In accordance with its terms of reference, the Committee scheduled a consultation with Brazil under paragraph 12(b) of Article XVIII for 16 June 1971. The Committee had before it the following documents: (a) a basic document for the consultation prepared by Brazil (BOF/116) and statistical material (Spec(71)46); (b) the Executive Board Decision taken on 23 November 1970 at the conclusion of the International Monetary Fund's consultation with Brazil; and (c) a background paper dated 6 October 1970 provided by the International Monetary Fund.

Consultation with the International Monetary Fund

Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with the consultation with Brazil. In accordance with the agreed procedure, the representative of the Fund made a statement on the position of Brazil, as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of November 23, 1970 taken at the conclusion of its most recent Article XIV consultation with Brazil, and particularly to paragraphs 3 and 5 which read as follows:

'S. The Government has announced a target of reducing inflation by 3-4 per cent per year in each of the next four years, while maintaining a high level of economic activity and a strong balance of payments position. To achieve these goals the authorities intend to continue the firm financial policies which have been followed during the past 13 months. In addition, restraint on wages will be maintained through application of the wage formula, and the flexible exchange rate policy will be continued.

'5. The Fund notes with satisfaction the progress which Brazil has made since 1964 in reducing its reliance on bilateral payments agreements and other restrictions on current payments and the willingness of Brazil to terminate its remaining bilateral payments agreements with Fund members.
The present strong balance of payments position offers a favorable opportunity for further measures to liberalize the trade and payments system. In the meantime, in view of the circumstances of Brazil, the Fund grants approval until December 31, 1971, of those practices of Brazil, described in SI/70/213, which require Fund approval."

Opening statement by the representative of Brazil

3. In opening the discussion, the representative of Brazil drew attention to the detailed statement in BOP/118 on his country's balance-of-payments position and prospects and briefly recalled recent developments in this field. It was noted that since 1964 when Brazil was on the verge of economic collapse, the balance of payments and the balance of trade had improved so considerably that the Government had launched a programme of progressive trade liberalization. At present there were no more restrictions based on balance-of-payments reasons; the main restrictions, applied on imports in the Special Category and General Category had been suspended by Central Bank Resolution No. 41 dated 22 November 1966. Accordingly, as of 1 March 1967, imports of goods previously classified in the Special Category followed the same procedures which were applied to imports under the General Category. There were no more exchange-cover certificates; all that was required was a document for statistical purposes, which was granted automatically by the Bank of Brazil.

Balance-of-payments position and prospects and internal corrective measures

4. Members of the Committee congratulated the Brazilian authorities for the policies that had led to the substantial improvements in the balance of payments and foreign exchange reserves. Debt service had been reduced from 27 per cent of export earnings in 1968 to about 19 per cent in 1970. They noted with particular satisfaction the achievements of the trade balance, with exports growing at a faster rate in the past two years than imports. The composition of exports had also changed; reliance on primary products such as coffee diminishing in favour of exports of new products, in particular manufactured goods. In this context, it was asked whether the Brazilian Government envisaged new measures to further diversify and expand its exports. In reply, the representative of Brazil said that a big effort of trade promotion had been undertaken through the country's network of consulates throughout the world. There were no new measures envisaged to encourage further exports, the main measures having been the adoption of a flexible exchange rate policy designed to keep the value of the currency at a realistic level. The past system of fixed exchange rates had, indeed, because of domestic inflation, distorted real values and had acted as a disincentive to exports. Apart from the exchange system there were a number of fiscal incentives for exports, but no new measures had been adopted since those described in the last balance-of-payments consultation in 1969. Members of the Committee noted with satisfaction the rapid growth of Brazilian exports of manufactured goods, which had grown by 84 per cent in the past four years. Exports of manufactured goods accounted now for some 17 per cent of total exports.
5. In reply to a question on the prospects for the balance-of-payments situation in the coming years, the representative of Brazil pointed out that the rate of growth of exports could not be expected to continue at the same pace in the coming years, the main effort of trade promotion having now borne its fruits. In his view, while exports would continue to grow at a slower pace, imports would undoubtedly also continue to grow. The difference between the rates of growth of exports and imports would narrow down so that it was not reasonable to expect substantial surpluses of exports over imports in the coming years.

6. A member of the Committee congratulated the Brazilian authorities for having reduced the rate of inflation from 87 per cent per annum in 1964 to 20 per cent in 1969. It was understood that the aim of the Government was to reduce this rate by some 3-4 per cent per annum in the course of the next four years; policies had been designed to obtain a progressive deceleration of inflation while taking care not to hamper economic expansion. In reply to a specific question, the representative of Brazil stated that the Government was satisfied with the effectiveness of the operations of the Inter-Ministerial Council on Price Control.

7. Questions were asked concerning the measures taken to control the creation of credit by other institutions than commercial banks, such as finance companies and investment companies. The representative of Brazil replied that the measures used to control commercial bank credit were increasingly being applied to these institutions as well. The authorities were satisfied with the results of this control.

8. Referring to the statement in the IMF Executive Board's Decision of 23 November 1970, concerning constant surveillance and tightening of wage policies, a member of the Committee recalled that for a number of years the Brazilian authorities had regulated wage adjustments in both the private and public sectors, and enquired whether the authorities considered the results satisfactory or whether some improvements could be brought to this system. The representative of Brazil replied that prior to the new economic policy, wages had been readjusted periodically usually far ahead of increases in prices and the discrepancy had been a main force in feeding the inflation. The present system consisted of readjustment of wages pari passu with changes in prices, plus a margin of compensation for increased productivity.

9. In reply to a question concerning measures to control the inflow of short-term capital, the representative of Brazil said that the Government has reacted to the large proportion of short-term loans in Brazil's foreign debt by setting limits to short-term borrowing of one or two years' maturity.

10. In reply to a question concerning the levy of a supplementary tax, under certain circumstances, on remittances of profits and dividends, the representative of Brazil said that no liberalization of this regulation was envisaged by his Government.
Measures affecting imports

11. Some members of the Committee noted that Brazil still maintained some bilateral trade and payments agreements, and enquired whether in view of the favourable balance-of-payments position the Brazilian Government intended to consider terminating these agreements in the near future. They also asked if Brazil would continue to conclude ad hoc barter arrangements. The Committee noted that the bilateral agreement with the USSR had been terminated in 1969 and that the payments arrangement between Brazil and Iceland had been modified so that it no longer constituted a bilateral trade and payments agreement.

12. Members of the Committee welcomed the improvements made by Brazil in its system of consular formalities for imports. Many procedures had been simplified. Concern was still expressed, however, at some of the details required to be recorded in commercial invoices and at the heavy fines for documentary errors. Members of the Committee expressed the hope that the Brazilian authorities would take these views into account when considering further improvements of these formalities.

13. A number of questions were put on fixed minimum value for customs purposes and on the system of reference prices which some members considered incompatible with the provisions of Article VII of the GATT. The representative of Brazil stated that in his view these were beyond the scope of this discussion and were anyway currently under discussion in other fora of the GATT. He added that he had no additional information at hand. Several members of the Committee stressed the concern of their governments at the minimum value system which was having a generally harmful effect on trade. The hope was expressed that greater emphasis be placed on the reduction of items subject to the minimum value system.

14. On the question of the level of certain customs tariffs, the representative of Brazil pointed out that these were also beyond the scope of this discussion and anyway were negotiable under GATT. He confirmed that Decree Law No. 398 of 31 December 1968, providing for a special duty or surcharge on a variety of non-essential imports would expire on 31 December 1971. He was not aware of any new law in preparation concerning this matter.

15. In the light of the documentation before the Committee and the statement of the Brazilian representative, members of the Committee found that Brazil in fact applied no quantitative import restrictions for balance-of-payments reasons at present. They noted that the Special Category of imports had been merely suspended and not abolished, and that the legal provisions for this category remained in force although in fact not implemented. They pointed out, however, that the criteria of paragraph 9 of Article XVIII referred to the restrictions actually applied and not to any legal provisions under which restrictions might be applied. In the circumstances, they considered that the provisions of the Article were in fact not being invoked by Brazil at the present time, and hoped that the Government of Brazil would not need to resort again to the provisions of Article XVIII in the future.
Conclusions

16. The Committee congratulated Brazil on the absence of the quantitative restrictions applied for balance-of-payments reasons. The Committee expressed satisfaction with the improvement in the Brazilian economic and financial position which had made possible this achievement. The growth of exports together with the somewhat slower growth of imports as well as certain other factors discussed, indicated the likelihood of a continuation of this trend, which should enable Brazil further to liberalize the general payments and trade system. Members of the Committee expressed the hope that the Brazilian authorities would consider the further simplification and improvement of its import procedures.