production had been stimulated to the point where it could compete on world markets without any measures of support. Under the International Sugar Agreement Brazil had a quota of 550,000 tons per year, but the situation at present was that Brazil had a considerable surplus of sugar and was required to discourage further production. The fixed price for sugar had been established to assist an infant industry. The price had been set on the basis of a number of factors, including cost of production, expected market conditions, etc. He emphasized that many of the difficulties facing Brazil's sugar and other commodity exports, were a direct result of restrictions on world trade. He stressed that if trade in these products was further liberalized, Brazil's import capacity would certainly improve.

25. Members of the Committee expressed the view that a high priority should be given to diversification of production in Brazil where such a great dependence existed at present on exports of coffee. They enquired about the measures being taken by the Government to achieve diversification. The representative of Brazil agreed that diversification was very necessary for Brazil. He explained that Brazil was a country with diverse conditions in climate, soil, etc., and with very large and prosperous urban centres which demanded high quality products. Agricultural prices were high, but were necessarily so in order to encourage production away from the traditional products such as coffee, cotton, etc. A member asked which products were expected to increase or decrease in demand to an extent which would affect imports and exports. The Brazilian representative stated that in his opinion wheat production would increase; Southern Brazil had natural grasslands with rich soil which held great promise for increased wheat production. Soya bean and sugar production had also been developed and the natural conditions for further expansion were exceptionally good in the case of sugar. Cattle could be raised under favourable conditions and he felt that cattle could be an important item in production and possibly in trade. Fairly good conditions also existed for cotton and corn, although because of the lack of mechanization it was not expected that Brazil would enter the world market for corn. Increased production possibilities also existed for such tropical products as peanuts, castor oil and rubber. He emphasized, however, that coffee was the product for which Brazil had the most favourable natural conditions.

26. It was observed by a member of the Committee that the imports of wheat were controlled by the Government, which also determined the amount to be imported. He enquired whether the Government also determined the source of wheat imports. The representative of Brazil pointed out that there were in fact no quantitative restrictions on imports of wheat. The Government imported the full amount necessary to cover internal demand. The Government received offers from different countries and decided where to purchase on the basis of these offers, on the foreign exchange available and on the supply situation in Argentina with which Brazil had a bilateral agreement on wheat.

B. Commodities

Milk and Dairy Products

27. It appeared to a member of the Committee that the consumption of dairy products was at a very low rate in Brazil. Domestic production of milk was low and imports were few. He felt that the inclusion of dairy products and other agricultural products amongst the commodities which had a higher exchange rate had a very limiting effect on imports and consumption of dairy products. The representative of Brazil explained that milk products were placed on the special category with a higher exchange rate because Brazil's domestic production was sufficient to cover domestic demand. Moreover, Brazilians were not large consumers of these products.

28. A member of the Committee observed that tariff rates on agricultural products were such as to offer a very high degree of protection to domestic agricultural producers. He asked why, in view of the high tariff, further protection by means of exchange rates was considered necessary. The Brazilian representative agreed that the Brazilian tariff was high, which he explained, was a general consequence of the system maintained by Brazil prior to 1957 when the tariff, which was an average of only 7 per cent, had proved to be inadequate. Up to 1958 part of the exchange rate had taken the place of the tariff. This portion of the exchange rate had been incorporated into a new tariff as part of the policy of the Government to move in the direction of a single rate of exchange.

29. In response to a question regarding the treatment which would be accorded imports of powdered milk and butter from countries such as New Zealand, the representative of Brazil stated that imports from such countries would receive the same general treatment as that accorded to other countries.

Cereals

30. A member of the Committee noted that domestic production of maize in Brazil had increased quite substantially in recent years. He enquired whether maize production was expected to increase to an extent which would make Brazil become a significant exporter. The representative of Brazil explained that in areas being newly opened up to agriculture, maize was an important crop. With the planting of coffee, for example, it was customary in many areas to also plant maize. The fall in the fertility of the soil in the older developed areas caused a fall in the production of maize. In these areas the land was often converted to pasture since Brazil did not have sufficient quantities of fertilizers or the mechanized means for profitable production once soil fertility had fallen. He stressed that he did not see great possibility therefore for an important development of exports. In response to a further question on maize, the representative of Brazil informed the Committee that there were no special arrangements with any country regarding maize imports.

Sugar

31. In response to a question by a member of the Committee regarding the per capita consumption of sugar, the Brazilian representative stated that in addition to the 35 kgs. per person per annum consumed from sugar factory production, there were also quantities produced by many small farmers which should be taken into consideration.

Fruits

32. A member of the Committee was of the understanding that the tariff on prunes and raisins, which was stated to be 60 per cent, had been the subject of negotiation, as a result of which the Brazilian Government had undertaken to reduce the tariff to 40 per cent. The representative of Brazil confirmed that the tariff on raisins had been reduced to 40 per cent as a result of negotiations in 1957 and that this item was expected to receive the final approval of the Brazilian Congress in the very near future. Due to further negotiations held¹ in 1959 a similar reduction was expected to take place in the tariff on prunes.¹

¹ When the report was approved in October 1960, the Committee noted that the reduced rate of 40 per cent on raisins and prunes had received the final approval of the Brazilian Congress.