REPORT ON THE 1987 CONSULTATION WITH BRAZIL

1. The Committee consulted with Brazil on 25 November 1987, in accordance with its terms of reference, pursuant to Article XVIII:12(b) of the General Agreement and the Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments Purposes (BISD 265/205). The consultation was held under the Chairmanship of Ambassador P.-L. Girard (Switzerland). The International Monetary Fund was invited to participate in the consultation in accordance with Article XV of the General Agreement.

2. The Committee had the following documents before it:

Basic document by Brazil BOP/279
Secretariat Background paper BOP/W/114
Notifications by Brazil L/5555, 6126 and Corr.1, 6233, 6235 and 6236
International Monetary Fund, "Recent Economic Developments" dated 20 August 1987

Opening statement by the representative of Brazil

3. The representative of Brazil stated that, faced with a severe deterioration in its balance-of-payments situation, Brazil had taken measures between the end of 1986 and the beginning of 1987 that included changes in domestic policies, partial suspension of foreign payments and an increase in import restrictions. As a result, Brazil had agreed to the Committee's request to hold full consultations and indicated its wish that the Committee consider the means by which other contracting parties should contribute to alleviating Brazil's balance-of-payments problems in the light of relevant GATT provisions, particularly paragraph 12 of the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes.

4. Brazil's balance-of-payments situation today was similar in many respects to the situation at the time of the last full consultation. The external position had deteriorated seriously, reserves had fallen to dangerously low levels and the trade account was increasingly vulnerable. Economic uncertainties compounded by growing protectionism were creating serious obstacles to exports and jeopardizing plans for sustained economic development.
5. In 1982 exports had been approximately 15 per cent less than in 1980; in 1986 they were approximately 17 per cent lower than in 1984. While imports had decreased sharply in 1983, in 1986 they grew by about 7 per cent in relation to 1985. Imports of goods other than oil and its by-products grew by 48 per cent. The current account deficit recorded in 1986 was even larger than that recorded in 1983. The contraction of world financial resources had already in 1983 imposed severe constraints on Brazil's efforts to internally reorganize the economy. Resources, already scarce then, were today non-existent, so that imports had to be financed primarily by running down reserves. In 1983 the balance-of-payments deficit was US$3.3 billion; in 1986, it was US$3.6 billion. A significant surplus in 1984 had allowed the Brazilian Government to eliminate some of the restrictive measures then in force. However, the results for the first three months of 1987 indicated a further deterioration in the balance-of-payments position compared to the same period of 1986. In spite of these negative developments, the general level of restrictions remained well below that prevailing in 1983, even after the increase in the number of products for which import licences had been temporarily suspended. Moreover, measures that had been eliminated or reduced in 1984 had not been reintroduced in 1987.

6. In 1983, the Committee had recognized the seriousness of the balance-of-payments situation, that external elements were at the root of the problems and that protectionism made it difficult for Brazil to expand exports and recover from the existing crisis. It recognized the importance of alleviating and correcting the balance-of-payments problem through measures that other contracting parties might take to facilitate an expansion of export earnings.

7. Following the 1983 consultations and as soon as the balance of payments began to recover, Brazil adopted a number of trade policy changes. The import licensing system was liberalized; import procedures were simplified; import surtaxes were eliminated. These measures were in line with the recommendations of the Committee and this was acknowledged when the Committee did not deem it necessary to engage in full consultations with Brazil in 1985. However, at the simplified consultations in 1985, the representative of Brazil had stated that the need to honour debt servicing by means of increasingly large trade balances limited Brazil's ability to introduce further liberalization and justified the maintenance of existing measures. He referred to the climate of reduced access to international financial markets, scarcity of financing for exports on the part of governments and official credit agencies, protectionism and the fall in commodity prices (BOP/260). No dissenting views had been expressed, and new simplified consultations were scheduled for 1987.

8. The intensification of restrictions in January 1987, which prompted this full consultation, was limited to the expansion of the list of products for which import licences were temporarily suspended. It could have been argued that the criterion of substantial intensification in paragraph 12(a) of Article XVIII was not met, but the Brazilian authorities
wished to demonstrate that the deterioration of the balance-of-payments situation at the end of 1986 and beginning of 1987, as reflected in the sharp decline in reserves, fully justified the measures adopted.

9. Brazil's efforts to restore balance-of-payments equilibrium had not been restricted to trade. A series of far-reaching measures had been adopted to eliminate imbalances since 1983. Following fairly successful external adjustment in 1984, Brazil had faced a difficult internal situation in 1985: disorganized public finances, soaring inflation, growing unemployment and reduced investment and import capacity. GDP had grown in 1985 by 8.3 per cent but the acceleration of inflation and the economy's lack of response to traditional policies prompted the Government to experiment with alternative measures aimed at restoring internal equilibrium while at the same time inducing income distribution and growth.

10. The goals were partially achieved. In 1986, GDP grew by 8.2 per cent, the unemployment rate was reduced to 2.6 per cent and inflation fell from 234 to 62 per cent. However, the balance of payments weakened. The trade surplus of US$8.3 billion was one-third lower than that recorded in 1985 and it fell far short of the Government's goal. Exports were adversely affected by the growing internal demand as well as by external factors such as a sharp deterioration in commodity prices and an increase in protectionist measures taken against Brazilian exports. Imports also rose significantly in response to strong internal demand.

11. At the beginning of 1987, inflation became more acute while the external accounts continued vulnerable, with dwindling trade surpluses and a fall in foreign reserves. Thus, in June 1987 the Government adopted a new emergency plan designed to restore the confidence necessary to resume economic growth. This included renewed emphasis on exports, fiscal and monetary policies and a short-term price and wage freeze intended to realign relative prices and regain control of inflation.

12. Brazil's experience during the four years since the last balance-of-payments consultations had strengthened the authorities' conviction that no set of consistent economic policies chosen to restore internal equilibrium and to stimulate growth and the expansion of trade could be successful if a lasting solution was not found to the problem of the net transfer of resources from developing to developed countries. Brazil alone transferred abroad a net sum of US$34.6 billion over the past four years. In terms of real resources, the annual average outflow corresponded to 3.6 per cent of its GDP. The need to generate increasing trade surpluses as well as the adjustment efforts required to face such a critical situation destabilized the economy and significantly curtailed Brazil's economic policy options.

13. It was against this background that restrictive measures had been intensified. Monetary reserves had fallen by the end of 1986 to US$6.8 billion, US$3.7 billion less than a year earlier, and in the first quarter of 1987 the balance-of-payments deficit rose to US$1.6 billion,
compared with a surplus of US$499 million for the same period in 1986. The Brazilian authorities had considered it justified to intensify import restrictions in order to stop a serious decline in its monetary reserves in line with Article XVIII:9(a).

14. No new measures were introduced, but the issue of licences for imports of a number of new products was temporarily suspended, and the total number of tariff lines for which import licences were suspended rose to about 2000. In September, however, when it became evident that positive results were emerging from the measures taken, the number of products for which import licences were temporarily suspended was again reduced to 1200 lines, roughly the same number as in 1985. There was a clear relationship between balance-of-payments difficulties and the intensification of trade restrictions, and between balance-of-payments recovery and the relaxation of those restrictions. Import restrictions were only adopted or maintained if no other alternatives were available.

15. It was in Brazil's interest, and in the interest of all contracting parties as well as the multilateral trading system, that balance-of-payments equilibrium should be restored through export expansion rather than through import contraction. This had both trade and financial aspects; Brazil needed both increased access to markets and net financial inflows.

16. At its last full consultation in 1983, Brazil had two main reasons for requesting an expanded consultation under the terms of paragraph 12 of the 1979 Declaration: first, to show that balance-of-payments problems faced by indebted developing countries were of a long-term, structural nature and could not be redressed within a hostile external environment; second, to introduce greater symmetry in the Committee's proceedings by pointing out avenues open to contracting parties to help improve a consulting contracting party's balance-of-payments situation.

17. In a report to the Council in 1983 following Brazil's consultation, the then Chairman of the Committee stated that trade had an essential rôle to play and ultimately the indebted countries' capacity to repay their debts will largely depend on the possibility to expand their exports (given the fact that most developing countries have very limited possibilities to improve their current account position by other means). The report also stressed that the Committee's task in relation to external factors should be to identify areas in which action might be taken by contracting parties with a view to alleviating the trade aspects of balance-of-payments problems. The representative of Brazil stressed that a lasting solution to Brazil's balance-of-payments problems could be found only in an improved financial and trading environment. With respect to trade, equilibrium should be restored through export expansion rather than through import contraction. This was particularly important because Brazil needed urgently to increase imports in order to expand and modernize its industrial sector.
18. During the period under review external factors had been largely negative. Prices of commodities had deteriorated sharply, giving rise to major shortfalls in export earnings. The growth of international trade had been slow. Protectionist measures had increased significantly affecting access for Brazil's exports as shown in the Secretariat's document. The IMF had also repeatedly highlighted the importance of reducing protectionist practices in countries that hindered access for exports of indebted trading partners.

19. A large number of the restrictions applied against Brazilian exports were inconsistent with GATT rules, and these should be eliminated. Moreover, Brazil had lately been submitted to threats of the imposition of unilateral and discriminatory trade sanctions in total disregard of GATT rights and obligations.

20. Prospects were not bright. The recent upheaval in stock markets was bound to have negative repercussions. The large current account disequilibria among Brazil's major trading partners and the large fiscal deficit of the United States continued to threaten the world economy. The answers to these problems, which had generated great uncertainty, would have a large influence on the growth in world trade. Under these circumstances, the Brazilian authorities considered that any attempt to establish a schedule for the reduction of import restrictions was inadvisable and even irresponsible.

21. In addition to eliminating to a large extent the increase in the level of restrictions introduced at the beginning of 1987, Brazil was also considering further reforms of trade policy. Among these were the elimination of the Financial Transaction Tax (IOF) as well as the suppression of other taxes applied to imports and the revision of the tariff structure in order to reduce the nominal level and dispersion of tariff rates. These changes would increase the transparency of the import régime and reduce the number of restrictions applied. However, their implementation would depend on the evolution of the balance-of-payments situation and on Brazil's trading partners reducing the general level of restrictions facing Brazil's exports.

22. In conclusion, the representative of Brazil stated that Brazil had come to the Committee in 1983 with high expectations of a positive response on the part of its developed trading partners in terms of improving the access of exports to their markets. Its hopes had relied largely on the fact that the developed countries which were Brazil's main trading partners and main creditors would be large beneficiaries of any improvement in Brazil's balance-of-payments situation, and the belief that creditor countries would have a vested interest in maintaining debtor countries in a healthy balance-of-payments situation through facilitating growth in their export revenues. No positive response to requests for improved market access had been forthcoming, and, on the contrary, new restrictions on Brazil's exports had been imposed. On the financial side the picture had been similar with calls for a constructive dialogue on the debt question.
remaining unanswered. The expectation seemed to be that Brazil would go on transferring large sums abroad in spite of reduced outlets for its exports. Meanwhile, problems in the world economy went unchecked and the lack of macroeconomic discipline on the part of the major economic powers proceeded unabated. Brazil was faced again this year with the need to intensify its import restrictions. The economic situation at the beginning of the year required prompt action on all fronts, including trade policy. As the situation improved, restrictions were relaxed and further relaxation of trade restrictions was under consideration. Brazil had less hope now as regards emergency action on the part of its trading partners to help redress its balance-of-payments position. By the same token, any commitment of the Brazilian authorities to further relaxation of its import restrictions would depend on both the attitude of its main trading partners being forthcoming and significant improvements in the external environment.

Statement by the representative of the International Monetary Fund

23. At the invitation of the Committee, the representative of the International Monetary Fund made a statement, the full text of which is reproduced in the Annex.

Balance-of-payments position and prospects: alternative measures to restore equilibrium

24. Several members of the Committee noted that Brazil's balance-of-payments situation remained serious, particularly in the light of its debt servicing obligations. The current account position appeared to have improved in 1987, but the prospects for sustained recovery were not yet clear. There was need for effective implementation of macroeconomic policies to restore internal and external equilibrium and to restore investors' confidence in the economic prospects of Brazil and raise the inflow of foreign financial sources, including direct foreign investment. The acceleration of the rate of inflation and the forecast increase in the budget deficit for 1988 gave concern that the right mix of fiscal and monetary policies had not yet been put in place. A key element in Brazil's adjustment policies would be the maintenance of a flexible exchange rate policy. Export performance had improved in 1987 largely as a consequence of appropriate exchange rate policy and the competitiveness of the export sector needed to be maintained in parallel with the implementation of appropriate domestic demand management policies. In this regard, one member enquired how the Brazilian authorities viewed their ability to maintain the improvement in the current account in 1988 in the face of recent increases in disposable income and the continuing low level of fixed investment, and what plans they had to improve the investment climate.

25. One member expressed the view that trade restrictions were not an effective means of addressing balance-of-payments problems. They could be used to alter the pattern and structure of domestic demand, but not to reduce it. Brazil's trade restrictions had been in place for a long time, and he questioned the extent to which they could be related appropriately
to the balance-of-payments situation or whether they were applied for the purposes of protecting domestic industry. In this regard he stated that it was not clear that Brazil was living up to the terms and intent of the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes.

26. Another member enquired whether the Brazilian authorities had assessed the cost imposed by the long-standing maintenance of trade restrictions on the competitiveness and efficiency of the economy, and whether they had evaluated the contribution that trade liberalization could make to balance-of-payments adjustment. He also enquired whether Brazil intended to distinguish measures that had been in place for many years and justify them under GATT provisions as protecting domestic industry rather than on balance-of-payments grounds. He doubted that external factors lay at the root of Brazil's balance-of-payments problems.

27. Another member welcomed Brazil's statement concerning a proposed major reform and liberalization of trade policy, in order to assist Brazil's economic development efforts. He interpreted the statement that this reform would depend upon an improvement in Brazil's balance-of-payments situation to mean that such an improvement would be sought through continuing implementation of comprehensive macroeconomic adjustment policies and not that the reform would depend upon Brazil's trading partners liberalizing their trade policies with regard to Brazil's exports.

28. Another member expressed concern about the deterioration in Brazil's balance-of-payments situation in 1986-87. He welcomed the recent relaxation of certain restrictions and expressed the expectation that further liberalization would take place as the situation improved.

29. The representative of Brazil stressed that liberalization had taken place even though the underlying balance-of-payments situation remained weak. The Brazilian authorities had adopted alternative adjustment measures, in some areas of a drastic nature such as the partial suspension of debt service payments. They were now trying to normalize relations with the international financial community. The relatively minimal trade restrictions introduced in January 1987 had been necessary to support alternative adjustment measures. Brazil's debt service obligations required the generation of large trade surpluses, but the economy could not go on making such large net transfers of financial resources abroad without substantial disruption to domestic investment and growth. Gross investment had increased in 1985 and 1986 and now stood at around 20 per cent of GDP, but this remained well below the recent historical average of around 25 per cent and the Brazilian authorities were concerned about restoring a higher level. This, however, was hindered by the need to transfer abroad large amounts of domestic resources for servicing the debt.

30. Brazil had been using different mixes of fiscal and monetary policies in the light of its commitment to maintain high rates of economic growth, redistribute income and reduce unemployment. The record in the growth of GDP, raising real wages, reducing unemployment and combating inflation had
not been unsatisfactory, but pressures had built up at times on the balance of payments.

31. In response to the comments by some members of the Committee about the ineffectiveness and costliness of the extended use of trade restrictions, Brazil considered it far preferable to restore balance-of-payments equilibrium through export expansion rather than import contraction. However, faced with structural economic problems, debt service difficulties and a hostile foreign trading environment, the authorities had been forced to focus on import contraction because export expansion, being a function of many factors, including trends in international commodity prices, foreign demand and protectionism in the trading system, was largely outside their control.

32. It was Brazil's view that the intensification of restrictive measures at the beginning of 1987, as well as the measures remaining following the recent liberalization were fully justified under Article XVIII:B. Moreover, it was a matter of economic history in most countries that industrialization had often received a boost during periods of balance-of-payments difficulty, and it should not be implied that trade restrictions imposed for balance-of-payments purposes were not justified because they were also serving de facto to protect domestic industries.

33. Clarifying part of his introductory statement to the Committee, the representative of Brazil stressed that his authorities were considering trade policy reforms but that these could proceed only if the balance-of-payments prospects remained bright. The trade surplus had increased in mid-1987, but preliminary data for October 1987 indicated a fall in this surplus again.

34. Some members expressed concern at the implication of Brazil's statement that reliance on import restrictions for balance-of-payments purposes was made necessary by the inability to raise export growth and the constraints imposed by debt service obligations. This overstated the rôle that trade restrictions could play beyond the short term and neglected the importance of macroeconomic policies to restore internal and external balance as well as other domestic policies that could improve the competitiveness of Brazil's exports. Moreover, whatever the attitude of Brazil towards import-substitution as an industrialization strategy, trade restrictions that served the purpose of protecting domestic industry should not be justified under Article XVIII:B.

35. Some other members stated that it was important that the Committee recognize that Brazil continued to face serious balance-of-payments difficulties, which was a condition for the invocation of Article XVIII:B. Brazil had liberalized trade restrictions as the balance-of-payments situation had improved in 1987, and had put into effect a set of alternative adjustment measures. While trade restrictions might not provide a complete answer to Brazil's balance-of-payments problems, they could assist in reducing pressures on the external sector, which were
particularly severe in view of Brazil's debt servicing difficulties. The trade restrictions that were maintained appeared to be minimal, and to be fully justified under the provisions of Article XVIII:B.

System, methods and effects of the restrictions

36. Several members of the Committee welcomed the reduction in September 1987 in the list of imports for which import licences were suspended, but noted that while the value of imports affected by licence suspensions was now lower than it had been in the first nine months of the year, it was still double the value affected by suspensions in place from 1985 through 1986 (calculated on the basis of 1985 import value). They considered that Brazil's import licensing procedures remained complex and lacking in transparency. The annual import budgeting system operated by CACEX resulted in most imports being subject to licensing, and the restrictiveness of this system was compounded by the frequency with which licences were suspended, the number of different agencies that could affect the issue of licences, and the various grounds on which licences could be refused on a discretionary basis. They urged the Brazilian authorities to take account of the requirements of paragraph 1 of the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes, with respect to giving preference to the measure which has the least disruptive effect on trade and avoiding the simultaneous application of more than one type of trade measure, in their consideration of the reform of trade policies. They stated that they would welcome an indication from the Brazilian authorities in the near future on when the simplification and liberalization of trade policies might be put into effect, bearing in mind the need for further improvements in the balance-of-payments situation.

37. One member noted that there had been reported occasions of considerable delay in the issue of import licences, and asked for clarification whether import licences could be issued only through CACEX, and whether CACEX's main criterion in issuing licences was the existence of a similar national product (described in terms of design, not of price, quality or ability to deliver). If so, was this measure maintained for balance-of-payments purposes; was the suspension of import licences operated in a non-discriminatory manner among Brazil's trading partners, or were certain countries exempted from the suspension of licence and what criteria were used for these exemptions; were licences issued more readily when they would be used to reduce bilateral trade surpluses; how were changes made in November 1986 in the minimum deadline for payments abroad communicated to importers and foreign suppliers; was the trade policy reform that was under study by the Brazilian authorities likely to involve the modification, the simplification and phasing out of the measures in place; and to what extent were the grounds mentioned in paragraph 9 of the Secretariat background document (BOP/W/114), on which the Minister of Finance could authorize CACEX to reject applications for import certificates, being justified by Brazil on balance-of-payments grounds.
38. Another member questioned whether it was possible for the current system of trade restrictions, given its complexity and lack of transparency, to avoid giving protection to particular sectors or industries as was required in the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes. He expressed concern about the implications for the protection of domestic industry created by the policy of "national similars", the suspension of import licences, and the policy of "market reserves" and to what extent these constituted balance-of-payments measures. He also expressed concern about the way in which exchange restrictions compound the quantitative restriction of imports, citing in particular the Financial Transactions Tax (IOF) and welcoming indications that its abolition was under consideration. He asked for clarification on how negotiations with CACEX on the annual import budget exercise were carried out; what possibilities existed for new importers to gain import licences; whether the annual import budgets were binding on individual companies; the criteria used for selecting products on which import licences were suspended; and which exchange restrictions fell under the jurisdiction of the International Monetary Fund and why these had not been approved following Brazil's last Article IV consultation.

39. Another member expressed concerns about the multiple application of restrictions, the long-standing nature of many restrictions, and the number of different objectives that restrictions were designed to address. This raised questions about whether the balance of payments was the primary objective for the measures. He asked for clarification on the following points: how much longer did the Brazilian authorities intend to maintain the practice of import licensing suspensions; how were items selected for the suspension of licences; what criteria were used for removing items from the list of licence suspensions; how were member countries of ALADI affected by these suspensions; how did the selective exemption of certain countries from the suspension of import licences assist Brazil's balance-of-payments situation; were other restrictions applied discriminatorily; under what GATT Articles had Brazil notified its policy of "national similars" and its policy of "market reserves"; to the extent that the policy of "national similars" applied only where a Brazilian importer benefitted from duty exemptions or other fiscal incentives, it pervaded the import system since importing into Brazil without duty exemptions was prohibitively expensive, and what intentions did the Brazilian authorities have with respect to phasing out the duty exemptions, and reducing import duty levels; what were the intentions of the Brazilian authorities with respect to eliminating the IOF.

40. The representative of Brazil provided data on annual import growth for the past four years, on an overall trade basis and bilaterally with the European Communities and the United States. He stated that these data were significant in showing the substantial growth of imports that had taken place even in the face of Brazil's import restrictions. The measures that Brazil maintained for balance-of-payments purposes were of long standing and had been examined before in the Committee, and details on these
measures were to be found in the background documentation and in previous Committee reports. No new measures had been introduced by Brazil since the last consultation.

41. The import licensing system was operated flexibly by CACEX. Annual import budgets were indicative in character, not binding, and enterprises could request changes to be made throughout the year. Licences were issued automatically once the annual import budget had been approved. Licences had been issued automatically without annual import budgets for imports of up to $100,000 per calendar year since 1985; this year it had been necessary to remove this automatic procedure but the additional restrictive effect of imports had been small because so few enterprises operated at such a low annual import level. The criteria for approving an enterprise's annual import budget included its import performance in previous periods and foreign exchange availability. New importers were presenting import budgets each year and CACEX reviewed them on their own merits. The grounds on which the Minister of Finance could authorize CACEX to reject applications for import certificates (paragraph 9 of BOP/W/114) had never been resorted to. The import budgeting system was exclusively a balance-of-payments measure.

42. The policy of "national similars" served no balance-of-payments purpose. This rule only applied when importers requested any fiscal incentives.

43. The import finance requirement was described in Annex III of Brazil's basic document for the consultation. All regulations for this as well as other trade regulations are published officially by the appropriate agency. Some products had been exempted from this requirement in October 1986 following the increase in consumer spending and in order to supply food and base materials to the economy, but this had put pressure on foreign exchange reserves and the requirement had been reintroduced in November 1986.

44. There had been a substantial reduction in the trade coverage of import licence suspensions in 1987. No new items were included in the list in September 1987. The criteria used for choosing which imports should have licences suspended was based on the economic priority of items.

45. Member countries of ALADI were exempt from import licence suspensions for negotiated items, as was noted in the Annex to the basic document for the consultation. This corresponded to obligations assumed in the context of the Montevideo Treaty. Furthermore, the existence of a reciprocal credit agreement among member countries minimized the need for disbursing hard currency.

46. The regulations for issuing import licences for computers and informatics products and for steel products dated back many years, and they did serve balance-of-payments purposes. Policies in these areas needed to be viewed in a much broader context. However, it was only the
balance-of-payments aspect of these policies that should be discussed in this Committee. 

47. The reform of trade policy that was under consideration by the Brazilian authorities was of a large scale. It would consist of the elimination of balance-of-payments measures such as the IOF as well as other taxes that were not maintained for balance-of-payments purposes, and it should make the tariff the main instrument of protection in Brazil. It would represent a considerable simplification of Brazil's trade policies. However, it could only be contemplated in substantially improved balance-of-payments circumstances when increased imports could be accommodated. Faster growth of exports was a necessary condition for such an improvement to take place.

48. Several members of the Committee expressed disappointment with the replies they had received to their specific questions. In their view, Brazil's import restrictions maintained for balance-of-payments purposes remained complex and lacking in transparency. They could not accept that since the Committee had examined the measures before it did not need to review them again in detail. Nor could they accept any implication that the Committee, in reporting to the Council in the past that Brazil had fulfilled its consultation requirements, had found Brazil's measures to be consistent with the provisions of Article XVIII:B. One member considered that Brazil's import performance needed to be viewed in the broad context of the growth of world trade, and no implications could be drawn from it on the relative restrictiveness of trade policies. One member remained unconvinced that Brazil's trade measures were consistent with paragraph 1 of the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes.

49. Another member of the Committee stated that the primary purpose of the Committee's examination of trade measures maintained for balance-of-payments purposes under Article XVIII:B was to see whether the measures were consistent with the provisions of Article XVIII:B. It would be meaningless for the Council and the CONTRACTING PARTIES to adopt the reports of the Committee if this did not amount to a finding that the measures were consistent with the provisions of this Article. The representative of Brazil supported this statement.

50. The representative of the IMF listed the exchange measures, including the IOF, which the Fund had found were subject to its jurisdiction. The practice of the Fund was for the measures to be approved if it felt assured that they would be removed at an early date, and assurance depended upon the country in question committing itself to remove them and the Fund's own judgement that policies were adequate to support their removal.

Factors relevant to paragraph 12 of the 1979 Declaration

51. The representative of Brazil referred to his delegation's introductory statement concerning this part of the consultation. He, and another member
of the Committee, stressed the need for a greater degree of symmetry in the Committee's consultations through the provisions of paragraph 12 of the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes. Many measures maintained by other contracting parties that restricted Brazil's exports in some of its most dynamic export sectors were illegal under the GATT and ran counter to the provisions of this paragraph, and under the provisions of this paragraph other contracting parties were called to examine the scope for liberalizing other measures as far as possible. It was in the interest of other contracting parties as exporters to Brazil and, in some cases, also as creditors, to contribute to finding solutions to Brazil's balance-of-payments problems. Results from expanded consultations in the Committee in the past had been disappointing.

52. Several members of the Committee considered that trade liberalization through the Uruguay Round negotiations, including standstill and rollback, offered the best means of contribution to improve the general trading environment and economic stability which would, inter alia, assist Brazil's exports. Some of these members questioned the inclusion of certain measures, and particularly anti-dumping and countervailing duties and Article XIX actions, in the section of the Secretariat document relevant to this part of the consultation. One member stated that the external trading environment should not be overstated as a factor relevant to Brazil's balance-of-payments problems.

Conclusions

53. The Committee recognized that Brazil had continued to experience balance-of-payments difficulties and associated debt servicing problems since the last consultation, and that the level of foreign exchange reserves had fallen sharply in 1986 and was projected to remain broadly unchanged at the end of 1987. It welcomed the recent improvement in Brazil's current account position, and in particular the improvement in export performance in 1987 which it viewed as largely a consequence of the adoption of a more appropriate exchange rate policy. It also welcomed the introduction of measures in August 1987 to contain public sector expenditure and reduce the growth of monetary aggregates. The Committee viewed the introduction and maintenance of comprehensive demand management policies to restore internal balance and reduce inflation, as well as to increase investors' confidence in the prospects for the Brazilian economy, as being necessary to bring about an improvement in Brazil's balance-of-payments situation. Views were expressed that an improvement in the external trading environment would be beneficial for export growth, and particularly welcome in the light of Brazil's balance-of-payments situation. However, views were also expressed that this should only be seen as one element in the overall evolution of exports and that more basic elements of a domestic character would play a more fundamental rôle in the balance-of-payments adjustment process.
54. The Committee doubted that trade restrictions could make more than a temporary and limited contribution to resolving Brazil's balance-of-payments situation. In this regard, the long-standing nature of many of the restrictions in place was viewed with concern. These, it believed, could hamper Brazil's attempts to restore internal and external balance through macroeconomic policies by leading to an increasing misallocation of resources in the economy.

55. Some members considered that Brazil's trade restrictions which were maintained for balance-of-payments purposes were fully justified under Article XVIII:B. Some other members of the Committee questioned whether some of the restrictions maintained for balance-of-payments purposes should not more appropriately be justified under other GATT provisions.

56. The Committee welcomed the reduction in the import licence suspensions that had been made in September 1987, but noted that the suspensions remaining in force since their intensification in January 1987 affected double the value of imports (measured in terms of 1985 imports) that had been affected by suspensions in force at the time of the last consultation in 1985. The annual import budgeting procedures operated by CACEX had the effect of subjecting all imports to licensing and, therefore, to discretionary restriction. It noted that Brazil's import licensing procedures were still complex and still lacked transparency, and that import restrictions seemed frequently to be duplicated and that their restrictive effect was compounded by exchange restrictions. It noted, in this regard, that the IMF had not approved Brazil's exchange restrictions in the context of Brazil's 1987 Article IV consultation.

57. The Committee took note of the statement by the Brazilian representative that the government of Brazil was in the process of considering a major trade policy reform. It welcomed such an initiative, and encouraged the Brazilian authorities in this respect. It expressed the expectation that such a reform would need to give due attention to the need to substantially liberalize and rationalize Brazil's import licensing régime, making it less complex, more transparent, and to avoid the protection of specific industries through measures maintained for balance-of-payments reasons. It expressed the view that an indication of a timetable for liberalization at the earliest opportunity would be welcome in view of the various concerns that had been expressed in the Committee.