

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

RESTRICTED

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Notifications Pursuant to Article XVI:1

BRAZIL

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

On the instructions of my Government, I have the honour to submit herewith 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 1st May 1985, as set out in Portaria MF nº 176 of 12 September 1984.

Incidence

Such credits benefit the exporter and apply 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;
- (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 (November 1984), the nominal rate is nine percent of the adjusted FOB invoice value.

Amount

The credits granted in the year of 1983 amounted to cruzeiros 523.305,638 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 referred to above. The nominal rate and 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 possible when 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 statement of taxable income 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 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

The total amount of tax exemption granted in 1983 under this program will be provided later.

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 resolutions 882, of 21 December 1983, and 950 of 21 August 1984.

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 5 to 30 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 are made from the value of export sales:

- (a) commissions to foreign agents and representatives;
- (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, such as donation, technical assistance, replacement of damaged parts, samples;
- (g) inputs imported under special custom regimes and incorporated into the exported products;
- (h) exports falling within the provisions of Central Bank resolutions nº 643, of 22 October 1980, and nº 883, of 21 December 1983.

Interest rates on such financing have varied under the various Central Bank resolutions. At present, the Foreign Trade Department of Banco do Brasil S.A. (CACEX) makes uniform at 10 percent the market interest rate to be paid by the exporter benefiting from this program. Loans are not permitted to be rolled over, have a maximum duration of 12 months, and interest is payable at the end of 6 months and at the expiration of the loan.

Amount

Financing granted under this program amounted to cruzeiros 781.817 million in 1983.

Estimated amount of benefit per unit

An amount of benefit per unit exported cannot be estimated.