



SUBSIDIES

NEW AND FULL NOTIFICATION PURSUANT TO ARTICLE XVI:1 OF THE GATT 1994 AND ARTICLE 25 OF THE AGREEMENT ON SUBSIDIES AND COUNTERVAILING MEASURES

BRAZIL

The following communication, dated and received on 30 June 2021, is being circulated at the request of the delegation of Brazil.

The following notification constitutes Brazil's subsidies notification for the fiscal years 2019 and 2020.

This notification does not prejudice the nature or legal status of the programmes herein under GATT 1994 and Articles 1 and 2 of the Agreement on Subsidies and Countervailing Measures (ASCM). Data may reflect approximations, estimates or preliminary information. Technical or legal inaccuracies may have been inadvertently introduced in the text in the attempt to make the description of the programmes sufficiently illustrative, but also straightforward and concise. For transparency purposes, Brazil may have included certain programmes that arguably are not specific within the meaning of the ASCM and/or are not covered by that Agreement.

Table of Contents

1 INDUSTRIAL INCENTIVES	2
1.1 Capacity Building and Competitiveness Enhancement in Information and Communication Technology	2
1.2 Productive Development Policy	3
1.3 Rota 2030 Programme – Mobility and Logistics.....	4
1.4 Reporto - Tax Regime to Encourage Modernization and Expansion of Port Structure.....	5
2 REGIONAL INCENTIVES.....	6
2.1 Amazon Development Authority and Northeast Region Development Authority.....	6
2.2 Regional Development and Promotion of R&D and Technological Innovation Programme	8
3 FISHERIES INCENTIVES	9
3.1 Diesel Oil Price Equalization Scheme	9
3.2 Programme for Vessel Fleet Enlargement and Modernization	10

1 INDUSTRIAL INCENTIVES

1.1 Capacity Building and Competitiveness Enhancement in Information and Communication Technology

1. Title of the programme

Capacity building and competitiveness enhancement in Information and Communication Technology and related fields.

2. Period covered by the notification

From January 2019 to December 2020.

3. Policy objective and/or purpose

To encourage manufacturers of information and communication technology goods to invest in research and development activities (R&D), create new products and improve the country's competitiveness.

4. Legislation and authority

Law 8248/91, as amended by Law 10.176/01, by Law 11077/04, by Law 13674/18 and by Law 13969/19.

Within their respective area of responsibility, the Ministry of Economy and the Ministry of Science, Technology and Innovation manage the provision of incentives such as financial credit proportional to the investment in R&D carried out by the company and the follow up offered to the counterparts, such as research and execution of development programmes.

5. Form of subsidy

Qualifying companies will be granted an amount of financial credits calculated on determined investments made in research, development, and innovation activities. To qualify for this programme, companies must invest at least 4% of their turnover from product sales (after deduction of other indirect taxes) in research, development and innovation activities and they must carry out business in Brazil according to a pre-approved plan.

6. To whom and how the subsidy is provided

Industrial manufacturers of information and communication technology goods, by the means of financial credits provided by the Federal Government.

7. Total amount

Fiscal Year 2019: R\$ 5,836.72 million;
Fiscal Year 2020: R\$ 5,500.00 million.*

*Estimated value.

8. Duration

The programme will be phased out by 2029.

9. Trade effects

N.A.

1.2 Productive Development Policy

1. Title of Programme

Productive Development Policy

2. Period covered by the notification

From January 2019 to December 2020.

3. Policy objective and/or purpose

Support for shipbuilding, vessels maintenance and aircraft maintenance industries.

4. Legislation and authority

Law 8.032/90, art. 2º, II, "j"; Law 8.402/92, art. 1., IV; Law 9.432/97, art. 11; Law 11.774/08, art. 15; MP 2.158-35/01, art. 14, VI and § 1; Law 10.865/04, art. 8, § 12, I, VI and VII, art. 28, IV and X.

The Ministry of Economy is responsible for the inspection of the tax incentives and the Ministry of Defense is responsible for the Brazilian Special Register (REB).

5. Form of subsidy

- a. Exemption of tax levied on the importation of parts and components intended for repair, overhaul and maintenance of vessels and aircraft. Exemption of Import Tax - II and IPI levied on the importation of parts and components intended for employment in the construction, conservation, modernization, conversion or repair of vessels registered in the REB, provided that they are carried out in Brazilian shipyards.
- b. Exemption of the contribution for the PIS/Pasep and Cofins on the revenue obtained by Brazilian shipyards in the activities of construction, conservation, modernization, conversion or repair of vessels pre-registered or registered in the REB. Reduction to zero of the rates of contribution to the contribution for the PIS/Pasep and Cofins levied on the gross revenue from sales in the domestic market or the importation of materials and equipment, parts and components, employed in the construction, maintenance, modernization and conversion of vessels registered or pre-registered in the REB.

Reduction to zero of the contribution for the PIS/Pasep and Cofins tax rates on the sale or importation of aircraft classified under heading 88.02 of Tipi, its parts, tools, components, supplies, hydraulic fluids, paints, anti-corrosives, lubricants, equipment, services and raw materials to be used in the maintenance, conservation, modernization, repair, overhaul, conversion and industrialization of aircraft, their engines, parts, components, tools and equipment.

6. To whom and how the subsidy is provided

Exemptions of II and IPI of item 5 (a) are directed to national shipyards, airlines and aeronautical maintenance enterprises.

The exemption and reduction of indirect taxes referring to the contribution for the PIS/Pasep and Cofins mentioned in 5(b) is granted to shipyards that execute the activities of building, conservation, modernization, conversion or repair of vessels registered in the REB.

The reduction to zero of the contribution for the PIS/Pasep and Cofins rates of item 5 (b) is objective and applies to acquisitions and imports of the goods mentioned.

7. Total amount*

Fiscal year 2019: R\$ 3,553.08 million;
Fiscal year 2020: R\$ 3,621.10 million.

*Estimated values.

8. Duration

There is no pre-established time limit for the programme's termination.

9. Trade effects

N.A.

1.3 Rota 2030 Programme – Mobility and Logistics1. Title of programme

Rota 2030 Programme - Mobility and Logistics.

2. Period covered by the notification

From January 2019 to December 2020.

3. Policy objective and/or purpose

To foster the technological development of the domestic automotive industry, including with regard to energy efficiency and environmental sustainability, by creating incentives for R&D activities nationally.

4. Legislation and authority

Law 13,755/18.

The Ministry of Economy is responsible for formulating, managing and monitoring the Rota 2030 Programme. Some responsibilities are shared with other Ministries and federal agencies, such as the Ministry of Science, Technology and Innovations, the National Institute of Metrology, Quality and Technology - INMETRO, the Brazilian Institute of Environment and Renewable Natural Resources - IBAMA, among others.

5. Form of subsidy

Fiscal incentives based on the volume of R&D expenditures made in Brazil.

6. To whom and how the subsidy is provided

The subsidy is directed to companies that manufacture vehicles and their parts and pieces and is granted by the means of a reduction in the calculation basis of the Corporate Income Tax (IRPJ) and the Social Contribution on Net Profit (CSLL).

7. Total amount*

Fiscal Year 2019: R\$ 255,852,403.46;
Fiscal Year 2020: R\$ 244,671,653.43.

*Estimated values.

8. Duration

From December 2018 to December 2023.

9. Trade effects

N.A.

1.4 Reporto - Tax Regime to Encourage Modernization and Expansion of Port Structure

1. Title of Programme

Reporto.

2. Period covered by the notification

From January 2019 to December 2020.

3. Policy objective and/or purpose

Modernization and expansion of port structure.

4. Legislation and authority

Law 11.033/04, arts. 13 to 15 and Decree 6.582/08.

The Ministry of Economy is responsible for the inspection of the tax incentives.

5. Form of subsidy

Suspension and subsequent exemption of II, IPI and the contribution for the PIS/Pasep and Cofins on imports, and of IPI and the contribution for the PIS/Pasep and Cofins on domestic purchases of machinery, equipment, spare parts and other goods imported by Reporto beneficiaries and destined to their fixed assets for exclusive use in the execution of the following services: loading, unloading, storage and handling of goods and products; supplementary operational support systems; environmental protection; security systems and monitoring of the flow of people, goods, products, vehicles and vessels; dredging; and training of workers, including the implementation of Professional Training Centers.

6. To whom and how the subsidy is provided

Beneficiaries of Reporto are the port operator, the port concessionaire, the tenant of a public port facility and the company authorized to operate a mixed or exclusive private port facility, including those operating with offshore vessels, railroad concessionaries, dredging companies, secondary zone customs office and Professional Training Centers.

7. Total amount*

Fiscal Year 2019: R\$ 184,966,686;

Fiscal Year 2020: R\$ 188,087,048.

*Estimated values.

8. Duration

Expired on 31 December 2020.

9. Trade effects

N.A.

2 REGIONAL INCENTIVES

2.1 Amazon Development Authority and Northeast Region Development Authority

1. Title of programme

Amazon Development Authority (SUDAM) and Northeast Region Development Authority (SUDENE).

2. Period covered by the notification

From January 2019 to December 2020.

3. Policy objective and/or purpose

SUDAM and SUDENE programmes provide assistance to the economically disadvantaged Amazon and Northeast regions (this latter includes the Northern regions of the States of Espírito Santo and Minas Gerais), by means of income tax reductions.

The purpose of SUDAM and SUDENE is to reduce economic and social imbalances between the Brazilian regions by means of compensatory mechanisms for the sustainable development and competitive integration in the national economy of the North and Northeast Regions.¹

The area covered by SUDAM is denominated "Legal Amazonia", or the Amazon Region, encompassing the States of Acre, Amapá, Amazonas, Mato Grosso, Pará, Rondônia, Roraima, Tocantins, and part of the State of Maranhão. The Amazon Region is an area of continental dimensions covering 5,046,143 square kilometers and corresponding to 59% of Brazil's territory and approximately 70% of the so-called Pan-Amazon or Continental Amazon, which has a population of approximately 22 million inhabitants heavily concentrated in urban areas and scattered widely across a vast rural area.

4. Legislation and authority

SUDAM was established by Law 5174/66. SUDENE was established by Law 3692/59. Provisional Measures 2156-5 and 2157-5, of August 2001, extinguished both authorities and the programmes they administered. The same Provisional Measures replaced those authorities by "Agência do Desenvolvimento da Amazônia" (ADA) and "Agência do Desenvolvimento do Nordeste" (ADENE). On 3 January 2007, ADA and ADENE were extinguished by Supplementary Laws 124/07 and 125/07, respectively, being replaced by SUDAM and SUDENE. The changes introduced by Supplementary Laws 124/07 and 125/07 relate mainly to the legal structure and legal nature of those authorities.

Both programmes are under the responsibility of SUDAM and SUDENE, as established by Supplementary Law 124/07 and Supplementary Law 125/07. Law 9532/97 regulates the tax exemptions and reductions. Provisional Measure 2199/01, as amended by Law 11196/05 and by Law 13799/19, is the most recent regulation on the matter.

¹ The Constitution of Brazil, in its article 3, item III of Title I, regarding the Fundamental Principles, considers that "the fundamental objectives of the Federative Republic of Brazil are to eradicate poverty and substandard living conditions and to reduce social and regional inequalities". In Section IV (article 43, paragraph 2, item III) of Chapter VII, Title III, which refers to the Organization of the State considers that "theregional incentives shall include, among others, as prescribed by law, exemptions, reductions or temporary deferment of federal taxes owed by individuals or by legal entities". In article 151, item I, Section II of Title VI, regarding Taxation and Budget considers that "it is forbidden for the Union: to institute a tax which is not uniform throughout the entire national territory (...), it being allowed to grant tax incentives for the purposes of promoting the balanced social and economic development of the various regions of the country". In article 165, paragraphs 6 and 7, Section II of Chapter II, Public Finances, of the previous Title, considers that "the budget bill shall be accompanied by a regionalized statement on the effect on revenues and expenses, deriving from exemptions, forgiveness, remissions, subsidies and benefits of a financial, tributary and credit nature (Â§ 6). The budget set forth (...) in consistance with the pluriannual plan, shall include the functions of reducing interregional inequalities, according to population criteria (Â§ 7)".

5. Form of subsidy

Income tax reductions.²

6. To whom and how the subsidy is provided

The program is directed to industrial and agricultural enterprises with undertakings in the Amazon Region, the Northeast Region and the Northern region of the States of Espírito Santo and Minas Gerais.

The incentives administered by SUDAM and SUDENE are directed to the legal entities that apply for the implementation, modernization, expansion, or diversification of enterprises, registered and approved until 12/31/2023, with a 75% (seventy-five percent) reduction or exemption of the Corporate Income Tax (IRPJ), including non-refundable additional, for a period of 10 (ten) years, as well as the reduction of the reinvestment of 30% of the IRPJ, by the means of a deposit made on the same date as the collection of the IRPJ, at Banco do Nordeste S.A. and Banco Amazônia S.A. branches.

These resources may be used by the companies operating in the regions of operation of SUDAM and SUDENE for modernization, implementation, expansion and diversification of their production lines.

Exclusively for the right to exemption from the IRPJ, the activities of the enterprise shall be limited to the manufacturing of machines, equipment, instruments, and devices, based on digital technology, in the context of the Federal Government's digital inclusion program.

The production unit that is the object of the incentive must be located and operating in the SUDAM or SUDENE area. The activities of the enterprise object of the incentive must belong to the sectors of the economy considered priorities for regional development, as defined in specific legislation.

The legal entity that owns the enterprise must opt for taxation based on the real profit.

7. Total amount*

SUDAM:

Fiscal year 2019: R\$ 4,256.58 million;

Fiscal year 2020: R\$ 4,214.96 million.

SUDENE:

Fiscal year 2019: R\$ 6,359.77 million;

Fiscal year 2020: R\$ 6,482.30 million.

*Estimated values

8. Duration

Companies are allowed to submit projects until 31 December 2023. The income tax reduction is terminated after 10 years from the date on which the industry started its operation.

9. Trade effects

N.A.

² Companies which submitted the project until 14 November 1997 and which were granted income tax exemption will be entitled to such exemption until the date specified in the act of concession.

2.2 Regional Development and Promotion of R&D and Technological Innovation Programme

1. Title of programme

Regional Development and Promotion of Research and Development and Technological Innovation Programme.

2. Period covered by the notification

From January 2019 to December 2020.

3. Policy objective and/or purpose

To reduce economic and social imbalances between Brazilian regions by means of compensatory mechanisms for the development of the North, Northeast and Midwest regions and to promote investment in research, development and technological innovation in the North, Northeast and Midwest regions. For the purpose of the programme, the Midwest region does not comprise the Federal District.

4. Legislation and authority

Law 9.826/1999, amended by Law 12.973/2014 and by Law 14.076/20, and Law 9.440/97, amended by Laws 12.407/11 and 13.755/2018.

The Ministry of Economy is responsible for determining the requirements for the submission and approval of projects and for the evaluation, approval and monitoring of the programme. The Ministry of Science, Technology and Innovation is responsible for verifying the proof of investment in research and development and technological innovation in the regions covered by the programme.

5. Form of subsidy

Tax reduction.

6. To whom and how the subsidy is provided

Under Law 9.826/99, industrial enterprises in the North, Northeast and Midwest regions are entitled to a reduction of 32% of IPI levied on sales of products classified under codes 8702 to 8704 of the Table of Incidence of IPI. The reduction is applied on products produced in the domestic market or directly imported.

Under Law 9.440/97, industrial enterprises in the North, Northeast and Midwest regions are entitled to IPI reduction. Companies shall invest, at least, 10% of the value corresponding to IPI reduction in research and development and technological innovation in the regions covered by the programme.

7. Total amount*

Fiscal Year 2019: R\$ 4,553.11 million;
Fiscal Year 2020: R\$ 3,516.87 million.

*Estimated values

8. Duration

Expiration is scheduled for December 2025.

9. Trade effects

N.A.

3 FISHERIES INCENTIVES

3.1 Diesel Oil Price Equalization Scheme

1. Title of programme

Programme for Economic Subvention to the Price of Diesel Oil Used by Fishing Vessels.

2. Period covered by the notification

From January 2019 to December 2020.

3. Policy objective and/or purpose

The main objective of the programme is to equalize the domestic price of maritime diesel paid by fishing companies or fishermen with the international market price.

4. Legislation and authority

The programme was established by Law No. 9.445/97 and regulated by Decree No. 7.077/10. Law 13.844/19 establishes that the Ministry of Agriculture, Livestock and Food Supply is responsible for operationalizing the concession of the subvention, which, according to Decree 10.253/20, is accomplished by its Secretariat of Aquaculture and Fisheries.

In order to qualify for the equalization scheme, the fishing companies or fishermen must comply with administrative procedures set by regulation of the Ministry of Agriculture, Livestock and Food Supply, which take into account vessel control and other administrative issues.

5. Form of subsidy

Reimbursement of the difference between the price of maritime diesel in Brazil and that of international markets. This equalization payment, however, is limited to 25% of the price of maritime diesel at the refinery level.

6. To whom and how the subsidy is provided

Recipients are fishing vessel owners or charters (natural or legal persons); professional fishermen and fishing industries.

In operational terms, the recipients pay the regular national price of maritime diesel (with the tax exemption of the ICMS), and, subsequently, the Ministry of Agriculture, Livestock and Food Supply reimburses to the recipients the difference between the price paid and the international market price, up to the limit of 25% of the maritime diesel price at the refinery level.

At the end of each fiscal year, a public regulation issued by the Ministry of Agriculture, Livestock and Food Supply establishes the recipients (company, cooperative, association or fishermen), by State level (regional), and the maximum amount of the reimbursement that will be available in the following year for each of them.

7. Total amount

Fiscal Year 2019: R\$ 0;
Fiscal Year 2020: R\$ 120,137.49.

8. Duration

Not defined.

9. Trade effects

N.A.

3.2 Programme for Vessel Fleet Enlargement and Modernization

1. Title of programme

National Programme for Financing the Enlargement and Modernization of the National Fishing Fleet – PROFROTA Pesqueira.

2. Period covered by the notification

From January 2019 to December 2020.

3. Policy objective and/or purpose

Construction, acquisition and improvements of fishing vessels in order to enhance the ocean fishing fleet, taking into consideration environmental criteria of sustainability (including management of fishing activities).

Replacement of coastal and continental fleet fishing vessels with the objective of renewing them, taking into consideration environmental criteria of sustainability (including management of fishing effort).

Modernization, conversion, equipping and adaptation of fishing vessels to enhance the management control on fishing activities, taking into consideration environmental criteria of sustainability.

4. Legislation and authority

The programme was established by Law No. 10.849/04 and regulated by Decree No. 5.474/05 and Decree No. 6.746/09.

The Ministry of Agriculture, Livestock and Food Supply, through its Secretariat of Aquaculture and Fisheries, is responsible for the administration of the programme. In order to participate in this Programme, the recipients must comply with administrative procedures set by regulation of the Ministry of Agriculture, Livestock and Food Supply. This Ministry conducts the technical assessment of the projects.

The program is financed with resources from the Merchant Marine Fund - FMM and the Constitutional Funds for Financing the North - FNO and the Northeast - FNE. The FMM is subordinated to the Ministry of Infrastructure, the FNO to the Banco da Amazônia and the FNE is linked to Banco do Nordeste.

5. Form of subsidy

A "non-default" bonus ("paid-on time" installment performance bonus) calculated on the interest due of the financed amount, taking into consideration environmental, social and targeted species stimulus issues.

This performance bonus can be granted to the loan taker, in a non-cumulative way, to be calculated only on the interest amount of the loan. It is only granted when the installment of the loan is paid on time and taking into consideration sustainability criteria and improvements in the working conditions for the workers in the vessel.

The bonuses can be of 5%, 20% and 30%.

6. To whom and how the subsidy is provided

Recipients are fishing vessel owners or charters (natural or legal persons); professional fishermen and fishing industries; industrial fishing companies (natural or legal persons and cooperatives dedicated to fishing activities).

The bonus is granted only when the installment of the loan is paid on time and sustainability criteria and improvements in the working conditions for the workers in the vessel are met. In operational terms, it generates a discount in the interest payment to be made on that installment.

7. Total amount

Fiscal Year 2019: R\$ 0.00;

Fiscal Year 2020: R\$ 0.00.

8. Duration

Not defined.

9. Trade effects

N.A.
