Replies by Brazil to Questions Raised by the United States on the Brazilian Notification of Subsidies under Article XVI:1 of the General Agreement

Reproduced herewith are replies by Brazil to questions raised by the United States in document SCM/W/162 on the Brazilian notification of subsidies under Article XVI:1 of the General Agreement (L/6111/Add.6 and L/6111/Add.6/Corr.1 updated by document L/6450/Add.6).

Question I - FINEX

This programme was not included in the Brazilian notification because the Brazilian authorities do not consider it an export benefit. The interest rates and the time limits applied by FINEX are compatible with the credit conditions granted by the governmental agencies of the participant countries of the OECD arrangement.

Question II - Circular CIC-Crege 14.11, of the Banco do Brasil

This programme was not included in the Brazilian notification, for it grants no effective benefit to exporters. Its costs and time limits are aligned with the interest rates and the time limits normally granted in the market. Besides, there are additional costs for the exporters, the main one being the obligation to sell a certain amount of exchange earnings resulting from the export to Banco do Brasil S.A. (equal to the cost of the loan, if the time limit is 180 days, or equal to the double of the value of the loan, if the time limit is of 360 days). This obligation excludes the possibility of having the exporters sell their export earnings at rates more favourable than those prevailing in the market. In addition, the resources used by Banco do Brasil S.A. in this credit line are of its own, originated internally, and not resources of the National Treasury passed to Banco do Brasil S.A.
Question III - Why has the Brazilian Government not reported the BEFIEX programme?

This programme was not notified because, despite the existence of an undertaking to export part of the production of the firms involved, the essence of the programme is to promote the modernization and the development of the Brazilian industrial sector, as a result of the domestic needs. There may be an indirect increase in terms of the external competitiveness of the beneficiary sectors. However, it should be stressed that the aim of such a programme is only to satisfy the domestic needs, according to projections of demand. In other words, the overall production of the firms, either destined to the internal or to the external market, may be benefited by this programme by means of increasing productivity. However, the eventual effect on the international market must be assessed on a case-by-case basis.

Question IV - Was the income tax exemption provided by Decree-Law 1158 of 1971 and extended by Decree-Law 2134 of 1984 terminated on the scheduled termination date (31.12.1987), as reported in this notification?

As has been reported in the updated version of the Brazilian subsidies notification (document L/6450/Add.6), exporters benefited from an income tax exemption created by Decree-Law 1158 of 1971 until December 1987. However, profits made in 1988 (income tax return to be filed in 1989) are now subject to a tax rate of 3 per cent and those made from 1989 onwards are going to be subject to a tax rate of 6 per cent (as compared to the normal 35 per cent tax rate), according to Decree-Law No. 2413, of 10 February 1988. In other words, the regime of tax exemption for the profits made in the export of manufacture products was replaced by a regime of reduction of the normal tax rate (35 per cent). For profits obtained in 1988, the tax rate will be 3 per cent and for those made from 1989 onwards the tax rate will be 6 per cent.