1. In accordance with its terms of reference, the Committee has conducted a consultation with Brazil under the provisions of Article XVIII:12(a) and has examined the Brazilian Import Deposit Scheme as instructed by Council at its meeting of 31 October 1975. The Committee noted that previously consultations with Brazil had been held under Article XVIII:12(b) and that the last consultation had been held in June 1971 (see BOP/R/57). In conducting the consultation the Committee had before it a basic document supplied by the Brazilian authorities (BOP/163), notification of the Import Deposit Measure (L/4231), and a background paper provided by the International Monetary Fund dated 14 April 1976.

2. The Committee generally followed the plan for such consultation recommended by the CONTRACTING PARTIES (see BISD, 18th Supplement, pages 52-53). The consultation was held on 4 May 1976. This report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. 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. Upon the invitation of the Committee, the representative of the Fund made a statement as follows:
"During the seven years to 1974, real GDP in Brazil rose at an average annual rate of about 10 per cent. Through 1973, this was accompanied by a gradual easing in the rate of inflation, from over 30 per cent in 1968 to around 15 per cent in 1973, and a substantial surplus in the overall balance of payments. Aided by heavy inflows of capital from abroad, net official international reserves rose to SDR 5.4 billion by the end of 1973.

"In 1974, however, the balance of payments weakened abruptly with the trade account changing from near balance in 1973 to a deficit of almost SDR 4 billion. The inflation rate rose to 34 per cent. In an effort to reduce the current account deficit, the Brazilian authorities began to tighten import controls from mid-1974. Import duty exemptions and reductions were withdrawn for a wide range of import items, duty increases of 100 percentage points were applied to a large number of imports considered non-essential, and a requirement of cash payment on sight was introduced for imports subject to customs duties of 55 per cent or more. In November 1974, additional import items - including some raw materials and semi-manufactured goods - became subject to the 100 percentage points increase in customs duties, and the Government announced a program to reduce imports by the public sector. Notwithstanding these measures, the value of imports in 1974 increased by 100 per cent over the previous year's level, reflecting partly the rise in prices of oil and other imports but also speculative stockpiling of imported goods, especially raw materials. The value of exports rose by 27 per cent during the same period. The current account deficit rose from SDR 1.8 billion in 1973 to SDR 6.3 billion in 1974. Despite a further substantial increase in capital inflow, mainly in the form of financial loans, international reserves declined in 1974 by more than SDR 0.8 billion and by the end of the year stood at SDR 4.6 billion.

"By early 1975 economic activity had slackened considerably, partly as a result of the recession in the industrialized countries, but also in response to a tightening of domestic monetary conditions. From March 1975 on, however, monetary, fiscal and wage policies became expansionary, gradually producing a resurgence of activity in the industrial sector. Real GDP is estimated to have grown by about 4 per cent in 1975 while the increase in the prices during the year was about 30 per cent. In the external sector, notwithstanding a continued strong rise in export volume, total export earnings grew slowly, reflecting falling world prices for some major commodities, especially sugar. Although imports declined slightly, the current account deficit still reached SDR 5.8 billion. Despite large-scale foreign borrowing, which increased Brazil's total outstanding foreign debt (public and private) to almost SDR 19 billion, international reserves fell further by SDR 0.7 billion to SDR 3.9 billion at the end of the year."
"In response to these continued balance of payments pressures, the Brazilian authorities adopted a number of additional measures during 1975. The cash payment requirement for imports, the coverage of which had been extended in February 1975, was abolished in July; in its place the authorities introduced a compulsory 100 per cent advance import deposit requirement with basically the same coverage. These deposits were to be held, without interest, at the Central Bank for a period of six months. In October 1975, further increases in import duties, ranging from 30 to 100 percentage points, were applied to a large number of import items. Early in December 1975 the Government announced a series of further measures designed to correct the trade imbalance. They included wider incentives for exports and an extension of the coverage of the import deposit requirement to about 60 per cent of total imports, as well as an increase, to 360 days, in the term for which the deposits must be held with the Central Bank. In addition, imports by the Government sector in 1976 (other than petroleum and wheat) were to be reduced to 75 per cent of their 1975 level. Finally, in February 1976, the importation of some "nonessential" items, representing about 1.7 per cent of total imports in 1974, was prohibited through June 30, 1976.

"It is the Fund's understanding that the Brazilian authorities aim to reduce the current account deficit by about SDR 2 billion to about SDR 4 billion in 1976. They expect to achieve this goal through an increase of about 11 per cent in exports and a percentage decline of the same magnitude in imports while the deficit on services will continue to widen. An important factor in reaching the export target will be the evolution of world market conditions in 1976.

"In support of these objectives, the authorities have increased interest rates and have adopted a monetary budget for 1976 which provides for a substantially reduced rate of expansion of domestic credit. They consider the advance import deposit requirement to be an essential element of this monetary policy. With respect to exchange rate policy, the authorities intend to continue the policy of mini-depreciations of the cruzeiro. During 1975, the cruzeiro was depreciated on 14 occasions for a total depreciation of 18 per cent, and, up to mid-April 1976, on a further 5 occasions, for a total depreciation of 11.7 per cent.

"The Fund notes with satisfaction that the Brazilian authorities are seeking to achieve a substantial reduction in the current account deficit, in order to moderate the growth of the foreign debt and avoid an unduly large decline in international reserves. The Fund considers the recent intensification of cost and quantitative restrictions on imports (particularly the 100 per cent, 360-day import deposit requirement) as short-run measures until more fundamental measures take full effect. An appropriate
program encompassing monetary, fiscal, income, and external measures should, in the Fund's view, permit the realization of Brazil's economic objectives and an early reduction and subsequent elimination of the import deposit requirement and other restrictions on imports recently imposed."

Opening statement of the representative of Brazil

4. In his opening statement, full text of which is annexed to this report, and which was made available by the consulting country at the meeting, the representative of Brazil described the evolution of Brazil's external account during the period 1973 to 1975. Deficits of nearly $1 billion had been registered both in 1974 and 1975 in the overall balance of payments. The deficit on current account had increased from US$1.7 billion in 1973 to US$7.1 billion in 1974. In 1975 it had reached $6.9 billion. Imports had doubled from 1973 to 1974 and so had net capital inflows. This latter factor served to illustrate the high degree of confidence in the Brazilian economy. A sharp increase had also been registered in the level of the foreign debt, which at the end of 1975 stood at some US$22 billion. However, debt management was the object of careful administration.

5. The sharp deterioration of the balance-of-payments situation and the consequent fall of monetary reserves was mainly attributable to the disequilibrium in the trade balance, due to the growth of imports. Three main factors accounted for this growth: the rise in oil prices, the rise in prices of imports from industrialized countries and speculative stock-piling of imports which occurred in 1974. Exports had not risen by more than 8.8 per cent in 1975; these had been affected by the economic recession in Brazil's main export markets.

6. Thus Brazil was faced with a situation where it was obliged to adopt import restraint measures. These had been taken gradually and step by step according to developments in Brazil's external accounts. Brazilian authorities had endeavoured not to interfere with the objective of economic growth. However, a point had been reached when a need to reestablish a reasonable degree of equilibrium in the balance of payments had come to be a priority goal. The representative of Brazil emphasized that the import restrictions applied by the Government were non-discriminatory and of a temporary nature. Brazilian authorities were extremely interested in eliminating such measures as soon as possible, particularly so as not to hinder the country's economic development. A return to normal conditions in international markets would allow Brazilian exports to grow satisfactorily again and thus favour the gradual elimination of the restrictions. He emphasized that Brazil had been adopting in recent years an extremely liberal import policy. Thus the import restrictions recently adopted should be examined in the light of the current economic situation and of Brazil's balance-of-payments difficulties.
PARTS I AND II

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

7. Members of the Committee thanked the Brazilian delegation and the International Monetary Fund for the comprehensive and up-to-date information they had supplied to the Committee. They stressed the importance attached to GATT balance-of-payments consultations, particularly in the case of a major trading country. Members of the Committee also expressed their understanding and sympathy with the seriousness of the Brazilian balance-of-payments situation. They recognized that the deterioration had been very severe since the end of 1973 and that corrective measures were imperative. They welcomed with general satisfaction the statement by the delegation of Brazil that the various measures taken were temporary in nature, and that it was the aim and the intention of the Brazilian authorities to return, as soon as conditions permitted, to a liberal trade policy. They also expressed the hope that the revival in world economic conditions would soon contribute to bringing about the conditions necessary to ensure that a gradual elimination of the import deposit and other measures would be undertaken by Brazil. The Committee welcomed the fact that the various trade restrictive measures had been taken for balance-of-payments reasons and that they were not intended to be measures to protect domestic industries.

8. It was recalled that at its last consultation in the Balance-of-Payments Committee in 1971, Brazil had been congratulated for the elimination of its quantitative restrictions and for the satisfactory level of its reserves. Unfortunately a spectacular change had taken place in 1974 in Brazil's balance of payments and a further deterioration had taken place in 1975; in particular in the current account. It was noted that a number of external factors had great bearing on this situation; the sharp rise of prices of petroleum and the resulting recession effects in other countries which had had an unfavourable effect on the level of Brazilian exports. It was noted, however, that a number of internal factors had also contributed to this situation, as was pointed out in the statement by the representative of the International Monetary Fund. Members of the Committee concurred that oil price adjustments had had a primary and secondary disruptive effect on world trade and that this dual burden weighed heavily on oil-importing developing countries. However, they did not agree with the Brazilian suggestion contained in BOP/163 that the developed countries had somehow transferred the burden to developing countries. Moreover, not all industrialized countries had experienced an improvement in their trade account in the period concerned. It was pointed out that among the internal factors that had contributed to the deterioration of Brazil's balance of payments, poor crops due to adverse climatic conditions, speculative stock piling, inflation and possibly other factors had played some part beside the major influence of the petroleum crisis. Taking all these points into consideration it was asked what prospects the Brazilian authorities expected for developments in the balance of payments in 1976 and 1977. The representative of
Brazil acknowledged that certain internal factors had contributed to the aggravation of the balance-of-payments situation. He stressed, however, that in his Government's view, the external factors mentioned above had been the major cause for the balance-of-payments problems. The representative of Brazil said that while it was difficult to forecast with any exactitude the prospects for 1976 and 1977, it was nevertheless quite imperative that a trade deficit of the size incurred in 1974 and 1975 could not be allowed to take place again. It was expected that the different measures taken - import restrictions, a reduction in monetary expansion and strict management of the budget - would relieve the extreme pressure on the trade account.

9. Members of the Committee noted that the main thrust of the measures taken by Brazil affected the import sector of the economy and they asked whether the Brazilian authorities were considering adopting a more comprehensive approach including the monetary, fiscal, income and external measures such as was suggested in the IMF representative's statement. The representative of Brazil said that the authorities would spare no effort to achieve equilibrium in the management of the monetary accounts. The restraint in monetary expansion was expected to reduce the rate of increase of the money supply from 42.3 per cent in 1975 to 25 per cent in 1976. No particular measures were expected to be taken in the fiscal field. He added that the very substantial monetary increase in 1975 was attributable to the increase of contributions to special funds including emergency programmes and to the release of credits which had had to be given to help overcome the problems caused by frosts in the south which had affected the coffee crop, as well as other crops, and floods in the north-east which had caused much hardship. The Brazilian authorities did not expect greater inflation in 1976 than in 1975 (when credit had been expanded by 58 per cent). Members of the Committee expressed the hope that this objective would be achieved despite the figures available which showed that the inflation which had run at 34 per cent in 1974 and moved to 30 per cent in 1975, was in the twelve-month period ending February 1976 showing a rate of 37 per cent compared to the previous year.

10. It was asked whether Brazil's exchange rate policy of frequent mini-devaluations had any adverse effect on the authorities' attempt to control the level of inflation. The representative of Brazil pointed out that in 1976 Brazil had accelerated somewhat its mini-devaluations and this for three motives: the recurrence of inflation, the declining rate of inflation in Brazil's main trading partners and the need to adjust the rate at a time early in the year when the greater part of Brazil's agricultural exports were marketed. He added that basically there would be no change in the nature of Brazil's exchange rate policy.

11. Turning to the question of the slackening of Brazilian exports it was noted that unfavourable sugar prices had prevailed in 1975 which had adversely affected export receipts. Furthermore, there had been a partial coffee crop failure and it was asked whether this was likely to have an effect on Brazil's balance of payments in the future. The representative of Brazil replied that the partial
coffee crop failure was not reflected in 1975 exports receipts and would probably not be reflected by 1976; however, it might have an effect in the future. Although the volume of coffee exported in 1975 had diminished, receipts had increased, as good coffee prices had been obtained, and it was hoped that this would continue into 1976. A problem of surplus coffee production might possibly arise in three or four years. Turning to the question of export diversification, the representative of Brazil pointed out that developments in this field had been fundamental. Diversification had taken place both in the type of products exported and the markets to which they were sold. This was illustrated in Table 8 of document BOP/163. He pointed out that despite these favourable developments, Brazil remained very dependent on the export of primary products and of semi-processed goods. Significant efforts have been made to achieve greater competitiveness of Brazilian products both in price and quality. Efforts had also been made to reach a greater number of markets in order to reduce reliance on a small number of export markets. Thus while Brazilian exports to the United States and the European Communities had not diminished in volume, its share of total exports had been reduced by the extension to other markets. He added that the value of primary product exports was still twice that of the export of manufactured products.

12. Noting that Brazil had a large deficit on service account, members of the Committee asked whether any measures were envisaged to reduce this deficit. The representative of Brazil said that the deficit on service account was structural and, recalling that Brazil was a large capital importer and had a large potential for development, it was normal that it resorted to external credits. The deficit on this account would have to be compensated not by diminishing the import of services but by increasing receipts on exports.

13. Members of the Committee noted that Brazil's external debt had almost doubled in the past two years, and that the debt servicing ratio stood at some 39 per cent. It was asked what measures Brazil envisaged taking to reduce the level of its external debt. In the field of foreign capital investment it was noted that capital inflows had not grown in 1975 and it was asked whether Brazil would take measures to encourage the growth of foreign investment. The representative of Brazil said that a large foreign debt was a necessary feature for a rapidly developing country where demand for imported capital was large. Any improvement in the debt servicing ratio would have to be achieved through the expansion of export receipts. As for additional measures to encourage direct foreign investment he recalled that Brazil practised a very liberal policy in this field and that practically all possible measures had been taken to attract foreign capital; little was left to be done. The level of investment inflow had been of the order of US$ 1 billion per annum. He recalled that foreign capital was treated like Brazilian capital; there were no problems for the repatriation of interests or capital. He added that this aspect had some bearing on the Brazilian exchange rate policy. It was necessary for Brazil to maintain an adequate rate of exchange in order not to hamper capital movements.
PARTS III AND IV

System and method of the restrictions, and effects of the restrictions

14. The members of the Committee noted that the Brazilian authorities had resorted to a number of trade restricting measures and it was suggested that all or some of the Brazilian measures to limit imports might be unduly restrictive. A very severe import deposit scheme had been introduced, tariff surcharges, the suspension of import permits, and a number of other related measures affecting trade. The representative of Brazil emphasized that all these measures were not unduly restrictive and had to be assessed in the context of the very severe balance-of-payments problems Brazil was going through.

Import deposit

15. The Committee noted that in July 1975 Brazil had introduced an import deposit scheme which called for the prior deposit of a 100 per cent of the f.o.b. value of imports for 180 days, bearing no interest, affecting products subject to an import duty of 37 per cent and above and other non-essential products. It was estimated that this affected 30 per cent of Brazil's imports (in terms of 1974 imports), the product coverage having been chosen on the basis of non-essentiality to the Brazilian economy. It was further noted that in December 1975 the terms of the scheme had been made more severe; the 180 day deposit requirement had been extended to 360 days without interest and also without monetary correction at the time of refunding. The product coverage had been extended to cover some 58 per cent of total Brazilian imports (in terms of 1974 imports). The terms of the import deposit scheme were considered to be very severe. Asked to specify whether a time-limit had been set for the duration of the scheme, the representative of Brazil said that the legislation specified no such time-limit. He stressed however, that it was his authorities' intention to relax or terminate the import deposit scheme as soon as the balance-of-payments situation would allow and that it was his Government's policy to maintain as liberal a trade policy as possible. Members of the Committee asked what the prospects were for the removal or phasing-out of the deposit scheme. The representative of Brazil replied that the scheme was held constantly under review and reiterated that it was his Government's intention to abolish the deposit requirement as soon as conditions allowed. In reply to a question on the retroactivity of the 360 day deposit requirement the representative of Brazil specified that the deposits collected under the first Central Bank Resolution 331 for 180 days were refunded after 180 days and in no case were extended to 360 days.

16. Members of the Committee raised several questions concerning the products exempted from the scheme. It was noted that petroleum products, certain essential goods as well as capital investment goods were not subject to the deposit. Furthermore, imports from LAFTA countries were also exempted from the deposit. The
representative of Brazil said that the choice of the product coverage for the deposit was determined by the degree of essentiality to the Brazilian economy. He added that the Government used its discretionary power to decide which goods were considered essential or not. He specified in particular that LAFTA goods exempted from the scheme were those that had been negotiated in LAFTA and where there existed a treaty obligation. Thus the exemption corresponded to a treaty obligation and not to any discriminatory practice. In response to a request, the representative of Brazil said that statistics on LAFTA goods exemptions would be made available to the Committee.

17. In reply to questions concerning the impact of the deposit scheme on the volume of imports, the representative of Brazil said that the import statistics for 1975, after deduction of petroleum, machinery and equipment, showed a substantial reduction both in volume and value. Thus the scheme had had an influence on the level of imports and therefore on the trade account. Asked whether some countries were not more affected by the deposit scheme than others the representative of Brazil replied this would depend on the composition of a particular country's exports to Brazil. If the scheme did result in certain supplying countries being less affected than others this was not the Government's aim but rather a consequence of the essentiality of the goods exported. Members of the Committee noted that imports of capital goods into Brazil enjoying long-term suppliers credits, i.e. five years or more were exempted from the deposit requirements. This was merely a measure to encourage foreign financing of imports and in this context it was asked whether the Brazilian authorities were not concerned by the possible effects of such financing on the level of the foreign debt and in particular in debt servicing expenditure. The representative of Brazil replied that his country had programmes for industrialization which had to continue and which required financing. The development potential of the country was such that the Brazilian authorities felt that larger foreign indebtedness could be afforded and that the possible problems that this could cause in the future in the balance of payments could be overcome through the expansion of export receipts.

18. Questions were asked on the global value of the deposits collected in the second half of 1975 and in the first quarter of 1976. The representative of Brazil said that in 1975 a total amount of $700 million (7 billion cruzeiros) had been collected in the form of deposits. The figures for the first quarter of 1976 showed an amount of $900 million (9 billion cruzeiros). Noting the sizable amount of money involved, some delegations asked what use these funds were put to. The representative of Brazil said that from a budgetary point of view they were included in receipts from import charges. The use they were put to was determined by the framework of monetary policy. In fact the Government had used these funds to mop-up excess liquidity in the economy. In this context it was asked whether the Brazilian authorities' plans to further restrict the money supply in 1976 would not make the deposit requirements even more burdensome to Brazilian importers. The representative of Brazil remarked that the tight money policy which was being observed for 1976 had taken all these factors into account.
19. One member of the Committee stated that his authorities could not agree with the view expressed in the basic document (BOP/163) submitted by Brazil to the effect that the import deposit was fully within the meaning of Article XVIII:9 of the General Agreement. It was his authorities' view that the measure was excessively severe and went beyond the provisions authorized under Article XVIII:9, and that therefore there would be a possibility that the measure would nullify the concessions of Brazil's tariff bindings under GATT. The representative of Brazil reiterated his authorities' view that the import deposit was fully within the provisions of Article XVIII:9 of the General Agreement, and did not nullify or impair concessions under GATT.

20. In reply to a specific question the representative of Brazil confirmed that the coverage of the import deposit scheme as it stood at present was that contained in document BOP/163, and in the background paper provided by the International Monetary Fund.

Tariffs

21. The members of the Committee sought clarification on the different decree laws introducing surcharges on a substantial number of tariff items. The representative of Brazil explained that Decree Law 1334 of 25 June 1974 had introduced a surcharge of 100 percentage points on 941 items; Decree Law 1364 of 28 November 1974 had introduced a further surcharge of 100 percentage points affecting 850 items; and finally Decree Law 1421 of 9 October 1975 had introduced a further surcharge of 30 or 100 percentage points on some 1,693 tariff items. He explained that any disparity in existing documents concerning the number of tariff positions involved was due to the fact that the Brazilian authorities had broken the figures down into eight digit tariff items; he added that no four digit BTN tariff item breakdown was readily available. Several questions were asked on these tariff surcharges; whether they affected bound items in GATT Schedule III whether there was any observable impact of the surcharges on the balance of payments. In reply to these two questions the representative of Brazil stated that no item bound in Schedule III Brazil had been affected by the surcharges; nor were any items negotiated with LAFTA countries. He added that the effects of the surcharges on the balance of payments were not measurable at this stage as the main surcharge had been introduced in October 1975 and imports statistics were not yet available. He added that the volume of trade affected by surcharges in 1975 had been less than $2.2 billion. He said that of trade through GATT bindings, LAFTA bindings and trade destined to Manaus Free-zone, was exempted from the surcharges. In reply to another question the representative of Brazil said that there was no impact on Brazilian exports.

22. Members of the Committee noted that the enabling legislation for these tariff surcharges contained termination dates of 31 December 1976, and sought confirmation that these measures would indeed be terminated at that date. The representative
of Brazil confirmed that the termination date was 31 December 1976 but added that, at delegation level, he was not in a position to give formal assurance that the Brazilian authorities would indeed terminate the measure.

23. In reply to a question concerning the criteria used for the choice of products subject to the surcharges the representative of Brazil said that the degree of essentiality of the product to the Brazilian economy was taken into account in the same way as it was for the import deposit. In reply to a comment concerning the possible trade diversion effects of the surcharge the representative of Brazil said that this was not the intention of the measure and that it was applied in a non-discriminatory manner. One member of the Committee remarked that a surcharge of one hundred percentage points amounted to an effective prohibition and asked whether this had indeed been the effect of the surcharge. The Brazilian representative answered that the surcharge did not have a prohibitive effect.

**Import licensing**

24. Members of the Committee noted that on 6 February 1976 CACEX Communiqué 543 had suspended the issuance of import licences for approximately one thousand products considered superfluous. The measure was to be in force for six months, i.e. until 6 August 1976. This was a matter of some concern for the members of the Committee who also noted that the matter had not been given more than a few lines in the Brazilian submission for this consultation (BOP/163). This measure was also considered very severe as it amounted to an effective prohibition on the thousand items concerned.

25. Questions were asked on the criteria used to determine which products were superfluous and which were not. The representative of Brazil said that this was done at the discretion of the Government in the same way as it was done for the prior import deposit and for surcharges. He added that the measure concerned only a small range of products and that the amount of trade concerned was not more than $100 million.

26. Questions were asked on the objectives of this measure; whether it had been taken for balance-of-payments purposes or as a protective measure for domestic industry. The representative of Brazil assured the Committee that the measure had been taken for balance-of-payments reasons, in particular to exert more control over a certain range of superfluous imports which were still growing despite the import deposit requirement and the surcharges. It had therefore been necessary to suspend licensing altogether on these items. Asked to give assurances that the termination date of this measure would be honoured the representative of Brazil said that it was his authorities' hope that the measure would not need to be continued but that, at delegation level, he was not in a position to give formal assurances as to termination. On the question of the objectives of the measure he
assured the Committee that the measure was not introduced to protect any domestic industry but that it had been introduced to help restore equilibrium in the balance of payments. The question of conformity of the measures, and in particular of the product coverage, with the provisions of Article XVIII, paragraph 10 of the General Agreement was raised and it was hoped that the suspension of imports would not break the minimal and normal channels of trade. Members of the Committee recalled that originally the import licensing system had been introduced in Brazil for statistical and price control purposes. It was noted with some concern that it was now used to restrict trade albeit for balance-of-payments reasons. The hope was expressed that the licensing system would be phased out and gradually replaced by more reliance on the tariff system.

27. Referring to Decree Law 1427 of 2 December 1975 which empowered the Finance Minister to refuse requests for issuance of import permits in cases where (a) imports aimed at the setting up of speculative stocks, (b) imports causing or threatening to cause serious damage to the national economy and (c) imports originating and/or proceeding from countries discriminating against Brazilian exports. Members of the Committee asked what criteria were used to exercise this authority, which in their view was very broad, and asked whether Brazil felt it was in conformity with its GATT obligations. The representative of Brazil replied that this was enabling legislation and that to date the authority had not been used, with the exception of limited action under CACEX Communiqué 543. Members of the Committee expressed the hope that, should measures envisaged under Decree Law 1427, the rules and procedures of the General Agreement would be respected. The Brazilian representative stated that his authorities had every intention to observe international agreements and obligations.

28. One member of the Committee said that his authorities had received numerous complaints of administrative delays in the issuance of import licences. He also asked for clarification on the penalties involved for non-observance of certain administrative rules which were reported to be very severe. The representative of Brazil said that any delays incurred were the result of administrative difficulties and were not intentional. The Brazilian authorities did not use the issuance of import licences as an instrument to restrict imports. He assured the Committee that the Government would endeavour to ensure as rapid a flow as possible of processing of import licences. He explained that the penalty incurred for importing goods subject to the suspension of the import licence was the seizure of the goods. Besides this there were a number of regular procedural penalties which involved standard administrative fines for the incorrect filing of documents. These were designed to ensure better efficiency of import procedures.

29. Members of the Committee drew the attention of the Brazilian representative CACEX (Council of Foreign Trade) resolutions 96, 99, 104, 105 and 106 taken in 1975 which made imports of certain steel and non-ferrous metal products subject to the prior approval of CONSIDER (National Steel Council), and which subjected the
imports of computers and associated equipment to the prior approval of CAPRE (Coordination Committee for Data Processing). The representative of Brazil stated that such measures were intended solely for statistical purposes and for exerting greater discipline in the domestic market. He added that some of these products were considered essential to Brazilian economic development and benefited in certain cases from special import incentives. Consequently, these measures were neither trade restrictive nor protectionist in nature.

Other measures

30. Members of the Committee noted that in November 1974 measures had been adopted to limit imports by the public sector. Thus direct imports of consumer goods by government agencies had been prohibited. These measures were later reinforced to achieve the declared objective of reducing such imports by 25 per cent in 1976. In this context it was asked what was the public sector share of total imports. It was also noted that in 1975 a ceiling of $5,306 million had been set for government imports and it was asked whether this objective had been achieved. Commenting on a government instruction which required government procurement to be directed to countries with which Brazil had a favourable balance of trade, it was asked whether this instruction was considered to be in accordance with GATT obligations. The representative of Brazil confirmed that it was his authorities' policy to reduce government imports by 25 per cent in 1976. In 1975, these imports, excluding oil and wheat, had amounted to some $1.7 billion. He stressed that these measures were taken for balance-of-payments reasons. Concerning the instruction to direct government imports to countries with which Brazil enjoyed a balance of trade surplus he explained that this was enabling legislation and that no action had been taken under it for the time being.

31. Questions were asked with reference to CACEX Communiqué 521 of 21 October 1975 which placed an obligation to transport certain imports on Brazilian vessels. It appeared that the products concerned in particular were direct foreign investment goods. It was asked whether this was not a case of flag discrimination and whether the measure was temporary, what its true objective was and what was the size of imports subject to this provision. The representative of Brazil explained that the provisions applied to imports which benefited of special facilities, such as tariff exemptions or reductions. The facilities of tariff exemptions or reductions were linked to the obligation to transport in Brazilian flag vessels. In reply to a question he added that the flag obligation and the tariff exemptions or reductions were not in any way connected with the import deposit exemption for long-term credit imports. Figures concerning the value of trade were not readily available.

32. In reply to a question the representative of Brazil stated that with regard to all the measures taken there were no across-the-board exemptions for goods from LAFTA countries. Any exemptions granted to LAFTA goods were on products negotiated within LAFTA and covered by Article XXIV of the LAFTA Treaty. Members of the Committee doubted whether non-tariff measures could be applied in a discriminatory manner under Article XXIV of GATT, and said that the discriminatory application of balance-of-payments measures might tend to call into question whether recourse to balance-of-payments restrictions was justified.
33. Questions were asked concerning the system of reference prices for valuation purposes instituted by the Brazilian Customs Policy Council. The representative of Brazil said that this measure which had been introduced in 1970 by Decree Law 1111 had been reviewed under Article VI of the GATT. It was applied on a temporary basis when the declared value of imports was unduly low.

34. Finally the Committee thanked the Brazilian representatives for the care given to the preparation of the consultation which had allowed the observance of GATT balance-of-payments procedures.

Conclusions

35. The Committee welcomed the declared intention of the Brazilian authorities to return as soon as possible to a liberal trade policy. It noted that external and internal factors had brought about a rapid and serious deterioration in Brazil's balance of payments, in particular on current account, and recognized that corrective measures were called for. However, the Committee expressed concern at the severity and multiplicity of the measures adopted - import deposits, surcharges, suspension of issuance of import licences and related measures - which bore excessively on the trade sector. The Committee noted that it was the Brazilian authorities' intention to apply the measures temporarily, but in the absence of established termination dates, in particular with respect to the import deposit scheme, it expressed deep concern as to the trade disruptive effect of the restrictions, should they be enforced for a lengthy period of time. The Committee therefore urged the Brazilian authorities to terminate as soon as possible the import prohibitions and to remove gradually the other trade restrictions.

36. The Committee noted and agreed with the view of the International Monetary Fund that the recent intensification of cost and quantitative restrictions on imports should be considered as short-run measures until more fundamental measures take full effect. It did not oppose the temporary applications of moderate import restriction, it drew the Brazilian authorities' attention to the provisions of Article XVIII:10. Noting that Brazil was relying mainly on domestic monetary measures and on trade restrictions, the Committee invited Brazil to give careful consideration to the IMF's view that "an appropriate programme encompassing monetary, fiscal, income and external measures should permit the realization of Brazil's economic objectives and an early reduction and subsequent elimination of the import deposit requirement and other restrictions on imports recently imposed."
ANNEX I

Opening Statement of the Representative of Brazil

1. I would like to refer at the outset to the documents already submitted to this Committee both by the Brazilian delegation and by the International Monetary Fund.

2. Some of the points contained in those documents are of considerable importance and offer a clear picture of the need and timeliness of the import restraint measures taken by the Brazilian Government, so as to keep our balance-of-payments equilibrium within reasonable limits and thus put a halt to the continuing decline in the country's foreign monetary reserves.

3. If one looks at the table annexed to this statement, one shall be able to follow the evolution of Brazil's external account during the period 1973-1975.

4. After having recorded increasing surpluses from 1968 to 1974, reaching the level of US$2.4 billion in 1972 and US$2.2 in 1973, the Brazilian balance of payments was to record deficits of nearly 1.0 billion both in 1974 and 1975.

5. The deficit in current account increased from US$1.7 billion in 1973 to US$7.1 billion in 1974 - a percentual increase of 317 - and to US$6.9 billion in 1975 - an increase of 306 per cent.


8. Net capital movement nearly doubled from 1973 to 1974 (from US$3.5 billion to US$6.3 billion), having decreased slightly in 1975 (US$6.9 billion). These data serve to indicate the high degree of credibility of the Brazilian economy.

9. Foreign debt increased from US$12.6 billion in 1973 to US$17.2 billion at the end of 1974 and to an estimate 22.0 billion at the end of 1975. It should be noted, however, that although foreign debt has increased in absolute terms, there was some improvement in its profile, seen as the percentage of the principal to be amortized in subsequent calendar years.
10. Thus, taking into consideration the position of the foreign debt in 1973, 5 per cent should be paid until the end of the first year; 15 per cent during the second year; 13 per cent during the third year and 12 per cent during the fourth year. Referring to the position in September 1975, the same percentages, respectively, from the first to the fourth year are: 3 per cent, 11 per cent, 13 per cent and 14 per cent. This should be regarded as a good indicator of the careful administration of the Brazilian foreign debt.

11. The sharp deterioration of the balance-of-payments situation and the subsequent high depletion of monetary reserves (US$2.4 billion in 1974/75) can be explained by the disequilibrium in the trade balance due to the exceptional growth of our imports. A few facts illustrate the unusual performance of import trade in Brazil:

(1) Rise in oil prices: beginning of the process of disequilibrium in the trade balance;

(2) Rise in prices of items imported from industrialized countries: worsening of the process of disequilibrium in the trade balance;

(3) Stockpiling of imports for speculative purposes, which occurred in 1974.

12. Concurrently, exports which from 1968 to 1973 had recorded an average growth in terms of value of 24.6 per cent, and of 28 per cent in 1974, rose to not more than 8.8 per cent in 1975. During the period 1972/74, the value growth of exports of manufactured products amounted to an average 48 per cent, and attained the extremely low level of 13 per cent in 1975.

13. Since the developed countries are the main importers of our products, economic recession in those countries had a strong influence upon the slowdown in the overall growth rate of Brazilian exports.

14. One can infer from the analysis of the documents before the Committee, that the import restraint measures which Brazil was obliged to implement were moderate and timely. And it must be pointed out that they were adopted to correct distortions stemming from problems for which the country was not responsible. Actually, Brazilian authorities in charge of the country's external account did not take immediate, strong action to contain the level of imports, having protracted such action for as long as they could.

15. Brazilian authorities endeavoured not to interfere with the objective of economic growth. However, a point was reached when the need to re-establish a reasonable degree of equilibrium in the balance of payments came to represent a priority goal.
16. Finally, I should emphasize that the import restraint measures applied by the Brazilian Government are not discriminatory. They are furthermore of a temporary nature. Brazilian authorities are extremely interested in eliminating such measures as soon as possible, particularly not to hinder the country's economic development. The re-establishment of normal conditions in the international trade, which would allow exports to proceed in an accelerated pace, would also favour the gradual elimination of these measures.

17. Brazil has been adopting in recent years an extremely liberal import policy. This strategy is part of the country's economic development model, to increase the development growth rate by utilizing external savings. No protectionist schemes, import barriers, or inefficient industrial activities fit into this model. This is one of the main reasons why the import restraint measures adopted by Brazil can only be considered in the light of the current economic situation, thus being, I repeat, of a temporary nature.
### External Accounts: 1973/75

<table>
<thead>
<tr>
<th>Item</th>
<th>1973</th>
<th>1974</th>
<th>1975</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Balance of payments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>superavit (+)</td>
<td>2,179</td>
<td>-936</td>
<td>-1,095</td>
</tr>
<tr>
<td>deficit (-)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Current account</td>
<td>-1,688</td>
<td>-7,122</td>
<td>-6,920</td>
</tr>
<tr>
<td>Trade balance</td>
<td>7</td>
<td>-4,690</td>
<td>-3,514</td>
</tr>
<tr>
<td>Exports</td>
<td>6,199</td>
<td>7,951</td>
<td>8,655</td>
</tr>
<tr>
<td>Imports</td>
<td>6,192</td>
<td>12,641</td>
<td>12,169</td>
</tr>
<tr>
<td>Services (net)</td>
<td>-1,722</td>
<td>-2,433</td>
<td>-3,424</td>
</tr>
<tr>
<td>(b) Capital movement</td>
<td>3,513</td>
<td>6,254</td>
<td>5,985</td>
</tr>
<tr>
<td>Investment (net)</td>
<td>940</td>
<td>887</td>
<td>810</td>
</tr>
<tr>
<td>Loans and financing</td>
<td>4,245</td>
<td>7,287</td>
<td>7,175</td>
</tr>
<tr>
<td>Amortizations</td>
<td>-1,672</td>
<td>-1,920</td>
<td>-2,000</td>
</tr>
<tr>
<td><strong>2. External reserves</strong></td>
<td>6,416</td>
<td>5,269</td>
<td>4,040</td>
</tr>
<tr>
<td>(losses of reserves until 31.12.1975 = US$2,376 million)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>3. Foreign investment</strong></td>
<td>2,859</td>
<td>3,925</td>
<td>4,412</td>
</tr>
<tr>
<td></td>
<td></td>
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<td>(1st sem.)</td>
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<tr>
<td><strong>4. Reinvestment</strong></td>
<td>1,721</td>
<td>2,102</td>
<td>2,274</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>(1st sem.)</td>
</tr>
<tr>
<td><strong>5. (3 + 4)</strong></td>
<td>4,580</td>
<td>6,027</td>
<td>6,686</td>
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<td></td>
<td></td>
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<td>(1st sem.)</td>
</tr>
<tr>
<td><strong>6. Foreign debt</strong></td>
<td>12,571</td>
<td>17,166</td>
<td>22,000</td>
</tr>
<tr>
<td></td>
<td></td>
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<td>(est.)</td>
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</tbody>
</table>