

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

RESTRICTED

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Notifications Pursuant to Article XVI:1

BRAZIL

The following communication has been received from the Permanent Representative of Brazil.

On instructions from my Government, I have the honour to submit herewith, with reference to GATT document L/5102, of 26 January 1981, the Brazilian notification pursuant to Article XVI of the General Agreement on Tariffs and Trade, of the subsidies which Brazil currently maintains and which are in full accordance with the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement.

INTRODUCTION

This notification covers benefits generally available to exporters of industrialized products in Brazil.

These benefits are made available in response to development, financial and trade needs. They constitute a means of partially compensating structural problems facing a developing contracting party which is a latecomer to the international market of industrialized products.

A. "IPI CREDIT PREMIUM AUTHORITY"

The IPI credit premium is a credit related to exports of industrialized products. The original authority under which the program was implemented was Decree-Law 491 of 5 March, 1969. The program is administered by the Ministry of Finance.

The IPI credit premium is being phased out in accordance with Brazil's declaration of accession to the subsidies code as modified by document SCM/38, and is scheduled to be reduced to zero on 30 April, 1985, as set out in Portaria 252 of 29 November, 1982.

Incidence

Such credits benefit the exporter and applies to the adjusted FOB invoice price of the exported goods. Several deductions

are made to the FOB price in order to obtain the adjusted price upon which the IPI credit is to be granted:

- (a) any agent commission paid by the exporter on the transaction being considered
- (b) any rebates or refunds given by the exporter for reasons of quality deficiency or damages during transit
- (c) any contractual penalties incurred by the exporter with respect to the transaction being considered (such as liquidated damage clauses in export contracts)
- (d) the value of imported inputs which exceed twenty five percent of the FOB value of the product

The above deductions significantly reduce the effective value of the benefit.

The exporter must submit an application on a transaction-by-transaction basis and provide the relevant documentation. After administrative procedures are satisfied and the export value and deductions verified, the IPI credit is granted. At present the nominal rate is eleven percent of the adjusted FOB invoice value.

Amount

The credits granted in the year of 1982 amounted to cruzeiros 188.872 million.

Estimated amount of benefit per unit

An amount of benefit per unit exported cannot be

estimated. The benefit varies from product to product and, in fact, from export transaction to export transaction in accordance with the deductions discussed above. The nominal rate of eleven percent and a non adjusted export price do not bear a direct relation to the benefit to be received under this program.

B. INCOME TAX EXEMPTION

Enterprises that export may benefit from an income tax exemption created by Decree-Law 1158 of 1971. The benefits of this program have been extended until 31 December, 1985 by Decree Law 1721 of 1979.

Incidence

The utilization of this benefit is only realised if the enterprise has both an operational profit and a taxable profit. The tax exemption varies in accordance with the proportion of export sales in relation to total sales of the enterprise. The benefit is not received until the tax return is submitted and taxes paid.

As noted above, this tax exemption applies only to enterprises with operational profits and taxable profits. In such case the exemption reduces the total income tax to be paid and, therefore, constitutes a savings to the general account of the

recipient company. It is important to note that total taxable profits (export and domestic) benefit from this program to the same degree. This dilutes any possible direct price impact on exports. Furthermore, the benefit to the enterprise is not received until long after the exports generated the benefit. Consequently the actual price impact on the exported products is questionable.

Amount

Total tax exemption under this program amounted to cruzeiros 53.146 million in 1981.

Estimated amount of benefit per unit

It is not feasible to estimate the amount of benefit under this program per unit exported.

C. WORKING CAPITAL FINANCING FOR EXPORTS AUTHORITY

Working capital financing for production of exported products was originally provided in accordance with Central Bank resolution 71, of 1970 and its amendments. The legislation now in force is Central Bank resolution 674, of 22 January 1981.

Incidence

Under this program working capital financing is provided

based upon a percentage of the value of the previous year net exports of the applicant. The maximum applicable percentage varies from 12 to 40 percent of the net value of export sales of the company.

Applications are submitted to CACEX, the Foreign Trade Department of Banco do Brasil S. A. The net value of a company's exports in the previous year is arrived at after several deductions from the export sales value, such as:

- (a) commissions to foreign agents, representatives, and the like
- (b) payments for contractual penalties, refunds, or return of goods
- (c) exports paid for in cruzeiros
- (d) re-exports of imported goods
- (e) goods shipped for display in trade fairs and exhibitions
- (f) exports without foreign currency coverage
- (g) imported inputs with an FOB value over twenty percent of the exported product
- (h) imports by exporting companies, directly or through a trading company, on the following basis:
 - (1) for companies showing a trade surplus, ten percent of the FOB value of imports
 - (2) for companies showing a trade deficit, ten percent of the FOB value of imports, plus the following percentages of the company's trade deficit:

- over 100 percent of the export sales value ... 60 percent
- from 70 to 99 percent 50 percent
- from 40 to 69 percent 40 percent
- from 20 to 39 percent 25 percent
- from 1 to 19 percent 10 percent

Interest rates on such financing have varied from time to time. Since 1979 interest rates have changed from 8 percent per annum, to 2 percent per annum plus monetary correction, to the present rate of 40 percent per annum under resolution 674. Loans are not permitted to be rolled over, have a maximum duration of twelve months, and interest is payable at the end of six months and at the expiration date of the loan. The program provides exporters with working capital at terms slightly more favourable than the discount rate generally available in the market.

Amount

Total amount of resolution 674 financing was cruzeiros 471,3 billion in 1982.

Estimated amount of benefit per unit

An amount of benefit per unit exported cannot be estimated.