2. As soon as the lack of balance in international means of payment became more pronounced in the countries with which we trade, it became necessary to make Brazilian imports subject to quantitative control.

Having failed to discover a balance of payments which would both offer a non-discriminatory solution and safeguard the stability of the level of the country’s exchange operations, we come up against the multitude of specific conditions presented by the other parties to GATT.

The unstable financial position of those countries, notwithstanding the provisions of Article XII-2-A of GATT, has prevented Brazil from leaving her transactions with them in their currency free from official control, since their financial position has clearly deteriorated and is subject to trends likely to be detrimental to the continuity of our foreign trade and hence to impair the conduct of the trade we normally do with them.

The recovery of the economic potential of the countries which were our suppliers or which absorbed our exportable quotas, chiefly countries affected by the war, has not proceeded far enough to enable us to take the view that the international obstacles to the adoption of a single, non-discriminatory trading system have been abolished, particularly as the wide recourse to the inconvertibility of currencies as authorized by the International Monetary Fund (Article VIII, Section 4, paragraph (b)) has financial implications and consequences which limit the application of the principle of multilateralism in foreign trade relations.

Nevertheless, Brazilian control of imports does not in principle discriminate between supplier countries, except as required by the exigencies of our balance of payments with each of them, as sanctioned by GATT.

The special law No. 842, of 4 October, 1949, which governs such matters, outlines the policy to be followed in the distribution of imports, without laying down restrictions creating obstacles to our trade with other countries or leading to the abandonment of levels already reached under previous purchases.

In accordance with the multilateral principle referred to above, we do not distinguish between exporting countries except in so far as is necessary for the protection of our hard currency holdings, which are reserved wherever possible for essential investments.
Furthermore, we do not store up such holdings unproductively but put them all to good use either for the payment of essential imports or for the settlement of arrears in trading accounts.

Being organized on a purely exchange basis, the system of control employed in Brazil is not characterized by quantitative limitations or restrictions of Brazil's trade relations with the other parties to GATT. Thus, the distribution of Brazilian imports is made without distinction as to source, being determined solely by the general requirements of our balance of payments.

Our aim being to maintain Brazil's trade with countries where we have large and not easily usable balances and to enable such countries to retain their normal business in the Brazilian market, we have so far tried as far as possible to maintain the volume of imports and exports at the previous level.

In consequence, the control system adopted by Brazil does not distinguish between different classes of commodities with a view to restricting imports thereof, these being governed by the requirements of our balance of payments.

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The system of controls adopted for Brazilian imports is governed by a technique based on the aims of the exchange regime in force. In principle, import transactions are divided into two groups with a view to the study by the competent authorities of their suitability from the exchange point of view:

(a) imports payable in scarce (hard) currencies;
(b) imports payable in non-scarce (soft) currencies.

In the case of the former, the amount needed to ensure cover is determined by working out an exchange budget taking account of all sources of income in currencies of the same kind, i.e., hard currencies, and the actual and imperative obligations of the period under review; after comparing these data and ascertaining the amount of currency which will be available for the payment of imports, we split up the import items which have to be obtained from the areas in which we conduct operations in those currencies.

As it is a question of applying budgetary estimates which may be adversely affected by a shortfall in the estimated receipts, the allocation of funds for imports payable in hard currencies will be restricted, as stated above, according to the degree of necessity of the commodities to be imported.

However, such allocation, being based on quotas does not imply the establishment of discriminatory distinctions in respect of the provenance or origin of the goods. We proceed in such a way as to enable Brazilian trade with countries not affording us the possibility of maintaining a satisfactory balance of payments to be kept at the maximum level, even where such action entails the complete utilisation of our available exchange resources.

To this end, we leave importers full freedom to maintain their normal contracts with foreign suppliers without drawing up preferential classes of imports according to source, in cases where a distinction has to be made for countries with which our trade, expressed in terms of the balance of payments, is subject to universally applicable conditions.

Adopting that principle, the favourable effects on the balances of payments make it possible for the quantitative restrictions applied to be proportionately reduced, the country's foreign trade, in the case of those currencies, approaching the level
attained under the regime of complete freedom.

In the case of imports payable in currencies in which we have a favourable balance, these are admitted, on the lines indicated above, without quantitative restrictions infringing the principle of non-discrimination. It should be pointed out, however, that we have striven to avoid a reduction of these balances in soft currencies, as allowed for in GATT, in the light of the need - while increasing the use of such currencies, as shown in the steady increase in the volume of Brazilian imports during the past few months - for avoiding further maladjustments in our balance of payments while increasing the number of currencies shown to be scarce in order to meet the country's normal requirements.

It therefore emerges that the control policy adopted by the Brazilian Government with regard to national imports and designed to safeguard the balance of payments does not conflict with the principle of non-discrimination set forth in the GATT.

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3. As was explained in our reply to Question 2 the system of import restrictions adopted by Brazil arises from the need to defend the country's balance-of-payments without infringing either of the basic principles of GATT, namely the principle of non-discrimination and the principle of multilateral trade.

Law No. 262 of 23 February, 1948, made all imports into Brazil subject to a licence.