TRADE POLICY REVIEW MECHANISM

BRAZIL

MINUTES OF MEETING

Chairman: Mr. B.K. Zutshi (India)

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.</td>
<td>INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL</td>
<td>2</td>
</tr>
<tr>
<td>II.</td>
<td>INTRODUCTORY STATEMENT BY THE REPRESENTATIVE OF BRAZIL</td>
<td>3</td>
</tr>
<tr>
<td>III.</td>
<td>STATEMENT BY THE FIRST DISCUSSANT</td>
<td>11</td>
</tr>
<tr>
<td>IV.</td>
<td>STATEMENT BY THE SECOND DISCUSSANT</td>
<td>13</td>
</tr>
<tr>
<td>V.</td>
<td>STATEMENTS AND QUESTIONS BY THE MEMBERS OF THE COUNCIL</td>
<td>15</td>
</tr>
<tr>
<td>VI.</td>
<td>COMMENTS AND RESPONSES BY THE REPRESENTATIVE OF BRAZIL</td>
<td>28</td>
</tr>
<tr>
<td>VII.</td>
<td>CONCLUDING REMARKS BY THE CHAIRMAN</td>
<td>35</td>
</tr>
</tbody>
</table>
I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. In introducing the meeting, the Chairman recalled the objectives of the Trade Policy Review Mechanism, as decided by the CONTRACTING PARTIES on 12 April 1989 (BISD 36S/403). The Council was to base its work on two reports, one submitted by the Government of Brazil (C/RM/G/29) and the other by the GATT Secretariat (C/RM/S/29A and 29B).

2. Two contracting parties (Australia and Canada) had given advance notice in writing of points they wished to raise during the meeting. The delegation of Brazil had been informed of these points. It was understood that these questions should not limit in any way the scope of the discussion in the meeting.

3. The Chairman thanked Ambassador Kesavapany and Mr. Pierre Gosselin who had agreed to contribute, in their personal capacities, as discussants to the meeting. He suggested that participants made one statement only, but separating the treatment of the following two main themes:

   (1) General economic environment and objectives in relation to trade policies; questions relating to the evolution of the Brazilian economy; difficulties Brazil faced in fiscal management, control of the money supply and the need to stimulate real investment in a situation of economic stagnation, high unemployment and inflation; use of exchange rate policies, on the one hand, to help control inflation and, on the other hand, to foster exports; and Brazil's policy approach toward multilateral and regional trade liberalization, including the development of trade and trade-related policies in the context of the Uruguay Round, and in trade relations within the Americas, including ALADI and the Southern Common Market (MERCOSUL);

   (2) Changes in the use of trade and trade-related measures and policies. Relevant issues included the increased predictability and transparency of the import régime through the elimination of quantitative restrictions, and the substantial, pre-announced rationalization and general lowering of tariffs; elimination of export subsidies, fiscal incentives and various industrial promotion schemes; and difficulties faced in the implementation of the privatization programme. Issues for possible discussion also included remaining restrictions in Brazil's investment régime, local content requirements, government procurement, export financing, and restrictions applied to Brazil's exports by trading partners. Another important point for Council members covered information about any changes in the direction of Brazil's trade policies following recent changes in the Government.

4. The Chairman invited the representative of Brazil to give his opening statement, to be followed by the two discussants.
II. INTRODUCTORY STATEMENT BY THE REPRESENTATIVE OF BRAZIL

5. Let me first of all say it is a pleasure for me to present the trade policy of Brazil to the contracting parties under your wise and firm chairmanship. I would like to thank Ambassador Kesavapany and Mr. Pierre Gosselin, both very knowledgeable in GATT matters, for their readiness to act as discussants during this session. Also, I wish to pay tribute to the very good work done by the Secretariat in preparing the report, which is comprehensive and, on the whole, accurate. Although the document has been prepared in constant dialogue with my Government, there are still some points that would, in our view, require a final adjustment before the document can be published. My delegation will indicate these points in writing to the Secretariat afterwards.

6. As you, Mr. Chairman, and everybody knows, Brazil has been in the headlines - and often on the front pages - of the international press for the last few weeks. The motives were not always very cheering ones, but, as I had the opportunity to point out on a different occasion, we Brazilians like to think that, despite many possible defects, we are capable of big things. The construction of a modern capital deep in our hinterland, following the dream of an idealistic President; the organization of the Rio Conference - the biggest international meeting ever; the overthrow of a twenty year authoritarian military régime by the people’s pressure, without a single shot being fired; and building one of the world’s ten largest economies, from a purely agrarian society, in four decades are some of the exploits - if I can call them that - of which we feel legitimately proud.

7. The recent transition of power in my country - in strict observance of constitutional rules and following a fully transparent and democratic process - can surely be added to that list. More than an episode of the troubled history of a Latin American Republic, it will constitute an important moment in the evolution of political culture.

8. But, as is usually the case with such important political changes, the universal praise for the political transition has been accompanied by signs of apprehension as to the economic set-up. In many cases, doubts have been expressed as to the continuity of the economic transformation and the general trend towards liberalization and integration in the world economy. Part of my objective today is to show, not only by means of declarations, but also through an analysis, albeit succinct, of our economic evolution that the new orientations of economic policy are not just the result of personal decisions, however enlightened, but stem from deep and consistent trends, which are the object of a growing consensus in my country.

9. I therefore welcome this opportunity, probably the first offered to my country in a multilateral forum, after the change in Government, to present the main directions of our trade policy. The Secretariat report presents, as I said, a comprehensive description of the Brazilian trade policy. The document prepared by my authorities, on the other hand, indicates
extensively the objectives of trade policy and the measures being undertaken in this field. Accordingly, I will try, in my remarks, not to be repetitive but rather to complement, briefly, what is contained in the two papers.

10. If I could employ simple words to characterise the economic situation in Brazil today, I would resort to terms like "change", "transition", "reform", "transformation". As in many other countries, these changes are clearly directed towards trade liberalization, privatization and deregulation. It is true to say that these concepts have become very fashionable, almost clichés, and it is all too common to find simplistic analyses in which the changes taking place in many developing countries' economies are described as mere recognition of past errors where more and more governments discover that they were doing things wrong and are now going "to do the right thing", if I am allowed to borrow from a famous American film maker. In my view this type of approach is manichean and tends to overlook the specificities of individual countries. It is also excessively voluntaristic in as much as it presents the complex transformation taking place as following a mere change of direction in the Government's policy.

11. Perhaps the main aspect one should keep in mind is that what has been taking place in the last few years in Brazil is not only a change of trade or even economic policy, but a change of development model. After what has been called the "lost decade", it is the very centre of gravity of the economic system that has been moving. As in any other country of late industrialization, the State has played a major rôle in ensuring economic development in Brazil. Although the roots of this model can be traced to the 1930s or even earlier, from 1945 on to the 1970s the Brazilian development model was based on three pillars: (a) State intervention through coordination, financing, building-up of infrastructure for the industrial private sector and, sometimes, State entrepreneurship in areas deemed to be strategic; (b) import-substitution policies geared to the creation of a complete and diversified domestic industrial base; and (c) the existence of a rather favourable international environment in terms of both risk capital and credits. This model started to show signs of exhaustion with the impossibility of the State to continue playing its traditional rôle, in particular as concerns its capacity to finance economic growth. The trend in Government (federal, state and municipal) savings illustrates this situation. After mounting to a peak of 7.04 per cent of GDP in 1973, the Government net savings declined steadily to a low of minus 5.28 in 1989. This means that the Government not only had become unable to finance the growth of the private sector, but was also borrowing from it to finance its own current expenditures.

12. The unfavourable changes in the international environment and the urgent need for internal adjustments were not immediately grasped. From the 1973 oil shock onwards, the Brazilian State relied heavily on international credit, mostly from private banks, to replace its own declining savings for financing economic growth, in particular the
expansion of sectors such as energy, telecommunications, transportation, steel, petrochemicals, aeronautics, among others. As from the second oil crisis in 1979, with most of these projects not yet being able to generate the necessary resources, Brazil was dragged into a vicious circle in which the Brazilian Government had to obtain new credits to repay old loans. The so-called debt crisis of 1982 onwards, fuelled by an explosive increase in international interest rates - itself a consequence of macroeconomic imbalances in the developed world - made the prospects of growth on the same basis evaporate.

13. The collapse faced by the public sector with the suspension of the capital inflows demonstrated the limits of the previous economic model. When the traditional engine of growth was exhausted, the private sector was clearly unprepared to take the lead. Companies had become used to operating in an almost riskless environment, and were mainly concerned with protecting short-term profit margins. Moreover, the situation of the State finance turned into a source of instability for the economy, making it even more difficult for the private sector to accomplish that task.

14. Mr. Chairman, the essence of the problem we have been facing in Brazil in recent years is, therefore, how to perform the transfer of the economic power house from the State to the private sector. This also means finding new ways of financing economic development in the present context of increased competition for capital world wide, as well as improving the competitiveness of Brazilian entrepreneurs, according to international standards. The attainment of such ambitious goals requires action on both sides of the equation. On the one hand, we are faced with the necessity of redressing the situation of the State so that it ceases to be a source of instability for the economy and can better perform its basic tasks. This includes measures of adjustment of the public sector such as fiscal reform and privatization of assets. These measures shall free up resources to support investment in education, science and technology and health care, which are not only sources of well being, but are also critical to economic performance. On the other hand, measures to stimulate the private sector are needed, both at the internal regulatory level and at the border. This means greater exposure to international market forces, with the ultimate objective of promoting what has been described as "competitive integration" with the world economy.

15. Before going into some of the specific measures related to this process, I would like to make a few references to the context which conditions the ongoing transition. First, contrary to what may have occurred in other countries, the import-substitution model is not seen as having failed its tasks or even as the root of all the problems we are facing now. Perhaps due to factors such as the size of the Brazilian market and the abundance of natural resources, among others, import substitution, whatever the costs attributable to it, allowed Brazil to experience one of the highest growth rates in the world during almost forty years, with an average of 7 per cent, until 1980. This is no small accomplishment by any standards, even if such progress in the economic
field contrasted with the persistence of social and regional imbalances, that are largely responsible for the political crises we have undergone. Therefore, and in spite of the clear recognition nowadays of its intrinsic limitation, the import-substitution policy is considered by many as having accomplished its objectives, which were to ensure continued growth and establish a diversified industrial base. One should not forget either that, at its inception, the industrialisation policy was less the result of clearly defined political intentions than the necessary consequence of the closing of external markets in the years of recession and war. As a matter of fact, the limitations of import substitution became clearer in proportion as, following the very logic of the model, it moved from simpler products to more sophisticated ones, for which the economies of scale of the internal market were obviously inadequate. These shortcomings became even more apparent with the transformation of the world economy and the growing integration of productive activities on a planetary basis. Be that as it may, the relative success of the model contributed to creating and consolidating strong economic interests, which tend to resist change and not only in the realm of ideas.

16. The second aspect which cannot be stressed too much is that this economic transition is taking place, and fortunately so, in a fully democratic environment. I have already referred to this in the beginning and need not elaborate on it further. But it is worth recalling that the transformation in the Brazilian economy does not stem from an authoritarian decision based on the wisdom of well-trained bureaucrats. In Brazil the whole process has to be negotiated, through a fully independent National Congress and a truly autonomous judicial system, with an increasingly organized civil society and in a country with many different economic, regional and political interests. Nevertheless, consensus around the reforms is growing. To a very great degree, the Press, the academic world, as well as many businessmen and important portions of the workers' movement today favour the economic reforms being undertaken.

17. Finally it should be noted that we have decided to launch that experience not on a "go it alone" basis, but together with our MERCOSUL partners, who have been confronted with some of the same problems and envisage similar solutions. In this regard, if one looks at MERCOSUL against the background I have outlined, it must be very clear that it constitutes an instrument for those countries to transform and liberalize their economies, and could not possibly aim at protection on a larger scale. A good illustration of this is the offer by the MERCOSUL countries of a ceiling binding of 35 per cent in the Uruguay Round. This compares with 40 per cent nominal average and peaks of 85 per cent in force in Brazil only three years ago.

18. Mr. Chairman, allow me now, briefly, to enumerate some of the concrete measures that have already been taken or will be taken in the near future by the Brazilian Government. As far as the adjustment of the public sector is concerned, emphasis should be placed on the widely perceived need for
fiscal reform, the privatization programme and the renegotiation of foreign
debt. The newly empowered authorities in my country have reaffirmed their
commitment to fiscal reform to be developed in two steps: an immediate
emergency plan to improve the present financial imbalance of the state, and
a longer-term, deeper reform to be implemented in conjunction with the
constitutional review due to take place next year. The fiscal reform is
essential to provide the public sector with non-inflationary sources of
financing. The fiscal reform also constitutes the single most important
step yet to be taken for a definitive eradication of double-digit
inflation. Privatization, which is seen as an essential element of the
industrial restructuring and integration in the world economy, shall
continue as planned. Eighteen companies have been sold so far and several
others are scheduled to be privatized next year. The timeframe for this
process was confirmed by my authorities, and some important sales,
including that of the steel mill ACESITA, are scheduled to take place in
the course of the next few days. With regard to foreign debt we seem to be
approaching a long lasting solution to the problem. During the course of
this year negotiations have been successfully concluded with the IMF, the
Paris Club, the Advisory Committee of the private commercial banks. The
Brazilian Government has publicly and officially reaffirmed its support to
these agreements.

19. In relation to measures intended to stimulate the private sector, I
should mention first of all the deregulation programme launched in 1990
with the objective of improving the functioning of markets, by removing
unnecessary controls and other obstacles to the operation of companies and
the life of citizens. Already in that year, 296 measures were issued. In
1991 111,000 decrees were revoked, which correspond to approximately
90 per cent of all decrees in force for the last 100 years. It is also
worth noting the revision of competition policies, mainly through the
promulgation of Law 8,158 (January 91), with the aim of guaranteeing free
and fair competition among private entities. Another important initiative
is the liberalization and deregulation of port services. The Chamber of
Deputies - the lower house in the Brazilian Congress - unanimously approved
a new bill to that effect. The matter is now under consideration in the
Senate. Some estimate the improvement of exports, due to the reduction of
port services costs alone, at US$5 billion a year. A similar impact is to
be expected concerning imports. Finally, but very important, price
controls have been abolished and the exchange market liberalized. It
should be noted that exchange rates have stayed substantially constant in
real terms since the Central Bank ceased the previous practice of fixing
it.

20. As stated before, one of the challenges Brazil has to face is finding
non-inflationary means of financing the new growth model led by the private
sector. In this connection the reform of the financial system is seen as
an important objective, particularly in view of the increasingly important
rôle, worldwide, of capital and security markets, to the detriment of
commercial banks, as a channel of both domestic and foreign savings to
finance productive investment. Comprehensive guidelines for the capital
market, with a total of 50 measures, have been under implementation since 1991 to stimulate this activity. Among them I should quote the liberalization of movement of capital, including of service suppliers, to be achieved until 1994. Other measures to facilitate the operation of foreign capital include the elimination of royalty payments restrictions between Brazilian subsidiaries and parent companies abroad, simplification of procedures and decentralization of administrative acts by the Central Bank of Brazil, and reduction of profit remittance taxes.

21. Another set of measures to stimulate the private sector and a cornerstone to this whole strategy has to do, in a more specific manner, with our subject today, that is, trade policy. This is the area where reforms have perhaps advanced the most. The primary goal of the new trade policy is to increase the efficiency in the production and commercialization of goods and services through a greater integration with the world economy. The measures already taken are of a simple character, but very far reaching in their effects: a comprehensive elimination of non-tariff barriers, a substantial reduction of tariff rates and of their dispersion, simplification of procedures related to importation and exportation, automatic grants of import and export licences, the termination of export subsidies, and liberalization of the exchange rate régime.

22. As far as non-tariff barriers are concerned, you may remember, Mr. Chairman, that Brazil maintained until the beginning of 1990 a yearly import programme for individual firms based on the previous performance record, a list of items whose importation was temporarily suspended, a minimum repayment period and minimum external finance requirement. These measures have all been eliminated, with only two exceptions: a list of some informatics products which still require previous authorization to be imported, due to be eliminated by the end of this month in accordance with a newly enacted law, and the importation of luxury boats, which an overzealous legislator in the past decided to prohibit by law. A new bill is under consideration to withdraw the prohibition. Having adopted such steps, Brazil decided to disinvoke Article XVIII of the GATT in July of last year, even if the balance-of-payments situation continues to be a cause of great concern, not the least in view of the instability of international monetary markets.

23. Reflecting the growing consensus on the need to redefine the parameters for industrial competitiveness, the tariff policy adopted since the mid-1980s has consistently taken the path of liberalization, both in terms of rate of decrease and dispersion reduction. The most comprehensive reform, however, was adopted in 1991, which established a schedule of gradual reduction until 1993. Such a schedule was immediately published in order to give the private sector a clear sign for future planning. As it stands now, when fully implemented by July 1993, tariff rates will range from 0 per cent to 35 per cent, with nominal average at 14.2 per cent and mean deviation at 7.9 per cent. It should be recalled that only three years ago the Brazilian maximum tariff was 85 per cent and the nominal average, 41 per cent. The final shape of the Brazilian tariff, however, will depend, as you know Mr. Chairman, on the negotiations with our
MERCOSUL partners and, most of all, on the results of the Uruguay Round. Also on this matter of crucial importance, the new economic authorities of my country unequivocally reaffirmed their intention to stick to the scheduled timeframe.

24. Other measures intended at streamlining the foreign trade régime and reducing State intervention include the closing of Government entities which intervened in the sugar, coffee and wheat markets, the Sugar and Alcohol Institute, the Brazilian Coffee Institute and the Wheat Board, respectively, as well as the closing down of State companies such as Interbras, a trading linked to Petrobras (the Brazilian oil company), Siderbras, a holding responsible for steel mills, and Portobras, which used to centralize port administration in Brazil. The elimination of export subsidies programmes merits a particular notice here. These incentives constituted an important instrument during the 1980s due mainly to the necessity of ensuring foreign currency to cope with the burden of foreign debt. Although the debt problem is not yet entirely behind us, the Brazilian Government undertook to eliminate such subsidies with the objective of improving resource allocation in the economy.

25. Without being exhaustive, Mr. Chairman, this list of initiatives clearly indicates the direction where Brazil is going. It must be also evident that trade liberalization is fundamental for the new economic model. Although the transition is not yet complete, some positive signs appear on the horizon. In 1992, both imports and exports are expected to reach record levels, with the latter between US$36 billion and US$38 billion and the former around US$23 billion. The inward flow of capital has been increasing rapidly over the past two years, climbing from around US$5 billion in 1990 to US$11.62 billion in 1991 and US$11.66 in the first eight months of 1992. GDP growth for this year is expected to mount to 2.7 per cent, up from 1 per cent in 1991 and -4.3 per cent in 1990. Agricultural production, especially in grains, is expected to show a strong performance in 1992, with a harvest of 70 million tons, one of the highest in history, compared with 58 million last year, thus underlining the importance of this sector, where we enjoy a natural comparative advantage. Inflation, on the other hand, remains unfortunately very high, over 20 per cent a month, and constitutes today the main internal obstacle to bringing the economy to a track of sustainable growth.

26. On the international level, our most important concern continues to be the Uruguay Round. The competitive integration in the world economy, which Brazil and its MERCOSUL partners are undertaking, by definition, can only make sense in an open world economy governed by a solid multilateral trading system. Therefore, a successful Uruguay Round is a high priority for the Brazilian Government and we hope it will revert some of the nasty practices we have faced in recent years. As you may know Mr. Chairman, Brazil is one of the countries which suffered most from anti-dumping and countervailing actions and many of our exports face undue restrictions through grey area measures. Some of our main exports such as agricultural products, steel, textiles and footwear, and automotive products are among the most targeted sectors by protectionism in the markets of developed countries. Unfair trade practices by the major partners in world trade
have systematically hit our exports in third markets. In most cases it is a matter of artificially maintaining inefficient industries, making it difficult or sometimes impossible for Brazil to benefit from its comparative advantages. Special and differential treatment has become almost a mirage and does not offset the negative impact of rampant protectionism. In the case of GSP for instance, although, according to available estimates, 23 per cent of Brazilian exports are eligible under this scheme, real gains have represented only 1.4 per cent of total exports. Indeed, as it stands now, with the growingly arbitrary practices by governments of developed countries, GSP is, at most, a mixed blessing. Finally, it should not be forgotten that Brazil was the only developing country to suffer illegal retaliation prompted by GATT inconsistent unilateral legislation. All this underlines the reasons behind our firm support to the reinforcement of the multilateral trading rules and to a strong MTO.

27. Mr. Chairman, Brazil has embarked on a deep and comprehensive process of transformation which is likely to benefit the Brazilians but also our trading partners. More than a hope, it is a necessity that these bold steps are met by positive responses from the international trading community, especially in the Uruguay Round context. Brazil, as a founding member of the GATT, has always maintained a high profile of participation in its negotiations, and this is even more true in the case of the Uruguay Round. If, in the past, a strong GATT was in our interests, today it becomes an essential element of the new development strategy. Today we experience a lengthy debate on the question of regionalism versus globalism. Although, as it has been stressed, the two should not be seen as necessarily opposed, the structure of Brazilian foreign trade, with no strong concentration in specific regions, makes it very clear that, for Brazil, regionalism will never be a real alternative to globalism. The fact that the GATT is increasingly a truly universal agreement adds to our hopes that Brazil will encounter a favourable international trade environment in this new phase of its history.

28. Mr. Chairman, "Living is a very dangerous thing", used to say the character of a famous novel - a former bandit turned into a philosopher of the Brazilian backlands - written by one of our greatest writers, who comes from the home State of President Itamar Franco. But then, the only logical alternative to "living" is "not living", and this is no alternative at all. When Brazil took on its present adventure - in the full Ulysslean sense of the word - it was conscious of the risks as well as of the opportunities. It is our hope that by taking the right decisions in the appropriate time we (and by "we" I mean the whole international community) will increase the latter and minimize the former. This will not only be in the benefit of Brazil but of all those - and they are the vast majority - who would rather embark on the genuine excitement of the future than seek protection under the comfortable but stifling mantle of the past.
III. STATEMENT BY THE FIRST DISCUSSANT

29. The first discussant (Mr. Gosselin) limited himself to the general trade policy area. He noted that Brazil had experienced very serious economic difficulties and was attempting a wholesale reform of its economic and trade policies. Brazil's trade régime had been sporadically oriented towards import substitution throughout most of the post World War II period, in support of an overall policy of State-led industrialization, and had recorded strong economic growth. However, in the 1980s, the inefficiencies and growing costs of this approach led to rapidly increasing public debt punctuated by destabilizing bouts of hyper-inflation. It had needed to generate balance-of-payments surpluses to finance foreign debt. Growth in GDP had stagnated and at times had declined, as did per capita income.

30. In 1990, the Government of Brazil had taken a series of courageous steps, completely reversing its past economic and trade policies stances targeting the twin objectives of macroeconomic stabilization and structural reforms. The macroeconomic objectives have been tackled by monetary and fiscal policies, foreign exchange policy, price and wage controls. The structural transformation was tackled by trade liberalization, privatization of public sector enterprises and domestic deregulations. Structural transformation was aimed at reducing substantially the size and rôle of the public sector, lowering Government intervention and encouraging the operation of the free market.

31. Brazil had begun an ambitious privatization programme that should increase the strength of the private sector, reduce inefficiencies, cost and drains on the treasury and help to eliminate some of the pressure for import distorting measures. He indicated that it would be useful to know more about the Government's broader objectives in this area, noting that the Government of Brazil had reserved a number of sectors for Brazilian nationals. He also noted that government structure and policy formulation had been simplified. However, the Brazilian system was characterized by a complex of laws, decrees, regulations, etc. He asked about progress towards the creation of a unified trade law. He also suggested that Brazilian trade policy formulation would benefit from a formalized industry sector advisory process. He considered that floating the exchange rate and lifting most controls and restrictions on a private sector access to foreign exchange were both positive developments, which would contribute substantially to business confidence and help reduce capital flight. He said that foreign direct investment remained prohibited in a large number of sectors such as petroleum production and refining, public utilities, media, real-estate and various strategic sectors such as informatics, telecommunications, broadcasting and mining, which were key to economic growth. However, there had been a number of improvements in investment policy that should facilitate FDI, such as the conditions governing remittances of profits and dividends, the reduction of taxes on remittances and an overall simplification of registration and other procedures governing investments.

32. He noted that, as a founding member of GATT, Brazil had always played an active and influential rôle in the work of the GATT as well as in the
current round of multilateral negotiations. It was a member of most of the Tokyo Round Codes, with the exception of Government Procurement, Civil Aircraft and the International Dairy Agreement. In the area of government procurement, Brazil continued to maintain onerous local content requirements, a policy which placed a burden on the treasury and could lead to a misallocation of resources as well as a loss of efficiency. Brazil participated in a number of regional agreements under the Latin American Integration Association. The most significant initiative in this area was the Southern Common Market, MERCOSUL, signed in March 1991 with Argentina, Uruguay and Paraguay aiming at the free circulation of goods, services, capital and labour as from 1 January 1995. The MERCOSUL initiative was to be welcomed in so far as it is consistent with the General Agreement. The level of external tariffs would indicate whether this agreement will be a significant force for trade creation. He also asked for information on the production sharing agreements that could be signed under the Agreement.

33. The first discussant concluded that the reforms were both courageous and properly oriented. Brazil's success in making a break with its trade policy past would depend critically on a creation of a more stable policy environment. The challenge for Brazil would be to stay on the course that it had set in 1990 for a sufficient time for the benefits to emerge.
IV. STATEMENT BY THE SECOND DISCUSSANT

34. The second discussant (Ambassador Kesavapany) commended the Brazilian Government for having decided to opt for the open market system as a means of curing the country's many economic ailments. After several stops-and-goes, Brazil had embarked on successive waves of liberalization, starting in 1987. The aim was to reduce import duties, abolish taxes on foreign trade and reduce quantitative restrictions. These bold steps had been buttressed by a new government which in 1990, took further reform measures. Among these were: (i) the freeing of the foreign exchange market; (ii) the elimination of import controls; (iii) substantial and progressive tariff reduction; and (iv) rational use of export incentives. These changes had taken place in the face of serious economic difficulties. The Secretariat report concluded that impressive results had been obtained in the area of trade policy reform and that by March 1990 virtually all non-tariff barriers had been eliminated. The Brazilian Government had committed itself to substantially and progressively reducing tariffs - from an average 32 per cent in 1990 to 14.2 per cent in 1993.

35. Literature from independent sources, including the 1992 edition of the National Trade Estimate Report on Foreign Trade Barriers published by the USTR, confirmed that Brazil had in fact taken sweeping measures, in the short space of five years, to reduce barriers to imports and to curtail the activities of the public sector. The Report noted that the Brazilian authorities had designated tariffs as the "primary instrument in regulating imports in contrast to the long standing practice of severely restricting imports through the import licensing régime". Remaining import licensing restrictions, in the area of computer hardware and related digital electronics equipment, were to be eliminated in October 1992. However, there continued to be restrictions in the service, insurance and investment sectors.

36. The Brazilian Government appeared intent on keeping to its schedule of tariff reductions enacted in 1990. Average tariffs were to reach 14.2 per cent by July 1993. It was significant that this round of tariff reduction was carried through amidst the political uncertainties prevailing in Brazil. In the light of the recent change in leadership, it was encouraging that, while the pace may slow down, the direction that Brazil had set for itself might not change.

37. Despite the five-year old tariff reduction programme, imports still represented only around 6 per cent of gross domestic product. In 1992 they were down 2.79 per cent and still decreasing. This could only mean that, despite the best efforts by the Government, there were still impediments preventing a free flow of goods into Brazil. There might be other reasons than the domestic recession for the drop in imports. He asked why, despite the dismantling of tariff barriers, there had not been a commensurate impact on the growth of merchandise and services imports.

38. Another compelling reason for the Brazilian Government to keep to its schedule of reducing tariff barriers was the constraint imposed by its membership of MERCOSUR.
39. The second discussant also noted that the Brazilian Government had used privatization to open up the economy and to end restrictive trade practices. Recent press reports suggested that there had been a slowdown in the restructuring of public sector companies. He asked what was the current status of the privatization schedule.

40. He noted that, despite the recession in its main overseas markets, Brazil’s exports were expected to reach US$36-38 billion this year, an increase of 10 per cent from the previous year. The trade surplus was expected to be a total of US$15 billion, partly because of the domestic recession, which was forcing manufacturers to export, and a stable exchange rate. However, this success had provoked cries of dumping in neighbouring countries, an issue which would have to be addressed if the future of MERCOSUR was to be assured.

41. He concluded that, as a result of the economic and trade reforms undertaken by successive governments since 1987, Brazil appeared to have finally set itself on the correct path towards a modern and liberalized economy, although much remained to be done.
V. STATEMENTS AND QUESTIONS BY THE MEMBERS OF THE COUNCIL

42. The representative of Argentina expressed his country's satisfaction with the considerable efforts undertaken by Brazil to transform its economy, under very difficult circumstances. He referred extensively to Brazil's macroeconomic situation, including a serious decline in GNP per capita during the 1980s, and the efforts being made to overcome structural problems. A whole process of structural adjustment, encompassing privatization, trade liberalization and deregulation, was being implemented in parallel with efforts to control certain economic variables. Brazil's fiscal deficit was an important element to consider, especially due to its incidence on inflation.

43. He shared the view of the Brazilian delegation about the experience of the import substitution development model. He made a historical reference to the beginning of this model in Latin America, and cited certain elements behind its development, including the European immigration, the two World Wars (which were viewed as additional incentives for import substitution) and a lack of international co-operation based on open economies. He also referred to the Haberler Report, which treated exceptions to the General Agreement and recommended developed countries to open their markets. The problems of import substitution during the 1980s were mainly due to a lack of political decisions during the previous decades to make changes in order to adapt the industrial sector to a competitive environment.

44. Brazil had registered considerable surpluses in its trade balance, especially since 1986; however these surpluses were offset by deficits in the services balance, in particular with respect to foreign debt servicing. An important part of Brazil's domestic savings had been used to meet its external debt service. On the other hand, persistent and considerable trade surpluses should not be considered as a success, as these could reflect important decreases in the rate of investment, and hence in the capacity for economic growth. With respect to foreign direct investment, he noted that it would be interesting to see the composition of capital inflows and the way in which short-term speculative inflows could be changed into productive real investment.

45. Speaking about the Southern Common Market (MERCOSUL), he stressed that this integration process was of the highest importance in the region. There was a strong political will to overcome problems between members. They were fully committed to a collective effort of harmonization of their economic policies so as to face structural problems in a similar way. The deregulation of economic activities was an important element in this process.

46. Finally, recalling the considerable efforts made by many developing countries to liberalize their economies, he regretted the lack of political will of some main trading partners to solve blocking problems in the Uruguay Round.

47. The representative of Norway, speaking on behalf of the Nordic countries welcomed the initiatives taken by the Government of Brazil to
liberalize the country's trade policy. It was hoped that the present
development with trade liberalization, deregulation and privatization would
be continued in the years to come. He asked whether the recent change in
Government would have any major effect on Brazilian trade policy.

48. Brazil, through the country's size and economy, played an important
rôle both in a regional context and in the global trade system. It was a
founding member of the GATT, and had played an active role in all
negotiating rounds. However, the Nordic countries noted with regret that
Brazil was not a member of the Agreement on Government Procurement, the
Agreement on Import Licensing Procedures or the Agreement on Trade in Civil
Aircraft, and urged Brazil to become a full member in these Codes. It was
hoped that MERCOSUL would be a success and the Nordics looked forward to
its discussion in the GATT.

49. It was a matter of concern that Brazil, during the last year, had
increasingly used anti-dumping and countervailing measures to neutralize
some of the efforts of the liberalization policy. It was frequently
reported that the importation procedures for some products into Brazil took
quite a long time, and he asked whether there were any plans to change or
make these procedures more effective. Brazil also had other duties or
taxes, for instance, the so-called merchant marine renewal tax
(AFRMM-Adicional de Prete para a Renovaçào da Marinha Mercante) which was
equal to 25 per cent of the freight. He asked whether there were any plans
to abolish this duty. The level of tariff bindings was very low. The
Nordics welcomed Brazil's offer to bind the tariff schedule for industrial
products at 35 per cent in the Uruguay Round. However, there would seem to
be scope for a further narrowing of the gap between the applied and bound
rates. He also asked whether it would be possible to indicate when the new
Port Bill might pass through the Congress and become effective. The
Nordics would also like to know when new legislation for the protection of
intellectual property might be expected to come into force.

50. The representative of the European Communities welcomed the
opportunity to examine a country which, after years of pronounced
protectionism, had decided in 1990 to dismantle its formidable protective
apparatus. The EC encouraged the new Brazilian administration to pursue
its liberalization efforts, resist protectionist pressures and maintain
Brazil's commitment to the conclusion of the Uruguay Round. The complex
"stop-go" nature of Brazil's liberalization had created a climate of
uncertainty for foreign traders, reflected in the co-existence of
restrictive trade regulations with a clear will for overall transparency.
It would be in Brazil's interest to adopt a more open attitude to the
execution of its liberalization programme. The fiscal measures necessary
for good management of Brazil's adjustment programme would contribute to
the stabilization of the economy.

51. Despite tariff reductions, the average rate on industrial goods was
still around 20 per cent, with peaks of 30 per cent or over on cars, hi-fi
equipment and special chemical products. Brazil had moved to greater
encouragement of direct foreign investment by relaxing restrictions on
repatriation of profits and capital; however, foreign capital
participation in Brazilian industry was still limited to 40 per cent, with specific restrictions in mining, petroleum exploration and telecommunications. Brazil was encouraged to enlarge its privatization programme to fields such as electricity, transport and telecommunications.

52. He welcomed Brazil’s review of its intellectual property legislation on patents, which was less rigorous than in most industrialized countries; no protection was given on pharmaceutical products or production processes. The Community also welcomed the phasing out of market reservation provisions on computer equipment and was also looking forward to consulting in late October with Brazil regarding its countervailing duties on milk powder.

53. He welcomed the plan by Brazil to introduce a single trade law. This was moving in the right direction to clarify the lack of information on Brazil’s trade policies and making the signals given to foreign economic operations less ambiguous.

54. The representative of Mexico commended Brazil for the important measures undertaken in the last few years in the areas of trade liberalization, deregulation and privatization. He expressed the hope that the new Brazilian Government would deepen structural reforms. Certain major problems still affected the Brazilian economy, including high inflation and external debt. A necessary, but not sufficient, condition to control inflation was a reduction in the fiscal deficit. Exchange rate, and wage and price policies, jointly accepted by the Government, private sector and workers, were also important complementary mechanisms. The international community should support Brazil’s efforts with regard to the negotiations on its external debt.

55. Brazil’s development model had been radically changed since 1990. The opening of the economy, in particular trade liberalization, had contributed to the enhancing of the multilateral trading system. In this respect, he referred to trade reforms undertaken by Brazil unilaterally, such as tariff reductions, elimination of quantitative restrictions and disinvocation of Article XVIII:B of GATT.

56. He sought some clarification about Brazil’s trade framework and practices, including whether a single trade law was being drafted, future plans to reduce additional charges on imports, and the operation of the import licensing system. Finally, he stressed the crucial importance of a successful conclusion to the Uruguay Round, which would support those countries that had opted for trade liberalization and their insertion into the international economy.

57. The representative of Chile said that his country observed with satisfaction Brazil’s economic liberalization programme during the past years. This programme was based on trade liberalization, deregulation and privatization. As a result of major changes, the trade régime had become more transparent and less discretionary, benefiting both Brazilian domestic producers and foreign trading partners. Brazil’s offer to bind its entire tariff schedule for industrial products would increase predictability of its tariff régime.
58. Noting that Brazil had eliminated export subsidies and fiscal incentives, he asked for additional information about the objectives and coverage of the Export Financing Programme (PROEX). He also referred to remaining non-tariff measures which might still hinder imports. Imports were still subject to relatively heavy fiscal charges, including additional taxes such as the Port Tax and the Merchant Marine Renewal Tax, and the internal tax system. Other areas of concern included controls on the issuance of import licences, a registration requirement affecting exporters of agricultural products, especially fish products, and the excessive number and complexity of trade laws.

59. He said that MERCOSUL was a positive integration process at a sub-regional level. He requested additional information about the criteria for the definition of the future common external tariff to be applied by MERCOSUL countries.

60. While expressing the hope that Brazil would continue its structural transformation process, he said that the persistence of an unfavorable and protectionist economic environment hindered all efforts aimed at opening markets. In this respect, he highlighted the importance of a successful conclusion to the Uruguay Round.

61. The representative of Peru stressed Brazil's leading rôle in many international fora. She emphasized the considerable efforts undertaken by Brazil to confront the new challenges and requirements resulting from the multilateral system of the GATT with the existing rules or with the new rules which might result from a conclusion of the Uruguay Round. Brazil had changed its economic and trade development policies so as to allow market forces to play their rôle. She referred to the measures taken by Brazil, including trade liberalization, deregulation and privatization.

62. Brazil's considerable efforts to transform and modernize its trade system should be accompanied by a clear and positive answer by the external environment. She said that without a clear and prompt answer by the multilateral trading system, all these autonomous efforts would be at risk with a high social cost and considerable loss for its trading partners.

63. The representative of New Zealand commented on sanitary and phytosanitary (SPS) regulations; use of anti-dumping and countervailing measures; and the external environment. New Zealand recognized the right of contracting parties to maintain an SPS régime based on scientific principles. However, New Zealand exporters had experienced some practical difficulties in exporting kiwi fruit, and live sheep and cattle to Brazil. The main problem appeared to be related to bureaucratic processes for obtaining clearance for imports and reaching agreement on the terms of health protocols. However, New Zealand did not disagree with Brazil's right to maintain a GATT-consistent SPS régime. New Zealand felt that Brazil's increased use of anti-dumping and countervailing measures was a corollary of its virtual elimination of NTMs and other measures that previously insulated domestic production from international market conditions. Resort to countervailing measures in response to subsidized imports could be appropriate, provided such measures were GATT-consistent. The use of such measures had the advantage of avoiding the distortions that other common responses, such as minimum import prices or across-the-board tariff increases, could have on non-subsidized exporters.
64. New Zealand also noted that Brazil's agricultural exports faced a grossly distorted international market. All contracting parties, particularly those whose economic links with Brazil extended beyond trade in goods, had an interest in ensuring a supportive external environment for the reform programme. New Zealand concluded that Brazil had made large, rapid and very important steps towards the GATT ideal, through its virtual elimination of NTMs and shift to predominantly tariff-based protection, the use of ad valorem duties in almost all cases, the clear and recently accelerated programme of tariff reductions, and moves to reduce concessions and exceptions. Brazil's reform policy deserved praise. New Zealand encouraged Brazil to maintain its current course and complete removal of remaining distortions in its trade régime, such as remaining fiscal charges on imports and import controls in the informatics area.

65. The representative of Australia said it was commendable that Brazil had been able to implement its important programme of economic reform so rapidly, in the face of formidable domestic economic difficulties. Brazil was to be complimented on the enthusiasm with which it had restructured its policies and practices by concentrating on trade liberalization, deregulation and privatization.

66. In agriculture, the distortions of the world market had at times put Brazil in a difficult position. As a food importer, it had been offered products at subsidized prices, but this would conflict with the development of its own large agricultural sector. Australia shared Brazil's desire to see problems of global pricing distortions resolved through an early and successful conclusion to the Uruguay Round.

67. Australia supported the initiatives taken by Brazil in reducing and eliminating many non-tariff barriers, and wished to encourage Brazil to continue to reduce these barriers and to reform its institutional framework. Other positive steps taken in recent times were the changes to the exchange rate system and the implementation of the national privatization programme, as well as the change to a more transparent tariff-based import policy, the move to decrease tariffs to a maximum of 35 per cent by July 1993, and the abolition of export subsidies.

68. Brazil had contributed to the development and strengthening of the multilateral trading system through its active participation in the Uruguay Round, its membership of the Cairns Group, and its adherence to the use of GATT mechanisms in resolving trade disputes.

69. If Brazil was to realize its objective of economic efficiency, it would need to make additional reforms such as the reduction and rationalization of the taxes and charges on imports. The 25 per cent merchant marine renewal tax could act as a disincentive to the sourcing of products from Australia because of higher freight costs; Australia's coal trade with Brazil had been affected. Australia would appreciate further information on Brazil's intentions regarding liberalization of the remaining quantitative restrictions, as well as any plans for tariff rates after July 1993. The representative of Australia hoped that Brazil would continue the trend it had followed over the last few years. Finally, Australia stressed its concern that MERCOSUL should be trade creating.
70. The representative of Japan said his Government was pleased to note that Brazil had continued a comprehensive liberalization of its trading régime since March 1990, in order to stabilize its economy and to improve and strengthen the efficiency and competitiveness of its industries. The progressive rationalization of its tariff system, a substantial reduction of its tariff protection and the dismantling of quantitative restrictions over a wide range of the economy in recent years would contribute to the improvement of the transparency of its trading regulations and the elimination of discretionary measures, thus better integrating its economy into the world market. Japan encouraged Brazil to continue steadily liberalizing its trade régime still further. Japan appreciated that Brazil, as one of the original GATT contracting parties, had actively participated in past multilateral trade negotiations, and was showing a strong leadership in various fields of the present Uruguay Round negotiations.

71. Japan also had a number of specific comments on the Brazilian trade régime. Firstly, as regards MERCOSUL, the provisions of Article 24 of the General Agreement imposed strict conditions regarding the establishment of a customs union or a free-trade area. Japan hoped that MERCOSUL would remain in perfect conformity with the interests of the rest of the world. Secondly, Japan encouraged Brazil to join the Tokyo Round Codes, including the Government Procurement Code, of which it was not presently a member. Thirdly, the issue of import licences had been greatly simplified in recent years, and they were granted automatically except for products still under control. Japan hoped that this automaticity would be observed in practice and had no complaint so far. As regards administrative procedures, Japan was concerned that any delays could impose an unnecessary burden on applicants. Japan was also concerned by the fact that Brazil had no basic, unified law regulating international trade. Japan would appreciate any information on future plans on countertrade, as well as the Brazilian view on the conformity of this system with the GATT provisions. Fifthly, concerning the local content requirement which Brazil had established for official credit and government procurement, Japan hoped that this requirement would be abolished as soon as possible. In Japan's view, this requirement was not in conformity with the provisions of the TRIMs Agreement in the Draft Final Act embodying the results of the Uruguay Round.

72. The representative of India said that the most remarkable thing about Brazil's trade liberalization effort was that it had taken place against the background of serious economic problems: GDP stagnation, skewed income distribution and resultant poverty, high inflation and a massive external debt burden. It was commendable that Brazil had undertaken specific reforms concentrated on trade liberalization, deregulation and privatization. There had been impressive results in the area of trade policy reform and a virtual elimination of all non-tariff barriers. Ad valorem tariffs were now Brazil's principal import policy instrument. Tariffs had been progressively reduced and July 1993 should see an average level of only 14.2 per cent. The Brazilian offer in the Uruguay Round to bind its entire tariff for industrial products at 35 per cent was praiseworthy.
73. He said that the importance of a supportive external trade environment could not be over-emphasized. Protective measures continued to prevail in Brazil's major markets for its exports of orange juice, textiles and clothing, steel and footwear. Similarly, Brazil’s efforts to increase its exports of agricultural products had been thwarted by prevailing distortions caused by the agricultural policies of major trading entities.

74. The representative of the United States said that his Government was impressed with the remarkable change in direction that had, in a relatively short time, transformed Brazil from an extremely closed economy to one in which numerous barriers to foreign trade and investment had been either eliminated or reduced. One of the clearest signs of Brazil’s new recognition of the importance of trade liberalization to economic success was its membership in the emerging MERCOSUL. The extent to which this effort led to increased trade opportunities for MERCOSUL member countries and those outside the agreement would be an important benchmark in judging the value of Brazil’s economic reform efforts to the international trading community. His Government strongly supported the concept of the MERCOSUL and looked forward to examining the interim agreement under Article XXIV. However, he said that there still remained many obstacles to foreign participation in the Brazilian economy, particularly in the areas of investment, government procurement and intellectual property.

75. In the view of the United States Government, the keystone of Brazil’s foreign trade reform had been the shift away from a highly-regulated régime, based on quantitative and import licensing restrictions, towards a greater dependence on import tariffs as the main instrument for trade regulation. Brazil’s tariff liberalization programme was equally impressive. The United States hoped these improvements would be bound in the GATT through the Uruguay Round. Brazil should also be applauded for the steps it had taken to eliminate distortive export subsidy practices, and for the decline in the use of local content and export performance requirements. It was hoped that this trend would continue across all sectors.

76. The representative said, however, that foreign investment was precluded in many sectors, ranging from petroleum production and refining and public utilities to health care. Furthermore, in some areas, joint ventures were the only viable option given to foreign firms. With respect to government procurement, the United States would encourage Brazil to eliminate measures favouring domestic producers and to provide predictable, non-discriminatory treatment for foreign suppliers. Although some foreign participation was now allowed in some sub-sectors of the telecommunications sector, foreign investment was still excluded from other important sub-sectors through discriminatory procurement practices or outright limitations on foreign investment/ownership, including in basic telecommunications, value-added services such as on-line data processing and data base services. Brazil was encouraged to liberalize these sectors. The Brazilian financial services sector was relatively close to foreign participation, and the Brazilian economy was paying a heavy price for this lack of competition.
77. The United States looked forward to the elimination, on 29 October 1992, of the longstanding import licensing barriers affecting computers and digital electronic equipment. There were still discriminatory government procurement practices, and the Government of Brazil continued to review virtually all investment projects, including joint ventures, if investors wanted access to certain fiscal benefits. He said that the United States welcomed the fact that the legislation had been pending in the Brazilian Congress for over a year that would eliminate software-related requirements, but it had not yet been passed. Concerning intellectual property rights, the United States welcomed the efforts to improve the intellectual property rights régime. However, serious deficiencies remained particularly in the industrial property area. He hoped that legislation would afford world class protection in this area.

78. In conclusion, in spite of the remaining obstacles to foreign trade, the United States felt that Brazil had shown courage and wisdom in undertaking its programme of major economic reform, and wished it well in continuing along this path.

79. The representative of Pakistan said that, despite having been more affected than others by the debt crisis and hyperinflation, if Brazil were able to hold to its present course, it would be in the vanguard of developing countries in transforming its economy from inward-looking economic management, based on import substitution, to a profoundly outward-looking stance with an open trade régime as the central plank of its policy. Pakistan acclaimed the elimination of non-tariff measures, the disinvocation of Article XVIII:B, the tariff reductions and the elimination of export subsidies. This would allow Brazil's economy to be re-oriented towards its natural comparative advantage. Changes in the trends of economic management, in the use of price and exchange controls and in the liberalization of capital movement had been well catalogued during the discussions. He was confident that Brazil would complete the reform process.

80. Brazil was a founder member of the GATT. Through its active participation in the Uruguay Round, Brazil had helped to preserve the integrity of the international trading system and was helping it adapt to the future by its active rôle in talks on agriculture, safeguards, anti-dumping and countervailing measure questions, services, and TRIPs. Brazil had retained its faith in multilateralism, despite its problems. He hoped that Brazil would avoid the use of measures to harass trade.

81. He concluded that a more supportive international environment, including a successful conclusion to the Uruguay Round, would help Brazil to sustain its new course.

82. The representative of Canada said his country had an extensive trade relationship with Brazil. Both countries supported the early completion of the Uruguay Round, which Canada believed would assist Brazil in its process of liberalization.
83. Brazil had taken courageous actions in liberalizing trade and investment, structural adjustment, privatization of enterprises and other market-oriented economic reforms. Brazil should be congratulated on its unilateral steps in trade liberalization and for demonstrating a strong commitment to the multilateral trading system. Its commitment to the multilateral system had been reinforced by such actions as liberalizing the availability of foreign currency, its decision to disinvoke Article XVIII:B in 1991 and its adherence to planned import tariff reductions timetables. The MERCOSUR initiative was welcomed by Canada to the extent it was consistent with the requirements of the GATT. It could increasingly become an important economic powerhouse in the southern part of the hemisphere.

84. However, Canada considered that there remained certain constraints to liberalization within the trade policy framework. Canada would encourage Brazil to accede to the Import Licensing Code and the Agreement on Trade in Civil Aircraft. Onerous local content requirements were still maintained for government purchases. Canada encouraged Brazil to move from observer status to full membership in the Government Procurement Code and to make its tendering procedures more transparent.

85. Protectionism was still very widespread in the agricultural sector. Price support policies and minimum price schemes for agricultural products, while enhancing farm incomes, contributed to allocative inefficiencies, and were a considerable cost to the Brazilian Treasury. The Brazilian Government might wish to investigate whether income support programmes would achieve the same positive result in terms of farm incomes at less cost.

86. Canada welcomed Brazil's shift to placing greater emphasis on tariffs as an instrument of trade policy, rather than on non-tariff barriers and was encouraged that Brazil had signalled a willingness in the Uruguay Round to increase significantly the scope of its tariff bindings. Canada trusted that existing zero and low level tariff bindings would be fully respected. Canada also asked for details on Brazil's tariff quota on wheat. The Canadian representative noted that tariff escalation continued to be prominent in some sectors resulting in peaks of effective protection that undermined the expected efficiency gains from the overall tariff reductions. Moreover, the existence of numerous other charges affecting imports such as port fees, merchant marine taxes and commissions continued to offset the liberalization achieved to date.

87. He said that Canada had long been concerned over the so-called Law of Similars and asked for details regarding the current application of this law or policy. Progress in liberalizing the informatics sector was welcomed. However, Canada would also like to know about Brazil's plans for further liberalization in this sector. While export subsidization had been reduced, PROEX with its reduction of incidence of domestic taxation on export activity remained a concern. Canada welcomed what appeared to be greater transparency of Brazil's direct foreign investment régime, and hoped that Brazil would move towards liberalizing this area.
88. Canada noted that Brazil's success in making a break with its past trade policy would depend critically on the creation of a more stable policy environment. In the past policy objectives and the instruments employed to attain them had been subject to periodic shifts in emphasis. The challenge for Brazil was to stay on the course on which it had so bravely embarked for a sufficient length of time for the benefits to emerge. A persistent drive towards a more open economy with greater transparency in its trade policy régime would contribute to a more stable and competitive domestic environment.

89. Finally, Canada encouraged Brazil to pay close attention to the interaction of trade and competition policy. An aggressive competition policy could serve to overcome a variety of structural rigidities that frustrated measures to open an economy to international competition.

90. The representative of Hungary said that until recently Brazil had maintained restrictive trade policies, as part of an import substitution strategy designed to boost industrialization and later to cope with balance-of-payments difficulties. The resulting trade régime practically isolated the domestic industrial sector from international competition. Direct restrictions on imports, fiscal incentives and subsidies provided highly effective protection to specific sectors. Since 1990, the Brazilian Government had radically changed its economic policies. Brazil's present structural adjustment programme aimed both at stabilizing the economy and at increasing the efficiency and competitiveness of industry. A main element in this process was a comprehensive trade liberalization, through the removal of non-tariff barriers, streamlining of internal regulations and reductions in tariffs. The foreign exchange market had been freed, trade policy decision-making had been restructured and administrative procedures had been simplified. In July 1991 Brazil notified the Committee on Balance-of-Payments Restrictions of its disinvocation of Article XVIII:B of the General Agreement.

91. Hungary commended these basic changes in Brazil's trade policies and practices, and expressed the view that a supportive external trade and economic environment would assist it in achieving its goals. The Hungarian delegation also appreciated Brazil's active participation in the Uruguay Round and the co-operation established in a number of negotiating areas. Hungary was convinced that the successful conclusion of the Uruguay Round would help consolidate Brazil's liberalization measures and provide greater opportunities for economic growth in Brazil, through improved market access.

92. Despite the tariff reforms, tariffs still showed substantial escalation by stage of processing and a number of sectors benefited from high effective rates of protection. There still remained a relatively heavy fiscal charge on imports. In December 1988, a port fee had been introduced at a rate of 50 per cent of the cost of port services. In addition, a merchant marine renewal tax was levied on import freights in order to yield resources for the modernization, development and improvement of the Brazilian merchant fleet. In mid-March 1990, the tax was reduced from 50 per cent to 25 per cent, still adding considerably to the cost of imported products.
93. Hungary had some concerns about the so-called similarity tests, a product-specific check intended to prevent import authorization of similar products produced domestically. This element of the Brazilian trade policies seemed to provide a discretionary power for the Brazilian authorities and could have a restrictive impact on imports. Hungary would also appreciate if details could be provided concerning the prospects of the introduction of legislation on industrial property.

94. With regard to Brazil’s participation in MERCOSUL, the representative of Hungary noted that the success of MERCOSUL in increasing welfare would depend very much on the willingness of all members to pursue outward-looking, market-oriented policies. In this respect, the level of the future common external tariff would be very important.

95. Finally, the Hungarian representative reiterated that the successful conclusion of the Uruguay Round would contribute to Brazil’s economic stabilization and the return to sustainable economic growth.

96. The representative of Uruguay recalled that a permanent and spontaneous integration process between cities within the Uruguay-Brazil border had preceded the creation of MERCOSUL, which could be considered as a natural and unavoidable consequence of the integration process of his country and Brazil. His country, together with Brazil, Argentina and Paraguay were participating in an ambitious integration project. The regional integration process was not exclusive from an integration into the world economy. Uruguay shared a common problem with Brazil, which was that they were both affected by protectionism prevailing in the international agricultural markets.

97. The considerable efforts undertaken by Brazil to reform its economic and trade policies might have serious impacts on structural adjustment and a heavy social cost. Brazil’s trade liberalization process had significantly contributed to the strengthening of the multilateral trading system. Main trading partners should assume their responsibilities and take their leading rôle in the maintenance of the multilateral system. Trade liberalization efforts by countries such as Brazil could be reverted if they were not supported by the international community. A successful conclusion to the Uruguay Round would help consolidate Brazil’s reforms. He found amazing the views expressed by a certain delegation concerning Brazil’s use of mechanisms against unfair trade practices. In this respect, he noted that the Brazilian agriculture was not isolated by measures such as variable levies.

98. The representative of Switzerland was impressed by the reorientation of Brazil’s trade and economic policies since 1990, comprising trade liberalization, deregulation and privatization; however, this had not yet contributed to relaunching economic growth. She encouraged Brazil to pursue its reforms with continued vigour. The new policies could, however, only operate in conditions of transparency and continuity. The multitude of trade laws was not conducive to such conditions and enquired about the progress of creation of a single trade law.
99. She hoped that Brazil would be in a position to increase substantially the level of its tariff bindings. Switzerland had taken good note of Brazil's offer to bind all industrial duties at 35 per cent. She also sought information on the state of phasing out of import restrictions on computer products.

100. The public sector was still of great importance in Brazil and the maintenance of preferences in public procurement was likely to disturb the price mechanism. She encouraged Brazil to liberalize in this field and to join the Government Procurement Code. Brazil should also adhere to the Import Licensing Agreement as its present procedures did not seem to present any obstacle, apart from excessive administrative documentation. Switzerland encouraged simplification in this area.

101. Switzerland was very interested in knowing more about the draft law on intellectual property currently under consideration in the Brazilian Congress. The Swiss delegation also welcomed the improvements made to the investment régime while noting that restrictions in key sectors such as informatics, telecommunications and broadcasting did not encourage capital inflows. Ratification of the MIGA Statutes would be a further advance. Brazil had long been closely involved in Latin American integration and the conclusion of the MERCOSUL agreement had given a new impetus to the movement. However, integration should not substitute for, but complement the world trading system, as recognized in Article XXIV of the General Agreement.

102. The representative of Korea said he was impressed by the political will shown by the leaders of the world's tenth largest economy, in their reforms. Most non-tariff barriers had been swept away, transparency had been increased, automatic import licensing had been greatly expanded, and tariffs had become the dominant trade policy instrument. Structural reform, in particular an ambitious privatization programme, was underway, and macroeconomic stabilization policies were having a salutary effect. Contracting parties should encourage Brazil's effort by improving the international trade environment.

103. He noted that the level of binding was low, currently only 6 per cent, but he was pleased that Brazil had offered to bind its entire industrial tariff schedule in the Uruguay Round negotiations. However, tariff escalation, by degree of processing, was still quite high in Brazil. While raw materials enter almost duty free, tariffs on finished goods often rose to 30 or 35 per cent. He hoped that, in the near future, Brazil would begin to lower these tariffs, which could easily lead, in the long run, to a reduction in Brazilian competitiveness.

104. He was pleased to learn that Brazil would eliminate its import controls in the informatics sector in October 1992, and asked if this would cover all sectors of the industry. He noted that Brazil maintained a 60 per cent local content requirement for many items procured by the Government. He asked if Brazil was currently giving consideration to becoming a signatory to the Government Procurement Code, or had other plans to increase the transparency and accessibility in this area.
105. He expressed Korea's support in principle for the MERCOSUR Agreement. However, Korea strongly hoped that this Agreement would become a source of trade creation and not trade diversion, and that the Agreement would be carried out in a GATT consistent manner. While Korea opposed the general trend toward regionalism, Korea could support GATT consistent agreements that had trade creation as a goal.

106. Finally, he noted that Brazil had taken an active and important rôle in the Uruguay Round negotiations. Completion of the Uruguay Round could not help but consolidate the progress made by Brazil.

107. The representative of Poland noted that Brazil was struggling with many economic problems which were largely similar to those affecting the Polish economy. Therefore, Poland welcomed and observed with great interest the efforts being undertaken by the Brazilian Government to stabilize its economy and to introduce liberalization measures into foreign trade policy and practices. In 1991 Brazil was Poland's main trading partner, on the exports side, among developing countries. For this reason Poland welcomed the fact that the bilateral payments agreement between Brazil and Poland had been abolished in October 1989. Poland strongly believed that mutual trade relations would progress further on the basis of ordinary payments in convertible currencies. Hence, the Polish delegation would appreciate some more up-to-date information on foreign exchange regulations in Brazil. In particular, he asked whether two independent foreign exchange markets still existed and, if so: (a) what were the reasons for maintaining two foreign exchange markets; and (b) what was the current premium in the parallel (floating) market over the free rate market? He also asked for information on progress towards consolidation of the foreign trade law. As regards measures directly affecting Brazilian exports and imports, Poland believed that the Brazilian authorities could, in the next step of liberalization, reduce somewhat the lists of products: (a) subject to export licensing requirement; and (b) covered by requirement of automatic import licensing. Poland had some concerns about recently reinforced anti-dumping regulations and increased numbers of anti-dumping investigations undertaken in the last few months.

108. Finally, Poland supported Brazil's efforts aimed at reintegration of its economy into the world trading system, including in the framework of MERCOSUL. Nevertheless, he hoped that such integration efforts would not negatively affect trade relations in the framework of the multilateral system.

109. The representative of Bolivia welcomed the changes in Brazil's economy, especially since 1990. These changes had already shown some positive results. He noted that it had been proved that gradual economic liberalization improved economic efficiency. Economic indicators, such as inflation, might also benefit from liberalization. Regional trade could be increased to the benefit of all countries in the region. In this respect, he stressed that MERCOSUL played an important rôle in creating trade. He was of the view that the benefits of increased trade would not be limited to the member countries only. Bolivia had recently signed an important agreement with Brazil in the area of energy.
VI. COMMENTS AND RESPONSES BY THE REPRESENTATIVE OF BRAZIL

110. The representative of Brazil said that the opinions and suggestions made by delegations constituted a valuable reservoir of ideas to improve the ongoing process of change. With a view to transparency, he would address even matters beyond the scope of the GATT system. However, he would refrain from commenting on issues involving prospects of changes in the Brazilian constitution.

111. First, with respect to the recent change in Government, President Itamar Franco and his team had reaffirmed Brazil's commitment with the ongoing process; the schedule of reduction of tariffs, the schedule of privatization and the agreements related to the foreign debt would be maintained. The economic reforms were the result of structural needs and of a growing consensus of the Brazilian society. Therefore, they were founded on solid ground which should make them a permanent feature of Brazilian life. With regard to the trade policy reform conducted in Brazil, the elimination of the NTBs had been accompanied by continued decline in tariff levels, the last of which had taken place a few days earlier.

112. He said that the Brazilian Privatization Programme was an essential part of the structural reforms that had been introduced in March 1990. Its objective was to redefine the role of the State in Brazilian economy, reducing its size, making it lighter, more dynamic and restricted mainly to typically governmental activities, such as health, education and infrastructure. The programme contributed not only to the overcoming of fiscal imbalances, but, above all, it was aimed at increasing competitiveness in the productive sector, as part of a policy of industrial restructuring. A total of seventeen companies were privatized by September 1992, totalling an amount of US$3.5 billion. The new administration had confirmed the schedule of the privatization programme. The next company to be privatized was ACESITA, a steel mill, whose auction was due to take place in a week's time.

113. He noted a great deal of interest about the possible establishment of a single trade law in Brazil. The single trade law would result in better transparency and modernization of Brazilian trade legislation. It was expected that the drafting, consultation and legislative process would be completed by 1994. As to other legislative initiatives, such as the abolition of the import licence processing fee, the concession of public services to the private sector and changes concerning port services, the corresponding draft legislation was being considered by the Congress.

114. At the present time there were no plans in Brazil for the establishment of an independent advisory body such as existed in certain countries, but Brazil was willing to learn from the experience of other countries in this area and took note of the advice on the benefits of the institution of a consultative process between the Government and the private sector for the formulation of trade policies.
115. With respect to Brazil's Programme of Industrial Competitiveness, he said that this was a set of directives aimed at providing guidance for the modernization process of the Brazilian industry. The programme included, for example, the exemption from payment of the Industrialized Products Tax (IPI) on sales of certain capital goods, both domestic and imported ones. The programme was applied sectorally, and not to individual companies.

116. He stated that the level of Brazil's tariff binding was fully addressed in its offer in the market access negotiations of the Uruguay Round, where Brazil had offered to bind all industrial tariffs at a ceiling of 35 per cent. In the agricultural sector, the offer tabled followed the criteria established in the Draft Final Act. This offer would result in the total binding of the Brazilian tariff schedule. This offer had yet to be matched by reductions in the high rates that affected products of interest to Brazil even in important developed markets, such as those affecting fruit juices, in particular orange juice, textiles, footwear, certain ceramic and steel products, etc. Brazil also remained open to the request and offer procedure, in coordination with its MERCOSUL partners, in respect of possible lower rates.

117. He said that, under the tariff reform now being implemented, which foresaw an average rate of 14.2 per cent in July 1993, a few sectors, such as informatics and motor vehicles, would be subject to the maximum tariff level of 35 per cent. However, the coming into force of a common external tariff in MERCOSUL by 1 January 1995 might require some further adjustments. In the automotive sector, in the past, the import tariff had attained 105 per cent and the issuance of import licences for motor vehicles had been suspended. In 1990, however, the tariff had been brought down to 85 per cent and the issuance of import licences re-established. Since February 1991 the tariff level for the automotive sector had been gradually reduced in the context of the overall tariff reform, which provided for reductions in that sector according to the following timetable: 1991 - 60 per cent; 1992 - 50 per cent; October 1992 - 40 per cent and July 1993 - 35 per cent. Correspondingly, the effective rate of protection for motor vehicles had also shown a clear declining trend. In consequence, there had been a significant improvement of quality of the end-products, parts and components manufactured by local companies, thanks to the increased access of local manufacturers to price-competitive inputs, components and capital goods available in world markets. There was no requirement of special import authorization for motor vehicles, except for military vehicles.

118. He said that, in respect of duty free access on a temporary basis, the information contained in paragraph 195 of the Secretariat report was not accurate, probably because, in order to correct an omission, the tariff rates for the products in question had been published subsequent to the publication of the general tariff schedule. The products mentioned therein enjoyed duty-free access on an indefinite basis. He said that paragraphs 183 and 218 of the Secretariat report contained information on the temporary reductions in statutory rates, used to alleviate supply shortages in the Brazilian market (essential food products, fertilizers, pesticides and their inputs) or to reduce the cost of capital goods.
Interested importers should address themselves to the competent authorities (DECEX - Foreign Trade Department).

119. He said that other charges on imports, listed in paragraph 225 of the Secretariat report under the generic denomination of other fees and taxes, with the exception of the social benefits contribution, were not taxes in a fiscal sense, but prices of services related directly or indirectly to port activities. The draft port law, now under review by the Brazilian Congress, would provide for modernization of port services through exposure to increased competition. Therefore, it was expected that most of those charges would be streamlined, reduced or eliminated. The ATP was not applied on the value of imports, but on the value of direct port services, according to established and well known price schedules, both on exports and imports. The draft port law provided for a staged reduction of the ATP from its current level of 50 per cent of the cost of port services to 20 per cent in 1995. The Merchant Marine Renewal Tax (AFRMM) was not applied on the value of imports but on the freight charge. Transformation of ATP or AFRMM into specific rates from the present ad valorem rates was not envisaged at this stage. Finally, in the cost of the import licence processing fee was roughly equivalent to US$100. The change from an ad valorem to a specific fee had resulted in a reduced collection to almost one tenth of previous levels. There was a Bill in Congress to eliminate the fee.

120. Import licences were generally issued within three days, except for those imports subject to prior authorization. A special import authorization was required for certain products due to health, phytosanitary, environment, nuclear or security considerations. These products included: human blood, products causing physical dependence, arms and ammunition, nuclear material, herbicides, defoliants, raw hides and skins of wild animals. The same requirement was applied to imports of aeroplanes (parts and components) for the purpose of certification, and of sugar and alcohol for reasons related to the implementation of the energy policy. The remaining quantitative import restrictions on informatics would be eliminated on 29 October 1992.

121. The SISCOMEX (Integrated Foreign Trade System) had been set up on an experimental basis, only for exports, as of 1 October 1991. Definitive implementation, which would entail replacement of the present system of import licences, was expected to take place during the first quarter of 1993. SISCOMEX would greatly simplify foreign trade procedures. All documents but one, used in the processing of foreign trade operations will be eliminated.

122. Concerning the so-called "law of similars", the review of similarity was applied only with respect to imported products benefiting from fiscal incentives. As the Brazilian Government had discontinued policies of granting special import régimes, the requirement of the review of similarity, in practice, had very seldom been used. In any case, the review of similarity did not prevent imports; companies were free to import and pay the duties. The Law of Similars had been applied, practically, to import operations undertaken by direct Federal, State and Municipal Administrations which, by the Constitution, were required to follow that procedure.
123. Export price monitoring was maintained by DECEX (Department of Foreign Trade) with the aim of preventing underinvoicing. In the past, this practice had been necessary as the differential between official and parallel exchange rates was a strong inducement to underinvoicing, with serious risks to the country's reserves. Since 1990, however, changes in the exchange rate policy had been introduced, which had led to a considerable reduction in the gap between those two rates. As a consequence, the practice of monitoring export prices had been adjusted. At present, export price controls were done, in general, on an ex post facto basis. For commodities, price surveillance was carried through review of corresponding prices posted in major international commodity markets.

124. Brazil did not intend to eliminate the export tax on raw hides and skins, which was considered essential to ensure domestic supply.

125. The Brazilian Government had no direct participation in countertrade agreements which had been signed in the past by some Brazilian companies, including subsidiaries of State-owned companies (mainly INTERBRAS and COBEC). These companies had been extinguished since March 1990.

126. With respect to the Tokyo Round Import Licensing Code, in accepting and supporting the Draft Final Act of the Round, Brazil had in fact made an offer to sign the Licensing Code. This offer had to be matched by market access concessions from those delegations which had manifest interest in Brazil's accession to the Code. Brazil was an observer in the Committee on Trade in Civil Aircraft and was following attentively the recently opened renegotiation of the Code. A decision on accession would be taken at the appropriate time. In the area of government procurement, legislation was being discussed in Congress in order to increase transparency and accountability in the tendering process. He noted, however, that since Brazil did not have significant military spending programmes, civilian government procurement remained an important industrial policy instrument.

127. He said that Ordinance 126 of the Ministry of the Economy (quoted in paragraph 288 of the Secretariat's report with the number 123) did not contain a local content requirement. It simply defined a domestically produced equipment or machine by setting the local value added at 60 per cent, which used to be 80 per cent. In effect, this regulation was a rule of origin based on percentage criteria. This definition had been conceived for financing of Brazilian capital goods, but it had also been "de facto" used by some governmental agencies to implement their obligation to give preference to Brazilian goods when equivalent conditions of price, quality and delivery prevail.

128. The Bank for National Economic and Social Development (BNDES) had established a credit line programme, called FINAME, for financing the purchase of Brazilian produced machinery and equipment. FINAME was the only long-term credit line still in existence in Brazil. This programme provided Brazilian capital goods with the equivalent competitive opportunities enjoyed by foreign produced ones, in particular those originating in developed countries, which benefited from abundant credit facilities and even from concessional financing of the "Eximbank-type" institutions. Discontinuing this practice was not under consideration,
although the development of a long-term private credit market in Brazil might render it unnecessary for the Government to intervene in this area. There was no evidence whatsoever that this practice reduced imports. On the contrary, by providing credit to productive activities, it had helped to stimulate imports. The recent agreement between the Government, workers and the automobile producers did not contemplate a local content requirement. The agreement consisted of a cut in IPI tax in exchange for a reduction of prices and a limitation on claims for wage increases.

129. The Programme of Export Financing, PROEX, had been created to provide exports of capital goods with conditions equivalent to those benefiting competitors, while at the same time taking into account the present budgetary stringency. It was applied in two modalities: direct financing of exports and equalization of interest rates. In the modality of direct financing, interest rates followed the same levels of equivalent international rates for similar repayment terms (LIBOR). Although, for administration purposes, PROEX resources were registered in the Federal Government Budget, the funds originated, in effect, in the return from export credit operations undertaken in the past. Moreover, PROEX had no effect on current internal or external public debt. In the case of equalization of interest rates, PROEX covered part of the costs incurred by financial institutions, in order to stimulate them to obtain funds to finance exports. However, in no circumstance could the resulting interest rates for the foreign importer be lower than the equivalent international market rates for operations with the same repayment terms. On the contrary, reports from Brazilian exporters taking part on international tendering, in particular in Latin America, showed evidence of financing offers under much more favourable conditions than those PROEX could possibly offer.

130. He said that there should be no concern that interested parties would not be in a position to defend their interests adequately once an anti-dumping and countervailing investigation was carried out in Brazil. Brazilian authorities had been particularly careful to give early notification and promptly offer opportunity for consultations in strict observance of the Codes. There had been, so far, one sole concrete complaint in relation to this point; Brazilian authorities had already demonstrated that this complaint was groundless. Brazil did not envisage using anti-dumping and countervailing legislation as disguised protective devices to neutralize liberalization. The Brazilian position in the area of anti-dumping and countervailing measures was to obtain a clearer definition of conditions and circumstances under which compensatory measures could be taken. Brazil also supported stricter rules for the initiation of such investigations in order to reduce their "harassment" potential, as stated in the Secretariat report. The existence of a "sunset clause" in Brazil's anti-dumping and countervailing system confirmed this position.

131. He confirmed that, under the GATT-bound tariff quota, annual imports of 750,000 tons of wheat in the husk were entitled to enter Brazil duty free. With respect to agriculture in general, Brazil had taken a number of liberalization measures in recent years. Internal support policies in Brazil were designed to preserve mainly small farmers' basic income and,
most importantly, were not accompanied by border measures, such as threshold prices, variable levies or the like, which would restrict agricultural imports into the Brazilian market. The guaranteed minimum price covered only a limited number of basic foodstuffs and did not serve protectionist purposes, as did support price policies used in many developed countries. On the contrary, Brazil supported world trade liberalization in agriculture and reduction of protectionism. Brazil was strongly committed to the objectives of the Uruguay Round and stood ready to undertake the commitments as defined in the Draft Final Act (DFA), including comprehensive tariffication. Brazil had tabled its schedules in agriculture in accordance with the orientations contained in the Draft Final Act, consistently with its participation in the Uruguay Round farm negotiations. Concerning fish product imports only normal sanitary controls applied. However, more detailed information would be supplied later.

132. With respect to MERCOSUL, paragraphs 116-119 of Brazil's report provided information on the implementation of the common external tariff by 1 January 1995 and other features of MERCOSUL. It was expected that a sketch of the common external tariff at 6-digit level might be ready by mid-1993 and the transposition of the agreed rates into a common nomenclature of the harmonized system concluded by mid-1994. Sectoral arrangements in MERCOSUL, were not "production-sharing agreements". The adoption of these arrangements was one of the main instruments during the transitional period (from 1991 to 1994), together with a trade liberalization programme, the coordination of macroeconomic policies, and a common external tariff. The arrangements were negotiated basically by private parties - either from the industrial or agricultural sectors - and then submitted for consideration by the Governments of the member countries. The main goals of the arrangements were to promote greater opening of the economies of the MERCOSUL countries, to improve their competitiveness and to foster trade with third parties. Under MERCOSUL, sectoral arrangements should be conceived in a way that they did not constitute barriers to free trade of goods and services among MERCOSUL countries, did not favour unfair trade practices, such as cartels, trusts, or the like, and did not include quantitative restrictions and other non-tariff barriers. Concerning motor vehicles, the Brazilian authorities had not been advised by the interested private sectors on whether there were plans to initiate this type of arrangement in the automotive sector.

133. He said that, as far as the purchase of telecommunications equipment by governmental agencies was concerned, by not being a signatory to the GATT government procurement agreement, Brazil had no obligations save to the relevant provisions of the General Agreement in this area. The general principle for government procurement in Brazil was that preference should be given to goods produced locally, when price, quality and delivery conditions were the same as those of foreign goods. The practice of specific governmental agencies, like TELEBRAS, might nonetheless vary according to their needs and to the type of services they supply. The financial transaction tax (IOF) had been instituted as a balance-of-payments measure. As of July 1988, imports of goods had been exempted from the collection of IOF. The present proposals on fiscal reform submitted by the Executive to the Congress envisage the possibility
of a revision of the collection of IOF on imports of services. Concerning industrial property and software, the drafts were still being considered by the Congress without a scheduled date for completion.

134. He stated that the same features of increasing openness, transparency and deregulation which characterized Brazilian trade policy were also to be found in the foreign investment area. Reduction in income tax on profits and dividends from 25 per cent to 15 per cent, starting January 1993, and elimination of a supplementary income tax on the remittance of profits and dividends were examples. There was no general limitation of foreign participation in companies to 40 per cent of stock, although there was a 40 per cent limitation on foreign participation on the privatization of companies. Foreign investment was not prohibited in real estate. Nor was foreign investment prohibited in the production of telecommunication and informatics equipment, but there were constitutional restrictions on mining, supply of telecommunication services, except of mobile cellular phone, and media (written and broadcast press). In relation to mobile cellular telecom services, the general rule was that each State would have two suppliers, one publicly owned, and the other private. The latter were normally consortiums where foreign suppliers could participate with up to 49 per cent of the capital. The private supplier had to obtain a concession from TELEBRAS, which was granted on the basis of public tendering. So far tenders had been made for operations in Brasilia, Rio de Janeiro and Sao Paulo. In all three cases foreign suppliers participated. The Multilateral Investment Guarantee Agency (MIGA) statutes had been recently approved by the Brazilian Congress and were now in the process of final ratification.

135. Finally, he said that there were presently two legal exchange markets in Brazil. Exchange rates in these two markets (commercial and floating ones, respectively) were determined by market forces. The Central Bank was an operator in these markets. All commercial and capital transactions took place in the commercial market, created in March 1990. All other operations, most prominently the recent short-term financial flows, occurred in the so-called floating market. The existence of these two markets was justified to avoid pressures of short-term financial transfers on the basic currency flows (trade and capital), in a situation of macroeconomic instability. It was expected that the attainment of macroeconomic equilibrium would naturally lead to the unification of the two markets. The spread between the two markets was presently around 10 per cent. In addition, it should be noted that, due to the progressive liberalizing measures adopted in the Brazilian exchange market, the movement in the illegal parallel market was presently insignificant.
VII. CONCLUDING REMARKS BY THE CHAIRMAN

136. I should like to conclude this first review of Brazil in the framework of the Trade Policy Review Mechanism with my own understanding of the salient points emerging from the discussions. These closing remarks are prepared on my own responsibility and are not intended to substitute for the Council's collective evaluation of Brazil's trade policies and practices. The full discussion, including Brazil's responses to points raised by the participants, will be reflected in the minutes of the meeting.

137. In his opening statement, the representative of Brazil said that Brazil had changed not only its trade and economic policies, but had adopted a new development model. The economic system based on import substitution and State intervention, under which Brazil had built up its diversified industrial base and become one of the world's ten largest economies, had not failed, but had reached its limits. From the 1973 oil shock onwards, financial stresses on the system had increased steadily; the debt crisis of 1982 and subsequent developments had shown the limits of heavy reliance on public-sector borrowing, while the private sector was in no position to take over a leading rôle in the economy. Brazil was now, in a democratic framework, moving to a new, more open system based on greater responsibility for the private sector, exposure to international market forces, and competitive integration into the world economy.

138. The new Government was continuing to emphasize fiscal reform, privatization and the renegotiation of foreign debt. Tax reform was essential to provide non-inflationary financing for the public sector and contribute to eradicating inflation. The privatization programme would continue as planned. Successful debt negotiations had been concluded with the IMF, the Paris Club and private banks; in this connection, he felt that a long-term solution to Brazil's debt problems appeared to be within reach.

139. Over the past two years, unnecessary controls on the operation of the private sector had been removed; competition policies had been revised; and port services were to be deregulated under a new Bill currently before the Senate. Price controls had been abolished and the exchange market liberalized without substantial effects on the real exchange rate. Financial sector liberalization was fundamental. In this connection, comprehensive guidelines for the capital markets had been implemented since 1991 and free movement of capital was to be achieved by 1994.

140. In trade policy, non-tariff barriers had been comprehensively eliminated; tariff rates had been substantially reduced; import and export procedures had been simplified and licences were largely granted automatically; and export subsidies had been terminated. The only remaining exceptions to the liberalization of non-tariff measures were a number of informatics products which still required previous authorization for imports - due to be eliminated at the end of October 1992 - and imports of luxury boats. Brazil had disinvoked Article XVIII:B of the GATT in July 1991, even though the balance-of-payments situation was still a cause of concern. By July 1993, the nominal average tariff would be 14.2 per cent
and the maximum duty 35 per cent. Government monopolies in commodity markets and other areas had been abolished. All these measures were a clear indication of the direction in which Brazil's policies were moving. However, fundamental to the success of the transformation process was a successful conclusion to the Uruguay Round. Many of Brazil's exports were in sectors heavily affected by protectionist measures and unfair trade practices by major partners. GSP treatment had proved of little benefit to Brazil. Brazil was also the only developing country to suffer GATT-inconsistent retaliation under unilateral trade measures. For this reason, Brazil gave firm support to reinforcement of the multilateral trading system and the creation of a strong MTO.

141. All participants complimented Brazil on the courageous economic reforms undertaken in a difficult economic situation. The programme encompassed trade liberalization, privatization and deregulation. These changes had transformed Brazilian economic policy from its previously inward-looking, import-substitution orientation to one which emphasized the role of the market and of international competition. In the last few years, quantitative restrictions had been virtually eliminated (leading to the disinvocation of Article XVIII:B), import licences were being applied on an automatic basis, export subsidies eliminated, and various industrial promotion régimes phased out. Tariffs had been considerably reduced and the tariff structure rationalized, although several sectors were still protected by tariff escalation and high effective rates. Further planned tariff reductions would increase the transparency and predictability of Brazil's trade régime. Brazil's privatization programme and deregulation would assist the process of conversion to a more market-oriented economy. Several Council members asked whether the recent change in government presaged any changes in policy, including in the area of privatization.

142. The importance of macroeconomic reforms in the adjustment process was stressed. One crucial factor was the need to reduce the public sector deficit and to control inflation. A number of members noted that the changes in policy were starting to show benefits for the Brazilian economy. Its recent export performance was impressive, but a question was raised on why imports had not increased substantially following the trade liberalization. Capital inflows appeared to have grown and should stimulate growth, although one member wondered what share of the inflows might be in the form of speculative capital; the challenge was to ensure that real investment was encouraged.

143. A number of participants emphasized that the international trading community had a responsibility to support Brazil's reforms and help the country realize the benefits of its restructuring. The opening of Brazil's market thus needed to be supported by an open international environment. They noted that Brazil's efforts had not been matched by developed trading partners. Protection in sectors of export interest to Brazil and subsidization of exports, particularly in agriculture, created unfavourable trading conditions for Brazil's exports and gave wrong signals to the domestic economy.
144. Participants commended Brazil for its commitment to the fundamental principles of the multilateral trading system. Its active participation in the Uruguay Round across the whole negotiating agenda was well known and provided evidence of this commitment. Its offer to bind its entire industrial tariff at an even rate was well received, although it was noted that the proposed binding level of 35 per cent for manufactures was well above the average applied level. Brazil was a signatory to a number of the MTN Agreements; some participants encouraged it to complete its participation in the GATT system by joining the Agreements on Government Procurement, Import Licensing and Civil Aircraft.

145. Attention was called to the recent intensification of Brazil's intra-regional trade links. A number of delegations indicated their interest in the future examination, under Article XXIV of the GATT, of the Southern Common Market (MERCOSUL in Portuguese) formed by Argentina, Brazil, Paraguay and Uruguay. The hope was expressed that MERCOSUL would be an outward-oriented arrangement which would complement Brazil's own liberalization. There were several inquiries as to the level of the common external tariff to be applied.

146. Members welcomed Brazil's intention to consolidate its trade legislation within a single law, and sought more information in this connection. Concern was expressed on the effects of the recent increase in Brazilian anti-dumping actions which was seen as a significant element in Brazil's new approach to trade policy, and the possible inconsistency of a recent countervailing action with the Subsidies Code. Members encouraged Brazil to eliminate additional taxes and charges on imports, in particular the Merchant Marine Renewal Tax and the Additional Port Tax, which were significant burdens to traders. Questions were also raised concerning local content provisions in Government procurement and export financing; the intended elimination of import restrictions in the electronics and informatics sectors; the application of import procedures, including for temporary imports; and plans for elimination of remaining export licences and automatic import licences.

147. Members also raised questions regarding restrictions on foreign direct investment, plans for further deregulation in this area including ratification of the statutes of the Multilateral Investment Guarantee Agency (MIGA); the evolution of Brazil's legislation on intellectual property protection; and restrictions on foreign participation in services sectors such as telecommunications, financial services and data processing.

148. Other specific issues on which clarification was sought included:

- The operation of the Law of Similars;
- The operation of the export financing programme, PROEX;
- Actual tariff treatment for wheat, as well as price support policies and minimum price schemes in the agricultural sector;
- Registration requirements for exporters;
Future plans regarding countertrade;
The application of phytosanitary and sanitary regulations;
Progress in privatization of port services;
Competition policy; and
The operation of the foreign exchange market.

149. In response, the representative of Brazil reiterated that President Itamar Franco and his new Government had reaffirmed Brazil's commitment to the process of liberalization and had specifically declared that the schedules of tariff reduction and of privatization, and Brazil's agreements related to foreign debt, would be maintained. The economic reforms were the result of structural needs and there was a growing consensus within Brazilian society in their favour. Non-tariff barriers which had been eliminated had not been replaced by their tariff equivalents, but were accompanied by continuing reductions in tariffs. The privatization programme, as an essential part of the structural reform process, contributed not only to rectifying fiscal imbalances but also to increasing competitiveness within productive sectors.

150. Preparation of a draft single trade law was underway, following studies by the executive. The process, expected to be completed by 1994, should result in greater transparency in Brazil's trade legislation. Other legislative initiatives were also being considered by Congress. There were no plans at the moment to establish an independent advisory body, but Brazil took note of comments by participants and discussants regarding the benefits of a regular consultative process with the private sector. The Programme of Industrial Competitiveness, which sought to assist in modernizing Brazilian industry, included measures such as exemption from payment of the industrialized products tax on capital goods. Such measures were applied on a sectoral basis to domestic and imported goods alike.

151. In the Uruguay Round, Brazil had offered to bind its entire industrial tariff at a ceiling rate of 35 per cent and its agricultural offer followed the criteria of the Draft Final Act. The offer would result in the total binding of Brazil's tariff schedule. Brazil looked forward to reciprocal reductions in high rates of duty on products of interest to it. The possibility of lower rates of bindings would be considered under the request-and-offer procedure; Brazil would, in this context, co-ordinate with its MERCOSUL partners. The tariff reform being implemented would lead to an average rate of 14.2 per cent by July 1993. Tariffs and effective protection rates in the vehicles sector had been brought down substantially; together with the liberalization of import licensing procedures, this had significantly improved access by local manufacturers to price-competitive inputs, components and capital goods and improved the quality and competitiveness of the sector. Temporary reductions in statutory rates were used to alleviate supply shortages or to reduce the cost of capital goods. Importers could apply to DECEX for such reductions.
Other fees on imports were related directly or indirectly to the cost of services at ports. It was expected that under the new port law, many of these would be streamlined, reduced or eliminated. The level of the import-licence processing fee had already been reduced by 90 per cent and a Bill was currently being considered in Congress to eliminate the fee.

152. Most import licences now received automatic approval. Generally, issuance of import licences took no more than three days. Special import authorizations were required for a small number of products because of health, phytosanitary, environmental, nuclear or security considerations. Quantitative restrictions on informatics products would be eliminated on 29 October 1992. In general, Brazil's foreign trade procedures would be greatly simplified by the definitive introduction of SISCOMEX, the Integrated Foreign Trade System, in early 1993. The Law of Similars applied only to imports benefiting from fiscal incentives and to those by Federal, State and municipal administrations. The need for export price control, which was administered by DECEX, had fallen with the reduction in the gap between Brazil's exchange rates. Most such monitoring was now done on an ex post facto basis. Brazil did not intend to eliminate the export tax on raw hides and skins, which was seen as essential to ensure domestic supply.

153. In relation to the Tokyo Round Codes, the representative of Brazil stated that Brazil had offered to sign the Import Licensing Code under the Uruguay Round, subject to reciprocal market-access concessions. Brazil was an observer in the Civil Aircraft Code and would take a decision on accession at an appropriate time. Legislation was being discussed in Congress to increase transparency and accountability in the government procurement tendering process; however, at present, the Constitution established the principle of preference in public tendering for Brazilian companies, where price, quality and delivery were equal.

154. The criterion used in defining locally-produced equipment in respect of government procurement (which was not a local-content requirement) had been reduced. There was no evidence that the long-term financing programme for capital goods (FINAME) had reduced imports. It was clarified that the recent price, wage and tax agreement in the automobile sector did not contain local-content requirements. The export-financing programme, PROEX, did not contain interest rates lower than market operations with equivalent terms.

155. Anti-dumping and countervailing procedures were carefully carried out in strict observance of the Tokyo Round Codes. Brazil did not envisage using anti-dumping and countervailing legislation as disguised protective devices. The existence of a "sunset" clause confirmed Brazil's support for stricter application of these rules.

156. Concerning agriculture, the representative of Brazil confirmed that a duty-free tariff quota of 750,000 tons of wheat was permitted and that the only registration requirement for fish products imports related to health control. Brazil had taken significant liberalization measures in agriculture and was fully committed to the objectives of the Uruguay Round in this regard, including comprehensive tariffication; this was reflected in its offer.
157. A common external tariff for MERCOSUL was expected to be completed by mid-1994. Its structure was intended to stimulate the external competitiveness of signatories and reduce the spread of tariffs. Sectoral arrangements within MERCOSUL were not production-sharing agreements, but aimed to promote greater opening of member States' economies, improve their competitiveness and foster trade with third parties. They would not constitute barriers to free trade within MERCOSUL, would not favour unfair trade practices and would not imply any non-tariff barriers.

158. Two legal exchange markets - the commercial market and the floating market - were in operation in Brazil. The spread between the two was currently around 10 per cent. It was expected that the attainment of macroeconomic equilibrium would lead to unification of the exchange markets. Currently, the illegal "parallel" market was insignificant.

159. Concerning services and other areas not currently under GATT, the representative of Brazil offered information for the sake of transparency. He noted that Brazil had no obligations, other than the general provisions of the GATT, regarding telecommunications purchases by governmental agencies, which were subject to the general local-preference requirements. The financial transaction tax, IOF, had not been applied to imports of goods since July 1988; although fiscal reasons had prevented the extension of the exemption to imports of services, the possibility was currently under consideration. Draft Bills on industrial property and software were also being considered by Congress. New tax reductions from January 1993 would encourage foreign investment. There were no prohibitions on foreign investment in the production of goods, although restrictions existed on the purchase of land by foreigners in border areas and on investment in mining and telecommunications services. The MIGA statutes had recently been approved by Congress and were in the process of ratification.

160. The Council welcomed the affirmation by Brazil that the new Government would continue the policies of liberalization, deregulation and privatization. Brazil was strongly commended for the considerable progress it had made in the transformation of its trade régime, in the face of considerable economic difficulties. The elimination of quantitative restrictions and the disinvocation of Article XVIII:B was welcomed. Further planned tariff cuts should reduce levels of effective protection, while an extension of further tariff bindings, at close to applied rates, would lend greater transparency and predictability to the Brazilian trade régime. Additional action in such fields as supplementary taxes, Government procurement, and import procedures, as well as in new areas covered under the Uruguay Round, would further facilitate trade. The Council expressed the hope that MERCOSUL would contribute positively to the open multilateral trading system.

161. The Council noted the importance attached to an open multilateral trading system by Brazil and its strong commitment as a key participant in the Uruguay Round process. It also acknowledged that Brazil's ability to continue its liberalization and reform would be greatly facilitated by a supportive external economic environment, including a successful conclusion to the Uruguay Round.