General Remarks

(a) The non-signature of the protocol for the prorogation of the validity of the schedules until 1957.

(b) By so doing the Brazilian Government declared formally its intention of revising the existing tariff.

(c) The project of the new tariff was submitted to Parliament in December 1955 and its approval is expected for the beginning of 1957.

(d) The new instrument which has a nomenclature based on the studies of Conseil de Coopération Douanière comprises 8470 items and the system of taxation adopted is the ad valorem. The level of the taxation varies from "free of duty" to 150%. There are nineteen levels of taxation in between: 2%, 4%, 5%, 7%, 10%, 15%, 20%, 25%, 30%, 35%, 40%, 50%, 60%, 70%, 80%, 100%, 125% and 150%.

(e) The most frequent taxation in the tariff, that is to say, the one that comprises the greatest number of products is that of 10%. It contains 2012 products or 23.75% of the total.

(f) The ad valorem taxation will apply to the c.i.f. price of the product based on the notion of the external value as it appears on the project of the tariff. I quote: .......

The Reason of the Tariff Reform

(a) The experience with the direct controls of importation, (import permits) served to indicate that, although it is essential for Brazil to maintain adequate composition of imports in order to meet the needs of economic development, the methods employed at the time, in spite of producing some good results, were not of a nature to permit an automatic evolution towards a regime without any restrictions.

(b) Thus there was decision in 1953 to evolve from the regime of individual import permits towards another where although the distribution of quotes was maintained for groups of goods, the mechanism of prices would play an important part in the process of obtaining more automatism.
(c) Putting it more clearly, the auction system introduced in 1953, as is well known to all the delegates here, is at the bottom a system of quotas with the safety valve of the price mechanism.

(d) However, the practical absence of a customs tariff, noticed since the establishment of the import controls in Brazil, was requiring very frequently, distortions in these controls in order to cope with the inadequacy of the tariff.

(e) Such inadequacy, mentioned by the Leader of our delegation in the plenary meeting, was rendered more evident and functionally contradictory when through the modification in the exchange system in 1953, we tried to attribute to the market mechanism a relevant function.

(f) Although the experience of the functioning of the auction system made it possible to foresee some modifications that would still emphasize the importance of the market mechanism in the function of controlling imports, the non-existence of an adequate customs tariff would constitute an obstacle to that desideratum.

(g) Furthermore, the national investors did not consider as sufficient guarantee for medium and long term investments, a regime that would only afford protection of a precarious nature, because it had been approved on a temporary basis by the International Monetary Fund. It leads to a paradoxical situation: whenever there is an improvement in the balance of payments, let us say in the balance of trade, due to obtaining better prices for primary products, the results will be a lack of protection for an infant industry in its competition with better established industries abroad.

Reasons for the Urgency of the Project

(a) Some conditions out of our control prices of primary goods in international markets and the lack of a substantial and steady flow of foreign capital into Brazil led the Government to the use of some anti-inflationary devices to maintain a high rate of growth of the country's economy. I do not want to discuss here, because it is not the appropriate forum for evaluating those anti-inflationary devices, in the process of economic development but the fact remains that the present Government gives top priority to the fight against inflation which is threatening some of the results already achieved by Brazil in its economic development.
(b) In this fight against inflation, the first measure to be taken is the one dealing with modifications in the fiscal field.

(c) Those modifications aim at the reformulation of certain basic instruments of economic policy on account of the requirements of the process of economic development and at the same time to propitiate to the Government the necessary means to face the budget's deficit.

(d) As is well known to all the delegates, the process of economic development is a global process during which there are deep economic and social changes. After a certain time of application of measures towards its fulfilment, economic development turns out to be a national aspiration shared by every citizen.

The New Tariff and the Auction System

(a) It would be illogical, after claiming the inadequacy of the tariff, not to alter the existing system in order to make possible the synchronization of two instruments: the auction system and the tariff.

(b) The Government of Brazil has already presented to the International Monetary Fund the modifications that are going to be introduced in the auction system, when the new tariff comes into force.

(c) The modifications envisaged are the following: replacement of the present system of five categories of imports by only two, essential and non-essential. The tax for the conversion of the external value for customs purposes will be indicated by the rates obtained at the auction in the category of essential goods, will be applied to all imports falling into the above two categories, and will be published monthly by the monetary authority.

(d) This simplification will allow a few steps forward by Brazil along the road to give to the market mechanism and not to an administrative decision the selection of imports.

Justification of the Tariff Level

1. The new tariff will not constitute an element for the increase of the costs in cruzeiros of merchandise.

(a) It is clear that the price that the importer is willing to pay will not be affected if part of it is renamed tariff duty, provided other things remain the same, that is to say that the structure of the internal demand for that product is the same and that the new tariff will not alter the actual relationship between allocations of foreign currency to the five categories of imports.
(b) If we compare the weighted average levels of the incidence of the tariff related to the five categories of imports we find the following:

<table>
<thead>
<tr>
<th>Category</th>
<th>Incidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>10.74%</td>
</tr>
<tr>
<td>2nd</td>
<td>15.31%</td>
</tr>
<tr>
<td>3rd</td>
<td>31.86%</td>
</tr>
<tr>
<td>4th</td>
<td>40.59%</td>
</tr>
<tr>
<td>5th</td>
<td>83.64%</td>
</tr>
</tbody>
</table>

The relationship between these levels reflects the different allocations of foreign currency among the categories.

2. The tariff will not affect the present composition of the imports.

The structure of the weighted average levels of the incidence of the tariff by category of imports lead us to admit that after the simplification that will occur in the auction system - the difference among the tariff levels will be less rigid in its effects than an administrative distribution of foreign currency and goods among the various categories.

3. The tariff will not diminish the volume of trade.

This affirmation is an axiomatic one because one of the great limitations to economic development consists exactly in the reduced capacity for imports. If we do not import higher quantities of goods it is because we do not possess enough foreign currency to pay for them.

4. The problem of the tariff concessions granted within the framework of GATT.

Our affirmations about the effects of the new tariff, on the specific duties negotiated in GATT refer to their practical effects. That is to say: the present tariff is obsolete and immaterial. A change to a new tariff is inevitable, a new tariff which pays for the auction system. We do not deny the possibility of discussing the matter in juridical terms but we think sight must not be lost of the pragmatical aspects of our contentions.