Introduction

1. When the Plan for the 1957 consultations was drawn up at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, Brazil agreed to be included in the programme on a provisional basis; whether and when the consultation should be held was to depend on the developments in its current plans for tariff and foreign exchange reform. The Brazilian Government confirmed last summer that it would be prepared to participate in the consultations programme for 1957. The Working Party has conducted the consultation with Brazil under paragraph 4(b) of Article XII.

The Working Party had before it:

(a) a basic document dated 26 October 1957 prepared by the secretariat in collaboration with the Brazilian authorities, describing the system and methods of the balance-of-payments import restrictions in operation in Brazil, and a corrigendum dated 26 October 1957;

(b) a document provided by the International Monetary Fund.

These documents should be deemed to be supplementary material annexed to this report.

2. In conducting the consultations the Working Party followed the plan recommended by the CONTRACTING PARTIES for this series of consultations. This report summarizes the main points of the discussion during the consultations.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of paragraph 2 of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with these consultations with Brazil. As part of the consultation between the CONTRACTING PARTIES and the Fund the latter transmitted a background paper entitled "Brazil: Economic Developments and the Restrictive System", dated 21 October 1957. In accordance with the agreed
procedure, the representative of the Fund was invited to make a statement concerning the situation of Brazil supplementing the Fund's documentation. The statement made was as follows:

"With respect to Section I of the Plan for Consultations, relating to balance of payments position and prospects, as the CONTRACTING PARTIES are aware, Brazil recently introduced significant changes in its import auction system. These changes are described in the background paper, dated October 21, 1957, supplied by the Fund for use in connection with this consultation. The Fund is following closely developments under the new arrangements, and the Fund's 1957 consultation with Brazil will be begun soon. It is expected that the results of this consultation will be transmitted to the CONTRACTING PARTIES."

Opening statement by the representative of Brazil

4. The Working Party heard a statement from the representative of Brazil, in which he called attention to certain salient facts which were not fully reflected in the documents before the Working Party, and expressed his views on the principal problems faced by Brazil, notably the "structural disequilibrium" and the manner in which this was aggravated by the process of chronic inflation. He concluded that the Government of Brazil, while unable to dispose of the measures which enabled it to select imports to meet essential needs, had been, and would be, introducing new methods of control of an increasingly automatic nature, thus progressing in the direction of complete liberalization. The text of the statement by the Brazilian representative is given in Annex I to this report.

Various members of the Committee thanked the representative of Brazil for his useful statement, which threw light on important aspects of the economy and foreign trade of his country, as well as on the measures which the authorities there have been adopting with regard to problems of disequilibrium in the balance of payments. One member expressed satisfaction that the rate of economic development in Brazil was generally greater than that of the growth of population.

Balance-of-payments situation and prospects

5. Several delegates referred to the statement of the Brazilian representative that an increase in exchange receipts resulting from Brazilian exports, and thus in large measure its capacity for external payments, depended significantly on the international price level as well as on the volume exported. With special reference to coffee, they observed that in their judgment the problems were similar in the case of other foodstuffs and raw materials the exportation of which provided certain producing countries with their main external receipts. In the opinion of those representatives, the factors having the greatest influence on the level of prices were not only the growth of income in the purchasing centres, or the factors inherent in the interplay of forces in the international market; an important part was also played by the respective policies of producer countries, since price movements were generally affected by the extent of the supply available.
6. Another member of the Working Party drew attention to the fact that if the price fell by a certain proportion and that gave rise to a corresponding increase in demand, there might be no benefit to the exporting country's balance of payments, but there might be for other elements in the national income, and remarked that Brazil and other producing countries should consider the magnitude of existing demand in the development of their investment policies, stressing "We must produce what we can sell." New foreign investments in the production of exportable items which were already feeling the effects of such a limitation of demand - coffee, for instance - might be of temporary benefit to the balance of payments, as there would be an influx of capital; but on the medium and long-term basis it might add to the seriousness of the general problems of a producer country. In that connexion the representative of Brazil recalled that from 1929 up to the present time the contribution of foreign capital had been low in his country, and the effect as regards the production of coffee was confined to the improvement of quality.

7. Continuing his inquiries on this general subject, the same delegation asked a number of questions which may be summarized as follows:

(a) Has opportunity for employment in Brazil been increasing at a rate similar to that of the growth in population?

(b) Does the volume of its imports depend primarily on the price of its main export products?

(c) Does the policy followed in respect of foreign trade have an appreciable effect on the composition of imports? Are investments definitely directed towards the replacement by national production of goods which Brazil is at present importing, or is the idea not to have a large-scale effect on the structure of imports, but preferably to secure that the increase in exports should allow for the development of a balanced trade?

8. The substance of the replies given by the Brazilian representative was as follows:

(a) Growth in opportunities for employment is basically linked with the rate of investment. Here to the trends of such opportunity of employment and of the growth in population could be regarded as parallel, as productive employment has duly been given to the manpower available, including that resulting from immigration. For reasons connected with the structure of its economy, Brazil has certain problems of its own in that field connected with specialization and occupations, arising from the internal flow of migration from the poorer areas of the north-east to the national centres with greater industrial development.

(b) The reply is in the affirmative, it is only necessary to refer to the figures given in the statement made by the Brazilian representative at the beginning of the meeting.
In order to provide an answer, it should be recalled that the divergent trends of Brazil's economic development and its external payments capacity are closely connected with the limited demand for its main exports in the world market. These circumstances do not give grounds for hoping, at any rate on a short- or medium-term view, that a substantial increase in income would cause the abandonment of the policy of selection and replacement of imports. It was repeated that in the field of internal production, whether in connexion with consumer goods, capital goods or undertakings to diversify exports, there was freedom of enterprise. Thus, in the replacement of imports, the Government had to act by means of indirect incentives. Foreign immigration - which was very important - played an appreciable part in the choice of new branches of activity, as it was natural that people should produce goods which they were accustomed to consuming. In certain branches of activity which for one reason or another did not attract private enterprise, or which gave rise to financial or technical problems which went beyond available possibilities, the Government brought to bear direct forms of incentive or even itself undertook the task of organizing certain undertakings.

To sum up, with an inadequacy of foreign exchange, the general policy has to be one of adapting the composition of imports to the requirements of economic development. The latest reforms are aimed at the achievement of that object on a basis of caution, adjusted in the greatest measure possible to that of freedom of trade.

The Brazilian representative emphasized that the policy described did not reduce imports - as Brazil maintained them to the extent allowed by its balance of payments - but, as already mentioned, recognized the need to make certain changes in their composition.

9. A member of the Working Party, noting the efforts made by Brazil to encourage the inflow of foreign capital, inquired as to how the general results obtained might be assessed. The Brazilian representative replied that the effects of the policy followed, measures by the net figures of capital movement, were less than those hoped for, in spite of the incentives used. While in absolute terms the contribution received in this was considerable, in relative terms its contribution to equilibrium in the balance of payments was small.

10. The Brazilian delegation recalled that in Brazil capital contributions could be brought into the country in the form of capital goods, the price of which for the investor was calculated in dollars in the free market; this resulted in a considerable advantage in relation to the price of the same imports which they were paid for by Brazilian investors with foreign currency obtained by auction. The facility was one granted only to foreign investors, and was not available to Brazilians. In other words, the system to promote new external investments involved discrimination affecting the country's own nationals.
11. In view of the insufficient influx of private capital of foreign origin, the Government had found itself obliged to play a more active part in the field of investment, having recourse to international collaboration and allocating the resources in cruzeiros forming the working capital of the favoured concerns. This intervention in the economic process necessarily led to involved State control of certain commercial activities. By the force of circumstances, this might be reflected in situations which were not in conformity with the free trade policy of the countries from which the major share of the capital came. Brazil was in favour of freedom in the economic field; but certain facts resulting from existing circumstances must be recognized.

12. One delegation, while recognizing present balance-of-payments difficulties in Brazil, expressed the hope that in its own interest Brazil would soon be able by measures available to the Government to establish monetary stability internally and, thus, a climate in which to assure orderly developments, and to progress further toward the objective of a non-discriminatory import system. He inquired as to the plans and intentions of the Brazilian Government in this respect.

13. The delegate of Brazil replied that non-discrimination is an objective, and that this might be reached more rapidly if other countries would assure a consistently rising level of income, and hence higher prices for such commodities as coffee. It was agreed, however, that while each country may desire and would hope to achieve a rising income, the consumption of coffee by each individual is subject to factors other than income changes, and that continued action by Brazil to expand and diversify its exports would be required.

Alternative measures to restore equilibrium

14. One delegation referred to the repercussions of the inflationary process which undoubtedly led to an increase in the tendency to import, and a consequent fall in exchange reserves. Mention was made of the figures given by the Fund in its document dated 21 October 1957 which showed that assets had notably fallen during the year. It was asked how the level of those assets might tend to move in the future.

15. The delegation of Brazil, for its part, showed that circumstances did not hold out any prospect of a substantial improvement as regards reserves or the general balance-of-payments position in the immediate future. As indicated in its initial statement, a joint study by the Bank for Development of Brazil and the Economic Commission for Latin America had led to the conclusion, based on the analysis of the possible trend of certain basic factors, that it would not be unjustified to expect a structural improvement as from 1962.

16. A member of the Committee suggested that Brazil would have difficulty in overcoming its balance-of-payments problems until internal inflationary pressures had been brought under control. So long as adequate measures were
not taken to deal with domestic inflation, exchange resources would remain under pressure and special measures to control imports would presumably continue to be necessary. Moreover, unless greater stability was achieved, foreign investors would be cautious about investment in Brazil and the external resources needed to finance sound development projects would not be forthcoming in adequate measure. It seemed to this delegation that greater progress in dealing with inflation was central to the resolution of Brazil's economic difficulties. The representative of Brazil agreed that the most pressing problem facing Brazil was that of internal inflation. The Brazilian authorities were endeavouring to cope with the situation but there were limits to what could be accomplished in a country like Brazil with an expanding population and urgent development needs.

17. One delegation observed that the purpose of the discussions was to apply the joint efforts of the contracting parties to the elucidation of the causes of restrictions on imports, so as to ascertain how they could be reduced or eliminated. That task necessarily led to the subject of the possible prevention of the causes, which in turn led to questions such as those of price and production policy, investment control and other equally pitiful problems. Although their study was not included in the Committee's terms of reference, it was worth mentioning them in the minutes.

System and methods of the restrictions

18. One delegation inquired as to existing rates of exchanges at the auctions under the new systems. The Brazilian representative stated that the level reached by premiums in the coming months would throw light on the question of what the real rates might be. It would, however, be rash to predict the subsequent evolution of the system, particularly as factors were involved such as those resulting from the inflationary process and the trend of exports in the immediate future. He expressed regret that recent figures were not available, and stated that when such figures are obtained they will be added to this report.

19. Various members of the Committee referred to the new provisions introduced by Law 3,244 for the purpose of consolidating the former categories of imports so that instead of five there were now two: the general category, and the special category. One delegate expressed concern that shifts of products from the general to the special category would provide increased protection and at least on the basis of preliminary thinking would have something like the same economic effect as imposition of a quantitative restriction.

20. The Brazilian representative gave assurances that it was not the intention to shift items from the general to the special category as a protective device. He added that the transfer of products from the general to the special category would in future require a decision of the Customs Policy Council, and transfers were to be approved solely for reasons connected with the balance of payments and not on other grounds, as the said law put actual protective measures in the customs tariff. At present, he said, Brazil is studying the possibility of shifting products from the special to the general category.
21. One delegation inquired whether the new system made allowance for imports of minimal commercial quantities. The reply was that there was no need for a special provision to that effect in Law 3,244, since no import was prohibited. It was thus possible to import any item from any source by means of purchasing by auction the necessary foreign exchange to pay for it.

22. In response to a question about the role of the National Industrial Council in the administration of import policy, the representative of Brazil specified that the intervention of the National Industrial Confederation in the permits for certain imports was at present limited to products classified in the special category. Those in the general category remained exempt from the requirement of a licence and thus from any other limitation.

23. One delegation expressed its satisfaction at the disappearance of the requirement of a licence for imports in the general category and expressed the hope that in the near future the licensing requirement would also be abolished for imports under the special category. He referred to the establishment of minimum agios for other than convertible and limited convertibility currencies as an important step in reducing the discriminatory aspects of the previously existing system which had effectively precluded a number of important and traditional items in the trade of his country with Brazil. He hoped that these minimum agios would be administered in such a way as to ensure the resumption of the trade in these traditional items.

24. A delegation referred to the ad hoc auctions (outside the general and special category auctions) for imports of such items as dried and fresh fruits and holiday items. He stated that these appear clearly to discriminate against dollar imports. On the one hand, he said, dollar imports are excluded from these particular auctions with no opportunity for direct competition in the bidding. On the other hand, he added, even if the same items may be imported under one of the two regular auction categories, importers from the areas excluded from ad hoc auctions would be under disadvantage, as rates for the commodity in question would be abnormally low in the ad hoc auctions for the very reason that competitive bidding was restricted. The Brazilian representative replied that only small amounts of foreign exchange are allocated to ad hoc auctions, which are primarily designed to carry out bilateral obligations.

Effects on trade

25. A member asked whether changes in the existing composition of imports would result from the system instituted by Law 3,244 and the revision of the auction system? The Brazilian representative emphatically replied in the negative. In his country the present import control system dated from the last war. It had therefore been possible to accumulate experience which was useful now in drawing up the general and special categories. Moreover - as the delegation had previously stated - the prevailing system did not envisage prohibitions in respect of any import.
26. The Brazilian delegation replying to questions, explained that imports with preferential exchange rates are made in accordance with laws relating to supplies for the press, and for reasons connected with economic development and others. He stated that these imports are made under the auctioning regime. He added that foreign exchange for these imports is not allocated by country or currency area, and that there are no discriminatory elements involved in this programme. Furthermore, there was no departure from the competitive auction of private trade. One fact must be acknowledged: the importation of some of the items benefiting from preferential exchange rates was subject to agreements between importers. That fact, and other circumstances which had nothing to do with the Brazilian authorities, in practice limited the demand for this foreign exchange in such a manner as to assure that low "agios" rates prevail.

27. One delegation noted with satisfaction the statement to the effect that all the imports with preferential rates of exchange were not assigned in advance to specific producer countries, but were open to free competition. He assumed that this was the case for wheat which was one of the more important items imported under the preferential system.

28. One delegation referred to the system of foreign exchange auctions in so far as they provided resources for subsidizing exports. It mentioned, in effect, that according to information available under the system prevailing before Law, 3,244, there had been equilibrium between receipts resulting from the auctions, and withdrawals under the head of aid to exports. Under the new system - as the Brazilian authorities appeared to think - receipts would fall, as a certain proportion of them would be received by the Government through the new customs duties and would be used for fiscal purposes. There would thus be a drainage in the resources in cruzeiros so far directed towards the facilitation of exports. Would this, in fact, occur as far as could at present be foreseen, or would it in fact be avoided with a rise in premiums?

29. The representative of Brazil stated that his Government proposed to act with a view to preventing, as far as possible, a rise in the price of foreign merchandise for the importer, in terms of cruzeiros. The new system, according to reasonable assumptions, should not in general cause a rise. It was to be hoped that in future the sum of the premium and the customs duty would represent for the importer a charge similar, or the average, to that resulting from the premium before Law, 3,244. Thus, the increase in the duty would be more or less compensated by the decrease in the level of the premiums. In that connexion he recalled that under Law, 3,244, a minimum could only be fixed for the premiums when it was a question of inconvertible currencies, basing them on the average exchange rate for imports paid for in convertible currencies. The provision in question was designed to reduce discrimination, and implicitly ensured that there would be no obstacles - from the legal point of view - to neutralizing the recent increase in the tariff charge by means of a corresponding decrease in the premiums. On the other hand, there would be nothing extraordinary in the inflationary process gradually causing, as had occurred in the past, a certain rising trend in the cruzeiro import price. Hitherto there had been a balance
between receipts and withdrawals from the fund for subsidizing exports; and that balance would continue, because Law 3,244 provided that no imports could be effected at a price lower than the exchange buying rate for the Government. That rate consisted of the parity rate, plus the average export bonus.

30. One delegation commenting on discriminatory elements in the system stated that frequently the price of currencies for importing from areas with convertible currencies was greater than the price paid by the merchant when buying equivalent goods with inconvertible currencies.

31. That situation, said the representative of Brazil, was not the result of the authorities' wishes, but a consequence of certain peculiarities of the previous exchange system. Owing to the scarcity of convertible currencies and the preference for importing goods from countries with convertible currencies, the price for these currencies in the auctions was constantly higher than that of inconvertible currencies. The latest reform would alleviate that state of affairs. The need to eliminate an illicit triangular operation and the resulting damage to the economy of Brazil, was one of the main causes for the new measure. In the future, as a result of Article 53 of Law 3,244, something closer to orderly cross rates would prevail, as the inconvertible currencies would be auctioned on the basis of a minimum of not less than the average price paid for freely convertible and transferable currencies. In that way, the disadvantages of the situation mentioned would be reduced in respect of the competitive capacity in the Brazilian market of goods from countries such as the United States, Canada and Switzerland.

General Comments

32. A member of the Committee stated that there had been cases of exports from Brazil which had been invoiced at prices higher than that charged by the vendor. In the country of destination, the purchaser deposited in the bank the whole of the price declared, and that was remitted to the exporter, who returned to the purchaser, through the free exchange market, the difference between the real price and that declared on the trade invoice. Clearly, by such a fraud, the exporter got an additional profit, equal to the difference between the dollar rate on the free market in Brazil and the higher official price allotted by the Brazilian authorities to currencies resulting from exports.

33. The Brazilian delegate expressed his thanks for the information. It had long been a preoccupation of the authorities of his country to reduce the drainage of official assets resulting from transactions like that mentioned. Experience showed that they were difficult to avoid when there was a system of differential exchange rates. In Brazil, as in other countries, such operations were effected by means of over- and under-invoicing, according to the characteristics of the exchange system and the relation existing at a given moment between the official quotations and those on the free or parallel market. The need to exercise control over the price of imports explained why Brazil had maintained the requirement of a consular visa.
34. One delegation pointed out that secretariat document MGT/90/57 contained, for information, various data concerning the Brazilian reforms - data relating to matters which were not included among those covered by consultations under Article XII:4(b) of the General Agreement. It was thought advisable - and there was agreement on this point - that it should be noted that the Committee did not formulate any comment or view or conclusions on aspects of the Brazilian import system outside its terms of reference.

35. The same delegation, and one other, noted that the new provisions of Law 3,244 raised questions of interest both to the present consultations and to discussions which would be taking place in the TNC for Brazil. It was agreed that the present discussion would not preclude raising the same or similar questions in the TNC for Brazil.

36. One delegation asked that note should be taken - and it was so agreed - of the fact that the views expressed during the meeting with regard to consultations under Article XII:4(b) should not be taken as a view, one way or another, as to whether the new Brazilian tariff law may be consistent with the obligations of the GATT in general and, in particular, with the waiver granted to Brazil last November.

37. Various delegations thanked the Brazilian representative for the frank and full way in which he had explained the relevant features and the significance of the import control system. There had been a further confirmation - as one delegation said - of the value of the system of consultations for a better understanding between the CONTRACTING PARTIES.
ANNEX I

STATEMENT BY THE REPRESENTATIVE OF BRAZIL

With respect to the plan for consultations under Article XII:4(b), it is our opinion that, generally speaking, the documents prepared by the secretariat of GATT and the International Monetary Fund cover the various points, and reflect the situation correctly. Nevertheless, for a better understanding of all the factors affecting the balance of payments of Brazil, it is necessary to take into account the following considerations:

(a) Between 1925 and 1956 the population of Brazil increased by more than 100 per cent, from 30.2 million to 60.6 million. In 1957 it will reach 63 million.

(b) During this period (1925 to 1956) gross investment, based on 1950 prices, rose from 9.0 billion to 45.9 billion cruzeiros.

(c) In the same period gross national product, also based on 1950 prices, changed from 96.0 billion to 308.9 billion cruzeiros. Thus the gross national product and the gross investment rose during this period at an average rate of 3.9 per cent per annum (5.4 and 3.7 per cent respectively), which were sufficient to maintain improvement in the real per capita income, taking the rate of demographic increase at 2.3 per cent per year.

(d) The dynamic element in this process of development - the investments - nevertheless depends on a variable factor, namely the Brazilian capacity to import. At present this capacity is in the order of 30 per cent of national output, and it (taking account of the net contribution of capital movements, which may be negative or negligible) depends, ultimately, upon the exchange resources produced by the Brazilian exports.

The Brazilian exports, which during the aforementioned period changed from 19.0 to 29 billion cruzeiros - due more to the increase in international prices than in the physical quantities exported - consist principally of coffee, cocoa and cotton. Coffee accounts for about 61.5 per cent of the total exports, while the combination of coffee, cocoa and cotton represents 76 per cent of the total.

The country's dependence for its external earnings on the export of such a combination of primary products, and the price behaviour of such products, especially that of coffee, makes it easy to understand why there should have been such a progressive worsening of the country's balance of payments and such a growing shortage of foreign exchange, that is in relation to the import payment requirements of the whole of Brazil's developing economy.
This situation of handicap and disequilibrium requires the application of a practical system aiming at the allocation of the limited supply of foreign exchange for import payment in such a way that we can obtain the maximum amount of essential machinery and equipment needed by industries, and less of consumer goods. Among consumer goods, priority is given to those of general demand rather than those specialties of interest to only a restricted section of the population.

The structural disequilibrium which I am referring to is aggravated by a chronic inflationary process. To give an idea of the magnitude of this pressure, I may point out that within such a short period as between 1950-1956, the gross national product at current prices rose from 253 to 796 billion cruzeiros, and that the same calculation based on 1950 prices would show a change from 253 to 308.9 billion cruzeiros.

The solution of this problem is twofold: first, to combat and to stop the inflationary process and secondly (as a longer term proposition and depending upon the evolution of our economy), to promote some diversification of our exports together with a gradual substitution of certain imports.

As regards the inflationary process that the Brazil Government is trying to fight and to stop, it is important to understand that it must be brought under control without impairing the rhythm of growth of our economic activity and the normal level of employment. If you consider the long duration of the inflation problem, its wide ramifications in the past and the rapid growth of our population you will see that this is a very delicate and complex task. Furthermore, we have to remember that, for a considerable period of time in the past we were compelled to appeal to several inflationary expedients, when the normal ways and means were found outside of our capabilities.

In conclusion, the prospects for an improvement in the conditions of our economy and in the balance-of-payments situation unhappily are not optimistic. According to studies made by a mixed group of experts of the Economic Commission for Latin America and Bank of Development of Brazil, the situation should not be expected to improve before 1962.

Under these circumstances, up to 1962 at least, Brazil certainly will not be able to do away with the mechanism for selecting imports according to their essentiality to the economy and the exigencies of our economic development. Nevertheless, as the new trade mechanism to be set up following the approval of the new tariff law clearly indicates, the Brazilian Government has continuously endeavoured progressively to introduce measures which give greater play to the market forces and the automatic functioning of the trade mechanism, evolving in the direction of complete liberalization.