General Agreement on
TARIFFS AND TRADE

SUBSIDIES

Notifications Pursuant to Article XVI:1

BRAZIL

The following notification has been received from the Permanent Mission of Brazil.

A. IPI CREDIT PREMIUM

The IPI credit premium was a credit related to exports of manufactured products. The original authority under which the program was implemented was Decree-Law 491, of March 5, 1969. The program was administered by the Ministry of Finance and was terminated on May 1, 1985 ("Portaria do Ministério da Fazenda" nº 176, of September 12, 1985) in accordance with Brazil's declaration of accession to the Subsidies Code as modified by document SCM/38.

B. INCOME TAX EXEMPTION

Enterprises that export may benefit from an income tax exemption created by Decree-Law 1158 of 1971. The benefits of this program have been extended until 31 December 1987, by Decree-Law 2134 of June 26, 1984.
Incidence

The utilization of this benefits is only possible when the enterprise has both an operational profit and a taxable profit. The tax exemption varies in accordance with the proportion of exports sales in relation to total sales of the enterprise. The benefit is not received until the statement of taxable income is submitted and taxes paid.

As noted above, this tax exemption applied only to enterprises with operational profits and taxable profits. In such case the exemption reduces the total income tax to be paid and, therefore, constitutes savings to the general account of the recipient company. It is important to note that total taxable profits (export and domestic) benefit from this program to the same degree. This dilutes any possible direct price impact on exports. Furthermore, the benefit to the enterprise is not received until long after the exports generated the benefit. Consequently the actual price impact on the exported products is questionable.

Amount

Not available.

Estimate amount of benefits per unit

It is not feasible to estimate the amount of benefit under this program per unit exported.

C. WORKING CAPITAL FINANCING FOR EXPORTS

Working capital financing for production of exported products was originally provided in accordance with Central Bank Resolution 71 of 1970 and its amendments. The legislation now in
force is Central Bank Resolution 832, of 21 December 1983, and 950, of 21 August 1984, as amended by Resolution 1,009, of May 2, 1985.

Incidence

A corporation must apply to CACEX (Foreign Trade Department of Banco do Brasil S.A.) to become eligible for Resolution 674/832 financing. The company approaches CACEX, either presenting the previous year's exports or an adequately constructed and realistic export plan. The amount of the financing in most cases will be based on the previous year's exports.

The maximum dollar eligibility under the program is established by CACEX. The maximum value of such financing is calculated by determining the "net" value of the previous year's exports (5% to 30% of the "net" exports, depending on the product). This value is calculated by making several deductions from the F.O.B. export value.

Resolution 674 and 832 specifically list the applicable deductions as follows:

(a) commissions to foreign agents or representatives;
(b) payments of contractual penalties, refunds, or return of goods;
(c) exports paid for in cruzados:
(d) re-exports of imported goods:
(e) goods shipped for display in trade fairs or expositions, provided they are not sold;
(f) exports without foreign currency coverage, such as donations, replacement of damaged parts, samples and similar cases;
(g) imported inputs with an F.O.B. value exceeding 20 percent of the exported product;
(h) imports by exporting companies, on a direct basis or through trading companies, during the next preceding calendar year, within the following limits:

1 - companies showing a trade surplus: 10 percent of the f.o.b. value of imports:

2 - companies showing a trade deficit: 10 percent of the f.o.b. value of imports, less the percentages listed below, based on the company's trade deficit:

<table>
<thead>
<tr>
<th>DEFICIT</th>
<th>RATE OF DEDUCTION</th>
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<tbody>
<tr>
<td>- over 100% of the export value</td>
<td>60%</td>
</tr>
<tr>
<td>- between 70% and 100%</td>
<td>50%</td>
</tr>
<tr>
<td>- between 40% and 69%</td>
<td>40%</td>
</tr>
<tr>
<td>- between 20% and 39%</td>
<td>25%</td>
</tr>
<tr>
<td>- between 1% and 19%</td>
<td>10%</td>
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At present, financing of this program is made directly by authorized commercial banks using their own resources and applying the prevailing market interest rate. The Foreign Trade Department of Banco do Brasil S.A. (CACEX) ensures the equalization of the financial fees up to a limit of 15 per cent per annum. Loans are not permitted to be rolled over, have a maximum duration of 12 months, and interest is payable at the end of 6 months and at the expiration of the loan.

Amount

Since the equalization system was adopted, the Central Bank has been keeping control of the funds destined to the three lines of credit ("working capital financing for exports", "financing for trading companies" and "financing for storage of goods") in an aggregate manner. Therefore the values indicated hereinafter correspond to the total amounts paid in equalization.
fees for those lines of credit: cruzeiros (CR$) 924 million in 1985, and cruzaços line of credit is not technically possible.

**Estimated amount of benefits per unit**

An amount of benefit per unit exported cannot be estimated.

**D. FINANCING FOR TRADING COMPANIES**

Financing for trading companies exporting manufactured products was provided in accordance with Central Bank Resolution 329, of March 15, 1973. The legislation now in force is Central Bank Resolution 663, of December 21, 1983, and 95C, of August 21, 1984, as amended by Resolution 1.009, of May 2, 1985.

**Incidence**

This program operates identically to financing available under Resolution 882, although Resolutions 882 and 663 are mutually exclusive and do not provide cumulative benefits.

Financing is made directly by commercial banks using their own resources and applying prevailing market interest rates. Cacex ensures the payment of financial fees up to 15% per annum.

**Amount**

See corresponding item under "Working Capital Financing for Exports".

**Estimated amount of benefits per unit**

An amount of benefit per unit exported cannot be estimated.
E. FINANCING FOR STORAGE OF GOODS

Under Resolution 330, of March 15, 1973 of the Banco Central do Brasil, exporters may be eligible for concessional financing of the value of merchandise placed in a specified bonded warehouse and destined for export. Terms and conditions are similar to those currently applicable to the working capital financing for exports and the financing for storage of exports.

Incidence

In order to be eligible for such financing, the exporter must store its goods in a specified bonded warehouse. Such warehouses are owned and operated only by selected trading companies.

The maximum level of eligibility is 80 percent of the value of the merchandise placed in the warehouse. This percentage applies only if the products will remain in the warehouse from 1-90 days. If the period in which the goods will remain in the warehouse is in the range of 90 to 180 days, the maximum eligibility is 70 percent. For periods between 180 and 365 days, the maximum eligibility is 60 percent.

Amount

See corresponding item under "Working Capital Financing for Exports".

Estimated amount of benefits per unit

An amount of benefit per unit exported cannot be estimated.