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TRADE POLICY REVIEW

REPORT BY

BRAZIL

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Brazil is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Brazil.

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1 OVERVIEW

1.1. The Brazilian Government is pleased to submit its Sixth Trade Policy Report to the scrutiny of fellow WTO Members. Brazil considers this periodic review mechanism as a key element of the multilateral trading system embodied in the WTO, contributing to a more transparent and comprehensive understanding of Members' trade policies and regulatory frameworks.

1.2. The period examined in this TPR (2009-12) was characterized by a world financial crisis followed by an economic recession and a slow recovery. In spite of the difficult external economic environment, Brazil was able to partially offset the negative effects through countercyclical economic policies aimed at sustaining the levels of production and employment. As a result of sound macroeconomic policies and fiscal responsibility, income distribution and an inflation targeting regime, Brazil was able to witness improvements in domestic demand and supply, and an increase in the level of employment throughout this period.

1.3. Brazilian resilience to the crisis was also due to the ongoing process of diversification of its commercial relationships. Brazilian trade flows expanded with both traditional and new trade partners, consolidating Brazil's position as a global trader.

1.4. The multilateral trading system is a priority in Brazil's foreign trade policy. Brazil believes that well-functioning multilateral trade rules are essential for the efficiency of international trade and for the good functioning of the global economy. In this context, Brazil has consistently reiterated its commitment to the conclusion of the Doha Round and with its objective of promoting a more equitable and development-oriented international trading system.

1.5. Notwithstanding the priority it attributes to the multilateral trading system, Brazil also believes that preferential trade agreements can play a complementary role in the efforts to harness the benefits of international trade towards the goal of economic and social development of all Members. In this respect, it considers that existing multilateral disciplines regarding preferential trade agreements are geared to ensure that these instruments do not undermine the global rules-based multilateral trading system. This is particularly relevant as complementarity requires that such agreements aim at facilitating trade between their constituent Members without raising barriers to the trade of other Members.

1.6. Brazil further believes that bilateral and regional trade agreements can help build the basis for trade liberalization at the multilateral level. The development of regional economies of scale can help reap the benefits of integration in international trade flows and therefore contribute to prosperity and development. It is in this spirit that integration with MERCOSUR remains one of the main objectives of Brazilian policy.

2 GENERAL ECONOMIC ENVIRONMENT

2.1 Macroeconomic Overview

2.1. The Brazilian economy was affected by the financial crisis, but it was not severely disrupted. The tripod of economic policy - based on inflation targeting, a floating exchange rate and fiscal responsibility -, the high level of international reserves, falling net public debt and a solid domestic financial system have reduced the impacts of the crisis. In fact, the Brazilian Government established the conditions that allowed the country to face the financial and economic crisis through the use of a broad range of economic policy instruments. After growing 6.1% and 5.2% in 2007 and 2008, the economy contracted 0.3% in 2009, leading to the adoption of a set of fiscal and monetary measures. The recovery was strong, resulting in growth of 7.5% in 2010. The next two years showed less vigorous growth, of 2.7% and 0.9% in 2011 and 2012, respectively, reflecting the worsening of the international context, the appreciation of the Brazilian currency (Real) and monetary tightening in late 2010 and first half of 2011. An economic rebound has been under way since the second half of 2012 and growth is expected to gather steam along 2013, with first quarter annualized growth rates expected to be around 4%. Recent growth volatility in Brazil mostly reflects global economic conditions, notably the financial crisis of 2008/2009 and the Eurozone crisis in 2011/2012, with the latter strongly influencing the downward trend in investments up to the third quarter of 2012.

2.2. The public sector continues to pursue fiscal consolidation in accordance with the principle of fiscal responsibility, one of the pillars of Brazil's economic policy. In 2012, the primary surplus reached 2.4% of GDP. Consistent primary surpluses have contributed to a declining trend in total net public debt. Net public debt was reduced from 60.4% of GDP in 2002 to 42.1% in 2009, and 35.1% at the end of 2012. In the next few years, the projected primary results point to further reductions in both the nominal deficit and public debt. The increase in the share of fixed rate bonds in securitized debt has helped to reduce volatility in public debt management. The share of federal public debt with floating interest rates on the total federal debt fell from 33.9% in 2008 to 21.7% in 2012. The average maturity of federal public debt increased from 3.4 years in January 2009 to 4.0 years in January 2013. The improved profile of public debt and the lower level of debt-to-GDP ratio have allowed the Government to adopt countercyclical measures, such as tax relieves, in the aftermath of the 2008 international financial crisis, without generating financial stress. The Government continues to pursue, however, better control over current expenditures. A major landmark, in the period under review, was the reform of the pension system for civil servants (Law 12.618/12), bringing it into line with the general pension system and thereby increasing its long term sustainability.

2.3. In an environment of weak external demand, the economy has been sustained by domestic demand, in particular household consumption, as a result of strong job creation and income gains. The unemployment rate reached a new low record of 4.6% in December 2012, and average real wages grew 4.1% in 2012. Both employment and the work force have continued to grow at relatively high rates (2.2% and 1.7% in 2012, respectively) considering the economic moderation of 2011-12. Income transfers to low-income families continued to contribute to the reduction of inequalities.

2.4. Interest rates continued in a downward trend. The benchmark overnight rate (SELIC) reached its historic low of 7.25% in October 2012. In the financial system, interest rates for credit and bank spreads also showed downward movement, reaching historically low levels. As a result of the reduction in nominal interest rates, Brazil began to experience lower levels of real interest rates. The credit market has expanded significantly, driven by gains in real income and employment. The outstanding stock of loans in the financial system increased 18.8% and 16.4% in 2011 and 2012, respectively, reaching 53.5% of GDP by the end of 2012. In this new context, the economy has experienced more appropriate financial costs, with positive effects for the development of capital markets, such as debentures, stocks and other assets related to productive investment. Investment and infrastructure debentures improved in 2012. In the second half of 2012, the first emissions of these debentures for the financing of investments in transport and energy took place.

2.5. The year of 2012 was the ninth consecutive year when inflation – at 5.84% – remained within the target set by the Central Bank. From 2009 to 2012, the main upward pressures in inflation came from increases in services and food prices, which remained above the average annual headline inflation of 5.64%. For the services sector, the tight labor market represented an important source of price pressures. Weather events that affected grain prices in the international markets in 2010 and 2012, as well as the evolution of domestic prices of fresh products in 2012, also had an impact on food prices.

2.6. Brazil has been one of the early adopters of macroprudential policies. The National Monetary Council (CMN) and the Central Bank of Brazil (BCB) played a major role in monitoring and acting to ensure financial stability during the global financial crisis. The BCB has been actively developing its macroprudential policy framework for some time, devoting resources to systemic risk monitoring, implementing various macroprudential or capital flow management measures and, more recently, establishing a Financial Stability Committee within the BCB.

2.7. After a reduction in 2009, foreign trade expanded at annual average rate of 16.6% in exports and 20.4% in imports. Exports grew from US$153.0 billion in 2009 to US$242.6 billion in 2012, while imports increased from US$127.7 billion in 2009 to US$223.1 billion. In the 2008-12 period, the deficits in current account, as percentage of GDP, reached 1.7%, 1.5%, 2.2%, 2.1% and 2.4% in each of those years. In 2012, the reduction in the trade surplus was balanced by lower profit remittances. At the same time, the country has been attractive to foreign investment, mainly foreign direct investments (FDI), which totaled US$65.3 billion in 2012. Thus, the current account deficit was fully financed by net FDI inflows. International reserves remained at high levels, reaching US$378.6 billion at the end of 2012, bolstering the ability of the Brazilian economy to

face external shocks. In March 2013, the stock of international reserves represented US$373.7 billion, four times more than the debt service for the 12 months ahead.

2.2 General Legal and Regulatory Framework

2.2.1 Business environment

2.8. In the period under review, the Brazilian Government strengthened policies aimed at encouraging the migration of enterprises to the formal sector, rationalizing and simplifying tax obligations and reducing administrative and operational costs for taxpayers.

2.9. The movement towards electronic procedures for filing documents and fulfilling tax obligations continued apace. Implementation of the Public System of Digital Bookkeeping (SPED) started in 2007. Among the instruments developed under the SPED, there is the Digital Bookkeeping, which aims to replace paper bookkeeping, and the Electronic Invoice Project (NF-e), which aims to replace paper invoices. By the end of 2012, more than 6 billion electronic invoices had already been issued. The main benefits of these measures for the taxpayer are cost reduction, the simplification and rationalization of tax compliance and reduced paper consumption, as well as standardization of information and preservation of the environment. For the tax and customs administration, the main benefits are: quicker access to information, improvement of control and surveillance, reduction of tax evasion and increase of tax revenues.

2.10. The "Simples Nacional" regime was expanded by means of an increase in gross revenue limits and permitted fields of activity. The "Simples Nacional" is a differentiated and simplified tax regime applicable to Micro and Small Enterprises, which comprises the Federal, state and local tax administrations and allows for the payment of eight different taxes by means of a single document and a single tax rate applicable to gross revenue. Since January 2012, the maximum annual gross revenue for a company opting for the "Simples National" is R$3,600,000.

2.11. Aiming at promoting the democratization of credit and banking, the Program "Crescer" was introduced in August 2011 under the National Program for Productive Micro-credit - PNMPO. The expansion of micro-credit in Brazil purports to encourage entrepreneurship, to give opportunity to new businesses and to meet the financial needs of entrepreneurs of small productive activities. The program provides for direct relationships with entrepreneurs in local economic activities, preliminary evaluation of the investment capacity of the business and contact throughout the contract period. Operations are directed at informal individual entrepreneurs, individual entrepreneurs and micro-enterprises with revenues of up to R$120,000 per year. Funding goes up to a maximum of R$15,000 for working capital or investment, with payment terms agreed between financial institutions and borrowers according to the type of project and resource usage.

2.12. The Program "Crescer" targets the lowest income groups, encouraging and supporting their access to the exercise of an economic activity. In May 2012, 51% of the beneficiaries of the Program were registered in the Single Registry for Social Programs of the Federal Government. 38% of them were beneficiaries of the "Bolsa Família" and 34.5% of the transactions benefited people in extreme poverty conditions, with a monthly per capita income of up to R$70 – as identified by the "Brazil Without Misery" program. From April 2005 until July 2012, the PNMPO held more than 11.3 million micro-credit operations, with total volume of credit of over R$15.7 billion (in nominal terms). In the first half of 2012, the program reached a volume of R$3.5 billion, with 1.5 million active clients.

2.2.2 Financial system

2.13. The stability of the Brazilian financial system has remained high in recent years due to the implementation of the policies mentioned in item (i) and to continued favorable developments in the macroeconomic environment. The major Brazilian banks have remained well equipped to face the global credit crunch, relying on their solid solvency position and high profitability. The exposure of the Brazilian banking sector to structured credit instruments, including in the form of derivatives, remains very low. Stress tests for credit and market risks conducted by the Central Bank of Brazil (BCB) in recent years show that the system can absorb losses from relatively large shocks without threatening systemic solvency. The credit portfolio has grown, supported by strong domestic demand and increasing bank competition for market share. The main drivers of credit

demand have been a sustained increase in real income, the emergence of new middle-class and the recent regulatory improvements towards the reduction of lending risk.

2.14. In 2012, Brazil's financial sector was subjected to the IMF's and the World Bank's Financial Sector Assessment Program (FSAP). The FSAP mission found the Brazilian financial system to be stable, with low levels of systemic risk and sizable capital buffers. According to the FSAP report, published in July 2012, "while coping with volatile capital inflows remains a challenge, the Brazilian authorities have effectively used macroprudential measures to contain systemic risks". It was also highlighted that "Brazil's strong financial markets infrastructure and strong regulation and supervision have been an important factor in maintaining financial stability". Furthermore, the assessment concluded that "Banking supervision is risk-based and robust", reflecting a high degree of compliance with the Basel Core Principles for Effective Banking Supervision. The Assessment also characterized the Brazilian financial system as solid, well capitalized and with high levels of liquidity and provisions against delinquency.

2.15. Brazil is committed to implement the Basel III capital framework in a schedule consistent with goals for capital definition, minimum capital requirements, capital buffers, liquidity ratios and leverage ratio. Final regulations were issued on 1 March 2013 by the National Monetary Council and by the Central Bank of Brazil, covering the redefinition of capital; new capital requirements and introduction of capital buffers for institutions in general; optional simplified new capital requirements and capital buffers for single credit cooperatives; scope of consolidation of accounting statements of financial institutions; the methodology of calculation of risk-weighted assets (RWAs) for credit risk, market risk and operational risk for institutions that use the standardized approaches or the advanced approaches of capital calculation.

2.16. A National Financial System Clients Reference File (CCS) was created in 2005, complying with Anti-Money Laundering (AML) provisions. All financial institutions are required to maintain a data record of account holders and clients, as well as their legal representatives, as part of a general reference file centralized at BCB. The CCS makes it possible for proper authorities to request and consult data on a centralized database involving information on deposit accounts and financial assets in the form of properties, rights and values held or administered at SFN institutions. Financial institutions are accountable for daily update of CCS data and for the preciseness and timeliness of information. The judiciary will be able to use CCS information on the basis of specific agreements established with courts. In the framework of AML measures, financial institutions must adopt procedures regarding the establishment of business relationships and monitoring of financial transactions of clients considered to be politically exposed persons.

2.17. Law 12.683 of 7 September 2012 modernized the legislation against money laundering through the significant expansion of the list of economic sectors participating in the efforts to prevent and combat money laundering and financing of terrorism, while preserving the set of obligations affecting such sectors. At the international level, in 2012 the Council for Financial Activities Control (COAF) worked on the first Brazilian follow-up report to the 2010 process of mutual evaluation conducted by the Financial Action Task Force against Money Laundering and Terrorist Financing (FATF).

2.18. Interest rate spreads have continued to fall following the decline of the benchmark interest rate (from 12.5% in August 2011 to 7.25% in October 2012), and benefited from progress on the "deindexation" (reduction in automatic price rises linked to the CPI) of the Brazilian economy, in particular the elimination of a legal minimum interest rate payable to savings accounts. This process has been helped by regulation to improve comparability of bank services and the portability of credit operations in order to foster competition, as well as by a sharp reduction in public banks' lending interest rates. Credit portability consists of the borrower's ability to transfer debts to another financial institution. During 2012, both the number of transferred loans and the volume of transactions were near record highs.

2.19. A series of measures have been taken with the aim of making it easier for clients of financial institutions to establish business relationships with other financial institutions. One of the major elements in reducing asymmetries was the creation of the Credit Information System (SCR), a credit bureau managed by the BCB which gathers credit data from all banks and all borrowers.

2.20. In order to increase the access of low income populations to financial services, the national partnership for banking inclusion was launched in May 2012, with the participation of various public and private actors, comprising a series of goals to be met by 2014: (i) increase the adequacy of the supply of financial services to the needs of the economy and the population; (ii) raise the level of financial literacy of the population, combating over-indebtedness; (iii) encourage popular savings; (iv) strengthen protection mechanisms for users of financial services; (v) foster the sustainable development of productive micro-credit; (vi) ensure stability and promote the improvement of the model of banking correspondents; and (vii) increase knowledge about the Brazilian reality in relation to financial inclusion. The objective is to continue to promote financial inclusion while ensuring solvency and credit quality.

2.21. Over the past five years, the share of population with an active relationship with financial institutions increased 31%, reaching 121 million people, or 84% of the population aged 15 and above. Currently, all 5,565 Brazilian municipalities have at least one point of access to financial services.

2.2.3 Insurance market

2.22. The insurance industry has grown significantly in recent years, thanks to the favorable economic environment for the sector in Brazil. In 2012, the insurance, "capitalization" and open supplementary pension scheme markets had a turnover of approximately R$157 billion, equivalent to 3.6% of GDP – an increase of over 21% over the previous year. In December 2012, there were 162 insurance companies (118 insurance societies, 19 capitalization societies, 25 supplementary pension institutions), 102 reinsurers (12 local reinsurers, 29 admitted and 61 possible), 34 reinsurance brokers and more than 75,000 insurance brokers operating in the insurance market.

2.23. Between 2000 and 2012, insurance premiums increased 463%, capitalization products increased 278%, and open supplementary pension plans 105%. Between 2009 and 2012, the amount paid in insurance premiums increased by 69% (19.1% annually). The value invested in capitalization products grew 64% (18% annually) and resources from contributions in open supplementary pension plans increased by 29% (8.85% annually). In 2012, insurance companies had total technical reserves of approximately R$414 billion. These performances reflect the stabilization of the economy, as well as liberalization in some sectors.

2.24. The National Council for Private Insurance (CNSP), a collective body responsible for elaborating the rules regulating the insurance market, and the Superintendence of Private Insurance (SUSEP), the agency in charge of overseeing and supervising the sector, have steadily improved regulation and supervision in order to adjust them to the current dynamics of the Brazilian insurance market and to align them with the best international practices. The objectives are the development of the insurance industry and greater consumer protection.

2.25. A significant development in insurance regulation was the development of guarantee insurance ("seguro garantia") for contracts and public bids. A relatively novel insurance product in the Brazilian market, it is expected that guarantee insurance will play a major role in the organization of the major upcoming sport events in Brazil, the 2014 World Cup and the 2016 Olympic Games.

2.26. With a view to promoting the financial inclusion of low-income populations and micro-entrepreneurs, SUSEP has encouraged the creation and development of simple and low cost products, including the simplification of the market operation of these products. In this context, the regulation of micro-insurance products was concluded in 2012 and the first related products are already being marketed.

2.27. The liberalization of the reinsurance market, made possible by Complementary Law 126, of January 2007, created a new framework for the reinsurance business by opening the sector to foreign companies and for companies domiciled abroad. Based on this new regulation, the operations of reinsurance and retrocession can be held with the local reinsurer (established as corporations with the sole object of conducting operations of reinsurance and retrocession), with the admitted reinsurer (domiciled abroad, with an office of representation in Brazil, registered at SUSEP to carry out operations of reinsurance and retrocession); and with the foreign reinsurer

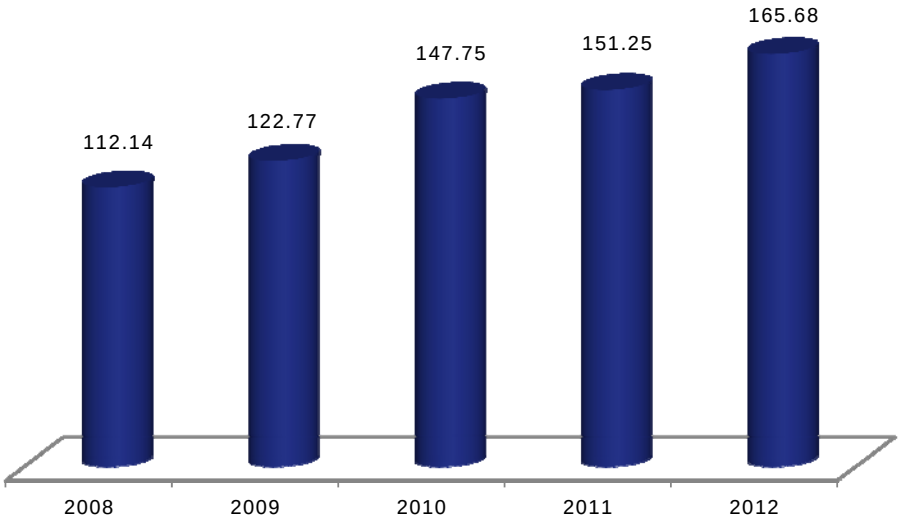
(foreign reinsurer domiciled abroad without an office of representation in Brazil and registered as such in SUSEP). The expansion of this sector corresponds to the Government's expectations and objectives and counts with a significant participation of foreign companies. The consolidation of the liberalization of the reinsurance market spurs the development of the domestic insurance market by providing more comprehensive and innovative products and increasing competition in the local market.

2.2.4 Securities market

2.28. The capital market in Brazil was heavily influenced during the years 2008-12 by an external environment marked by uncertainty and instability, arising initially from the Global Financial Crisis of 2008/2009, and later from the European sovereign debt crisis and the variable progress on fiscal adjustment in the euro zone countries. However, in spite of the difficult external environment and the resulting climate of risk aversion, both the primary and secondary capital markets in Brazil managed to present positive developments in this period.

2.29. In the primary market, public share offerings developed positively, totaling R$700 billion of funds raised by means of various instruments, such as equities and corporate debt bonds, in five years. Including Petrobras shares offering in 2010 and the debenture leasing companies' emissions, the amount totals about R$900 billion. Likewise, investment funds continued to grow, with positive net inflows of around R$450 billion during the same five-year period.

Public share offerings[1] - R$ billion



(1) These figures encompass public offerings of shares[2], debentures[3], promissory notes, mortgage backed securities - MBS (CRIs), and in shares of asset-backed securities - ABS (FIDCs) and in real estate investment funds (FIIs), and private equity funds (FIPs); values based on registrations, registration exemptions and ICVM 476 (public offering with restricted sales efforts).
(2) Excluded the distribution of Petrobras in 2010 (approximately, R$120 bi).
(3) Ecluding distributions of leasing companies (R$31.15 bi, in 2008; R$11.1 bi, in 2011; and R$35 bi, in 2012).

2.30. The secondary market also followed an upward trend: average stock cash trading grew from approximately R$5 billion per day in 2008 to R$6.3 billion in 2012, while the number of transactions went from 44 million (2008) to 157 million (2012) per year. The corporate bond market also gained greater liquidity and transparency with the implementation of several measures by both the public and the private sectors, including facilitation of the process of issuance of debentures.

2.31. Two facts are worth mentioning due to the fact that they represent structural changes. The first is the creation of new products during this period, providing risk diversification and better resource allocation. Although incipient, securitization products such as CRIs (MBS) and FIDCs (ABS), real estate investment funds and Exchange Traded Funds began to consolidate. The second

one is the reduction of the benchmark interest rate (SELIC). This has already led to increased demand for corporate bonds for investors seeking higher yields.

2.2.5 Government procurement

2.32. Brazil has a decentralized procurement system. Federal, State and Municipal authorities can make public purchases, in accordance with the Tendering Law (Law 8.666 of 1993). According to the general Law, public entities cannot establish differential treatment between Brazilian and foreign companies. Five procurement modalities can be used by public entities: open tendering; price consultation; invitation; contest; and public auction.

2.33. During the period under review, the Ministry of Planning advanced significantly in the modernization of Federal Government procurement systems, by emphasizing electronic procurement and by consolidating the model of reverse auction as the main type of tender conducted in Brazil.

2.34. In general, the main factors to be considered for determining the modality to be employed are the value and the nature of the object being tendered. From 2008 to 2012, electronic reverse auctions accounted for almost 50% of the value of federal contracts opened to tendering. In its 2010 assessment study, the World Bank noted that the mainstreaming of reverse auctions has helped to enhance the efficiency and transparency of Brazil's procurement system.

2.35. An important feature of the Government procurement system in Brazil is access to information. Bidders can easily find substantial information online through the ComprasNet website (http://www.comprasnet.gov.br) and the Transparency Portal (http://www.portaltransparencia.gov.br). In addition, the Tendering Law requires both federal and sub-federal governments to give wide publicity to tendering processes.

2.36. In August 2011, the Government established a special procurement regime[1] intended to increase the efficiency of the national procurement system in order to facilitate the organization of the upcoming sport events to be hosted by Brazil. The special procurement regime applies exclusively to bids and contracts necessary for the organization of the Olympic and Paralympic Games in 2016, the 2013 FIFA Confederations Cup and the 2014 FIFA World Cup, and for infrastructure works included in the Government's Growth Acceleration Program (PAC). The special regime does not establish differential treatment for national or foreign companies, services and products.

2.2.6 Exchange rate and foreign capital regime

2.37. There is a single market for foreign exchange rate in Brazil. Clients may freely negotiate the exchange rate with institutions authorized to operate in the primary foreign exchange market. There is no repatriation requirement of export proceeds, and exporters are allowed to keep all their revenues abroad.

2.38. There is no approval requirement to bring foreign capital into Brazil. Nevertheless, all foreign capital – including foreign direct and portfolio investments, foreign credit and financing – entering Brazil must be registered at the Central Bank. The registration is made in declaratory and electronic forms in the corresponding modules of the Electronic Declaratory Registration (RDE), at the Central Bank Information System – Sisbacen. Repatriating investments and income related to foreign capital; such as liquidated equity and bond investments, dividend payments and making payments on a foreign loan; are also made without the need for Central Bank authorization.

2.2.7 Export insurance

2.39. The main official mechanism to promote Brazilian exports is the Export Guarantee Fund (FGE), established in 1997. The Fund guarantees exports of domestic goods and services in operations longer than two years. For Micro, Small and Medium Enterprises, the Fund is allowed to provide export guarantee also for operations shorter than two years. Other operations for periods

[1] Law 12.462 of 4 August 2011.

below two years are served by the private market of insurance. Between 2009 and 2012, 253 operations of export credit insurance were approved under the FGE, totaling US$32.6 billion.

2.40. Brazil is a participant in the Aircraft Sector Understanding within the Organization for Economic Cooperation and Development (OECD), applying the premiums and other conditions established by the agreement. In 2012, Law 12.712 created the Brazilian Agency of Management of Guarantor Funds and Guarantees SA (ABGF). The Agency, not yet in operation, will manage the Guarantee Fund for Foreign Trade Operations (FGCE). The FGCE will gradually be capitalized up to a limit of R$14 billion, as provided by the same law.

2.2.8 Long run production and export finance

2.41. The National Bank of Social and Economic Development (BNDES), a state-owned bank created in 1952, is the main source of long term credit in Brazil. Since its foundation, BNDES has played a fundamental role in stimulating the expansion of industry and infrastructure in the country. Over the course of the Bank's history, its operations have evolved in accordance with the country's social and economic challenges, and now they include support for technological innovation, sustainable socio-environmental development and the modernization of public administration. Currently, the long term financing needed for investment in fixed assets, both direct – through capital markets – and indirect – through the banking system – is still scarce, and the activities of BNDES have complemented those of commercial banks, with a clear segmentation between short and long term credit. Brazil's financial market continues to be mainly focused on the short term, with liquidity concentrated in few assets.

2.42. The achievement of investment grade and the consolidation of macroeconomic stabilization have laid down the basis for strengthening the domestic financial and capital markets. Government policy with regard to public debt is leading to an extension of average maturity and to greater reliance on fixed rate instruments. Measures are being taken to support the formation of more liquid and comprehensive secondary markets for financial assets. It is expected that private capital and financial markets will gradually supply a larger share of long term investments.

2.43. Credit lines offered by BNDES encompass long term financing for the development of investment projects and for the commercialization of new machines and equipments, as well as the financing of Brazilian exports, taking into account ethical, environmental and sustainable development principles. BNDES' credit lines also contribute to strengthen the capital of private companies and to the development of capital markets.

2.44. BNDES disbursed R$156 billion in 2012, up 11.6% compared to 2011. Industry and infrastructure, together, accounted for 65% of the Bank's total disbursements. BNDES had a net profit of R$8.18 billion in 2012. The Bank was able to achieve a financial performance consistent with its activities as a development bank, reaching a credit portfolio of approximately R$495 billion in December 2012. The capital adequacy index (Basel Index) recorded by the BNDES was 15.4%, whereas the required index by the Central Bank is 11%. Total assets amounted to R$715.4 billion in December 2012, an increase of R$90.6 billion (14.5%) over December 2011.

2.45. The significant increase in total disbursements since 2008 reflects both the augmented support to investment in infrastructure and energy and the operation of anti-cyclical measures to encourage investment in the aftermath of the global financial crisis.

2.46. Defaults on BNDES' credit portfolio represented 0.06% of the total in 2012, below the national average of 3.6% in the same period. In December 2012, 99.1% of total credits granted by the bank were classified between risk levels AA and C, well above the average of the National Financial System. The Bank seeks to harmonize competitive interest rates with the preservation of public equity by continuously monitoring credits and guarantees that cover the debt position over the duration of the contracts.

2.47. BNDES offers two export credit lines: a) pre-shipment credit, which supplies working capital for Brazilian exporters; and b) post-shipment credit, which targets the commercialization of exported goods and services through buyer's or supplier's credit, in accordance with international standards.

2.48. BNDES' export credit disbursements decreased from US$11.5 billion dollars in 2010 to US$5.5 billion dollars by the end of 2012. The amount of disbursements in 2009 and 2010 was a reaction to the global financial crisis, in particular the scarcity of trade finance. Since 2012, traditional trade finance channels have returned to normal and, as a result, BNDES' disbursements have decreased.

2.49. Capital goods accounted for 60.5% of the total export finance disbursements in 2012. This includes buses, trucks, light commercial vehicles, industrial machinery and equipment, as well as aircraft. Exports of engineering and construction services and software accounted for 26.4%. Labor intensive consumer goods, such as footwear, textiles, processed food and furniture accounted for 13.1% of total disbursements.

2.50. Latin America has been a major destination of exports financed by BNDES since the inception of the export credit facility in 1990. The region accounted for 49.1% of the US$1 billion in post-shipment disbursements in 2012. The main exports financed are goods and services for infrastructure projects in the region, such as dams, pipelines, aqueducts, subways, transmission lines and gas infrastructure. 31.3% of all post-shipment disbursements went to Africa, also for goods and services for infrastructure development. The US, Europe and Asia accounted for 19.6% of exports – mostly aircraft – financed by the post-shipment credit facility.

2.3 Social Policies

2.51. During the period under review, Brazil has continued to prioritize social development, combining economic growth, income distribution and targeted policies to fight poverty, the reduction of inequalities and the improvement of overall living standards.

2.52. From 2009 to 2012, social indicators of health, education, employment, housing, life expectancy and income distribution have improved considerably. This is a result of a two-folded social policy focused on strengthening and expanding the scope of universal policies in education, health, labor, care and social security on one hand, and implementing targeted programs and actions to promote social inclusion of the low-income and most vulnerable populations on the other.

2.53. The Government also placed emphasis on public investment that, associated with the enabling environment of low interests rates and credit and income expansion, has encouraged private investment, expanded production and stimulated job creation. From 2011 to the end of 2012, 4 million new jobs were created. Brazil has now the lowest unemployment rate in its history. Additionally, nominal minimum wage rose about 63% during the period under review.

2.54. Targeted programs and actions have been established or expanded to promote social inclusion of the low-income and most vulnerable populations. This is the case of the "Brazil without misery", a broad plan of action which encompasses other programs, such as "Bolsa Família" and "Rede Cegonha", among others. More specific targeted programs worth mentioning are "My House, My Life", "Pronatec", "ProUni", "FIES" and "Science Without Borders", that target affordable housing, vocational training, higher education and research. A million families have already benefited from the Program "My House, My Life" and a million more shall benefit from it in the years to come.

2.55. As of December 2012, the Program "Brazil without misery" has managed to raise 16.4 million Brazilians above the line of extreme poverty. Income distribution policies have benefited more significantly the lowest income population. Between 2001 and 2011, the income of the poorest 10% of the population rose 5.5 times faster than that of the richest 10% of the population.

2.56. The country is close to the objective of achieving universal basic education, with the enrolment of 98.2% of children from 7 to 14 years in 2011. The share of the population over the age of 15 that is illiterate decreased from 9.7% in 2009 to 8.6% in 2011. In addition, the number of places in technical and professional courses for students and workers was increased to 2.5 million with the support of the Pronatec program.

2.57. In the countryside, social improvements were also significant. The Government has increased access to basic services, such as sanitation, energy and education and expanded income guarantees and measures aimed at enhancing the participation of rural populations in agricultural and non-agricultural productive activities. Almost 4.8 million rural dwellers rose above the poverty line.

3 TRADE POLICY DEVELOPMENTS (2009-12)

3.1 Latest Developments in Brazilian Foreign Trade

3.1. Brazilian foreign trade continued to increase since 2009, both in nominal terms and as a percentage of the GDP. The country's foreign trade volume increased 65.9% between 2009 and 2012, from US$281 billion to US$466 billion. Relative to GDP, foreign trade grew from 17.6% in 2009 to 20.7% in 2012. The share of Brazilian exports in global trade also increased, from 1.25% in 2009 to 1.44% in 2011, partly as a result of the effort to expand the number of exporting firms. Between 2009 and 2011, around 20,000 companies were involved in Brazilian exports; 47.6% of them were small enterprises, 26.0% medium and 26.4% large enterprises.

3.2. The period 2009-2012 was marked by significant surpluses in goods trade: on average US$24 billion, with a peak of US$29.8 billion in 2011. During the period under review, Brazil has diversified the destination of its manufactured and agricultural goods. Exports to Asia increased 87.2%; to Latin America, 41.4%; to Eastern Europe, 27.9%; to Africa, 40.5%; and to the Middle East, 52.6%.

3.3. Manufactured goods accounted for 37.4% of exports, semi-manufactured goods for 13.6%, agricultural and mineral commodities account for 46.8%. The remaining 2.2% are accounted by special operations. The main industrial exports were aircrafts, automobiles, auto-parts, cellulose, semi-manufactured steel, radio transmitters and receivers, and shoes. The main commodities exported were iron, oil, soy, beef, coffee, tobacco and cotton.

3.4. Raw materials and intermediate products had a share of 44.7% of total imports in 2012. These were followed by capital goods (21.8%), consumer goods (17.6%) and oil and gasoline (15.8%). Pharmaceutical goods, fertilizers, heavy equipment and industrial machines, automobiles, electronic goods, plastic materials, and grains were among the main products imported by Brazil.

3.2 Participation in the WTO

3.2.1 The Doha Round

3.5. Brazil remains firmly committed to the Doha Development Round. It considers that the DDA will only be successful if it results in benefits for all Members, particularly for developing countries.

3.6. Brazil remains convinced that priority should be assigned to meaningful results on agriculture, since the overwhelming majority of the vulnerable segments of the population have their livelihoods linked to the rural areas and the sector remains subject to a wide array of trade distortions and protectionism, which hamper effective exploitation of developing countries' competitiveness in this field. A successful conclusion of the DDA would bring new, structural opportunities for developing countries through: a) the elimination of agriculture export subsidies; b) a significant reduction of domestic subsidies for agriculture in developed countries, c) the expansion of market access for agricultural products; and d) the reduction of tariff escalation.

3.7. Brazil also recognizes that the current deadlock calls for realism and pragmatism. Brazil will continue to engage constructively with a view to achieving a concrete, balanced outcome in Bali, which should provide the first step towards the full resumption of the Doha Round negotiations.

3.2.2 Dispute settlement

3.8. In line with a long-standing tradition of respect for international law, Brazil attaches a high priority to strengthening the WTO dispute settlement system and has actively participated in the mechanism since its very first dispute (U.S. – Gasoline). To date, of 456 WTO disputes, Brazil

participated in 114 – 26 as complainant, 14 as respondent and 74 as a third party. Most of the cases dealt with issues that are at the core of the multilateral trading system, such as: the protection of the environment (Brazil – Tyres) and public health (EU – Generic Drugs); granting of subsidies both to industrial (Canada – Aircraft) and agricultural goods (EU – Sugar and US - Upland Cotton) and the application of trade restrictive measures by developed countries (US - Orange Juice).

3.9. Currently, the only active pending dispute in which Brazil participates as main party is the US – Upland Cotton case. In 2010, Brazil and US signed an interim agreement, in which the United States agreed to establish and contribute on a monthly basis to a Fund for technical assistance and capacity building in the cotton sector in Brazil until successor legislation to the Food, Conservation and Energy Act of 2008 is enacted in the US, hopefully allowing for a definitive solution to the Cotton dispute.

3.2.3 Special and differential treatment

3.10. Brazil attaches great importance to the WTO principle of special and differential treatment (SDT) to developing and least developed countries (LDCs). Effective S&DT provisions are important first steps towards leveling the playing field among members. Brazil remains committed to fulfill the Doha Declaration determination regarding the revision of all special and differential treatment provisions with a view to strengthening and making them more effective and operational. Brazil attaches great value to the work of the Committee on Trade and Development, in the context of the Doha Development Round and as a reviewer of regional trade agreements (RTAs) between developing countries and preference schemes favoring developing countries authorized under the Enabling Clause. Brazil appreciates the work carried out by the Committee since 2007 in implementing the RTA Transparency Mechanism for RTAs falling under paragraph 2(c) of the Enabling Clause.

3.3 Preferential Agreements

3.11. Notwithstanding the priority it attributes to the multilateral trading system, Brazil believes that preferential trade agreements can play a supplementary role in the efforts to harness the benefits of international trade towards the goal of economic and social development of all Members. In this respect, it understands that existing multilateral disciplines regarding preferential trade agreements are geared to ensuring that these instruments do not undermine the global rules-based multilateral trading system.

3.12. Within the Latin-American region, Brazil participates in regional agreements under the provisions of the Latin American Integration Association (LAIA). Brazil's trade policy is structured around the MERCOSUR customs union, in which Venezuela has formally joined Argentina, Brazil, Paraguay and Uruguay as a full Member on 12 August 2012. Bolivia also signed a Protocol of Accession to MERCOSUR on 7 December 2012. The Protocol is currently under exam by Parliaments in the signatory parties.

3.13. MERCOSUR concluded free trade agreements (FTA) with Egypt, in 2010, and Palestine in 2011. Negotiations on the MERCOSUR–EU Association Agreement were formally re-launched in May 2010 and Ministers agreed to exchange market access offers no later than the last quarter of 2013. MERCOSUR and Canada have engaged in an exploratory dialogue with a view to determining the feasibility of initiating negotiations for an FTA.

3.3.1 MERCOSUR

3.14. MERCOSUR was established in 1991 by the Treaty of Asuncion[2], and its institutional structure was defined in 1994 by the Protocol of Ouro Preto. MERCOSUR is Brazil's main preferential agreement in terms of value of trade, accounting for more of 10% of its merchandise trade[3] and is also the backbone for further regional integration and negotiation of extra-regional

[2] MERCOSUR is incorporated in the LAIA legal regime as Economic Complementarity Agreement No. 18. LAIA economic complementarity agreements must be open for accession by any LAIA country.

[3] As of August 2012, available information on MERCOSUR trade includes its four original members (Argentina, Brazil, Paraguay, and Uruguay) but does not include Venezuela.

agreements. The MERCOSUR market is particularly important to Brazil as the main destination for manufactured goods with higher added value.

3.15. The Common Market Group (GMC) and the Council for the Common Market (CMC) are the main executive and decision-making bodies of MERCOSUR respectively. The Council's mission is to formulate policy and promote actions that help to configure the Common Market, and it is integrated by the Ministers of External Relations and of the Economy of member states. The GMC oversees the application of the Treaty of Asuncion, its protocols and agreements, and can make recommendations to the Council. It is entitled to issue mandatory Resolutions that apply to all member states. It is also in charge of negotiations with other countries, groups of countries and international organizations. The MERCOSUR Trade Commission (CCM) is responsible for the application of common trade policy instruments.

3.16. Dispute Settlement in MERCOSUR is regulated by the Protocol of Olivos, signed in February 2002 and in force since January 2004. Under the Protocol of Olivos, member states can choose to file disputes either within MERCOSUR or at the WTO. Upon agreement by the parties, the Common Market Group can provide mediation. Cases are handled by a Court of Ad Hoc Arbitration (TAHM) and/or by the Permanent Review Court (PRC), which is composed of five judges.

3.17. Created in December 2005, the Parliament of MERCOSUR symbolizes the political decision to strengthen and deepen the integration process and to develop common interests and values in the region.

3.18. During the period under revision, MERCOSUR has taken important steps towards the consolidation of the Customs Union. MERCOSUR member states share a Common External Tariff (CET), which entered into force on 1 January 1995. Different exceptions have been admitted through Decisions by the CMC. All MERCOSUR member states are currently authorized to have an exception list of products on which higher or lower tariffs *vis à vis* the CET will be applied. There are different provisions for each country. Brazil can include up to 100 tariff lines and modify as many as 20% of them every six months, until the end of 2015.[4] Brazil is also allowed to establish special tariffs for Capital Goods (BK) until the end of 2013 and for Informatics and Telecommunications Goods (BIT) until the end of 2015.[5]

3.19. In the context of the global economic crisis, the Common Market Council approved Decision 39/11, which allowed temporary tariff increases to deal with imbalances arising from international economic situation. Under this Decision, countries are allowed to request a unilateral increase of import tax rates within the limits of WTO bound levels for up to 100 tariff lines. In June 2012, the Common Market Council adopted Decision CMC 25/12, which extends the authorization for unilateral tariff increases to up to two hundred tariff lines until the end of 2014. Decision CMC 25/12 is pending ratification by all members to enter into force.

3.20. The Agreement on the Elimination of Double Collection of CET and the Distribution of Customs Revenue in MERCOSUR, approved by Decision 54/04, grants local MERCOSUR status to imported products that conform to Common Tariff Policy (PAC). Its implementation consists of three phases. The first one refers to goods benefiting from a CET of 0% and to merchandise imported by member states with 100% preferential tariffs under MERCOSUR agreements with third parties. The second stage would cover the remaining goods.[6] The third stage will require implementing a customs revenue distribution mechanism and the unification of customs systems in all member states. Since 2010, MERCOSUR member states have been negotiating the implementation of these three phases, according to Decisions CMC 10/10 and 56/10.

3.21. The sugar and automotive sectors are the only ones excluded from free movement within MERCOSUR. There is no schedule for the inclusion of sugar in the free trade regime. Trade in the automotive sector between Brazil and MERCOSUR members is still largely regulated by bilateral agreements, which have been renegotiated – within the framework of LAIA – in the period under

[4] Provisions are identical for Argentina. Paraguay was authorized to maintain a list of up to 649 tariff headings until the end of 2019, and Uruguay can include up to 225 tariff headings until the end of 2017.

[5] Decisions CMC 39/05, 13/06, 27/06, 61/07, 58/08, 57/10 and 65/12.

[6] This stage is subject to the ratification and entry into force of the Customs Code. MERCOSUR CMC/DEC 27/10 and MERCOSUR CMC/DEC 34/11.

review. Trade flows are free of duty in the sector under the conditions foreseen therein. The regional agreement on automotive policy ratified by member states in 2000 and 2001 did not enter fully in force as originally planned. In 2010, Decision CMC 56/10 called for the establishment of a working group to draft a new common automotive policy.

3.22. Deeper integration of production chains within the region has been an important aim of MERCOSUR. Several initiatives are under way to foster integration in the automotive, tourism, wood and furniture, and oil and gas sectors. To this end, the Common Market Council approved Decision 41/08, which created the "MERCOSUR Guarantee Fund for Micro, Small and Medium Enterprises", conceived as a tool to facilitate access to credit for smaller companies, as well as to stimulate projects of productive integration. Decision CMC 46/12, approved at the MERCOSUR Summit in December 2012, laid down regulations for the functioning of the Fund.

3.23. Established in 2006, the Fund for the Structural Convergence of MERCOSUR (FOCEM) (Decisions CMC 45/04 and 18/05) epitomizes MERCOSUR's commitment to bridging the development gap between the countries of the region. It aims at funding the development of infrastructure and social cohesion in MERCOSUR. The Fund is made up of contributions from all member states. Paraguay and Uruguay are the main beneficiaries of FOCEM and Brazil is the main contributor.

3.24. The Protocol of Montevideo on Trade of Services entered in force on 7 December 2005 between Argentina, Brazil and Uruguay. It establishes a schedule for services liberalization (covering both market access and national treatment measures) within MERCOSUR, to be completed by December 2015. Under the Protocol of Montevideo, the Parties have scheduled commitments in virtually all sectors and sub-sectors covered by the WTO Services Sectoral Classification List (MTN.GNS/W/120). The Protocol on Government Procurement negotiated in 2006 did not enter into force and member states are currently committed to its revision.

3.25. The accession of Venezuela and the process of accession of Bolivia to MERCOSUR in 2012 are important landmarks. Besides increasing regional trade, the incorporation of Venezuela and Bolivia to MERCOSUR allows for closer co-operation in strategic sectors such as energy and infrastructure. Venezuela, together with the four founding member states, signed its accession protocol to MERCOSUR in July 2006. Venezuela became a full member on 12 August 2012. Commitments regarding trade liberalization in goods between Venezuela and other MERCOSUR members were made effective by bilateral Economic Complementation Agreements signed individually by each country with Venezuela on 26 December 2012. Brazil and Venezuela signed the Economic Complementation Agreement No. 69 (ACE-69). Venezuela will adopt the MERCOSUR Nomenclature and Common External Tariff and rules according to a schedule of commitments. In addition, Bolivia has started its accession process with the signing of the Protocol of Accession, on 7 December 2012. Following approval by member state parliaments, Bolivia will become the sixth member of MERCOSUR.

3.26. Member states have agreed a number of instruments with a view to facilitating the movement of citizens amongst all participating countries. Active participation of civil society and social movements in discussing public policies in areas as diverse as education, health, labour, human rights and others is also contributing to the enlargement of social responsibility and political accountability. This is as much an institutional breakthrough as it is a commitment to advancing the social agenda of MERCOSUR integration.

3.3.2 MERCOSUR and regional agreements

3.27. The Latin American Integration Association (LAIA) provides the framework for trade agreements signed by Brazil and by MERCOSUR with other partners in the region. Such agreements fall under the provisions of the Enabling Clause and are consistent with WTO rules.

3.28. MERCOSUR has a broad range of trade agreements within the framework of LAIA. These trade agreements are known as Economic Complementation Agreements (ACEs). They have been signed with Bolivia (ACE-36), Chile (ACE-35), Peru (ACE-58), and Cuba (ACE-62). Additionally, there is a joint agreement with Colombia, Ecuador, and Venezuela (ACE-59). In July 2002, an agreement on trade in the automotive sector was signed between MERCOSUR and Mexico (ACE-55).

3.29. Since 2001 MERCOSUR member countries are committed to the collective negotiation of trade agreements with third parties/countries, in accordance with CMC Decision 32/00.

3.30. Preferential margins granted within the framework of the ACEs between MERCOSUR and Chile and between MERCOSUR and Bolivia have increased considerably since their entry into force in 1996 and 1997, respectively. Chile and Bolivia became MERCOSUR associate members, following the conclusion of the abovementioned agreements. As a result of the signature of ACE-58 and ACE-59, Peru, Colombia and Ecuador also became associate members of MERCOSUR. ACE-58 and ACE-59 have entered into force in February 2006 and January and April 2005, respectively.

3.31. Besides the aforementioned agreements in the framework of MERCOSUR, Brazil has celebrated a bilateral fixed tariff preferences agreements with Mexico (signed in July 2002, ACE-53). Brazil has also signed a "Partial Scope Agreement" with Guyana (AAP-38), in 2001, in which nearly all the negotiated products enjoy 100% tariff preference.

3.3.3 MERCOSUR and extra-regional agreements

3.32. Negotiations for a Bi-regional Association Agreement between MERCOSUR and the European Union, originally launched in 1999 and suspended in 2004, were re-launched at the MERCOSUR-EU Summit in May 2010. Since then, nine negotiating rounds have taken place, leading to progress in the normative framework of the agreement. In January 2013, Ministers from both sides met in Santiago, Chile, on the margins of the CELAC-EU Summit. They instructed negotiators to exchange market access offers no later than the last quarter of 2013. These offers will comprise the areas of goods, services, investment and government procurement.

3.33. MERCOSUR and Canada agreed, in 2010, to undertake an Exploratory Dialogue aiming at considering the feasibility of launching negotiations towards an FTA between the parties. In May 2012, after three meetings, the first part of the exercise was concluded and both sides are currently in the process of examining its results with internal stakeholders.

3.34. On 1 June 2009, the Preferential Trade Agreement between MERCOSUR and the Republic of India, signed in 2004, entered into force. The agreement establishes fixed preference margins of 10%, 20% and a 100% for approximately 450 products on each side's list of concessions and contains provisions, among others, on rules of origin, state trading enterprises, preferential safeguards, antidumping and countervailing measures, technical regulations, standards and conformity assessment procedures, sanitary and phytosanitary measures and dispute settlement. The Agreement was notified to the Committee on Trade and Development of the WTO under the Enabling Clause in February 2010 (WT/COMTD/N/31).

3.35. On 3 April 2010, the Free Trade Agreement between MERCOSUR and Israel entered into force for Brazil and Israel (September 2011 for all MERCOSUR State Parties). The Agreement contains a tariff reduction schedule based on four categories, the largest of which foresees elimination of tariffs in ten years, with a fifth category containing products subject to tariff rate quotas and fixed margins of preference. The agreement has provisions, among others, on rules of origin, safeguards, technical regulations, standards and conformity assessment procedures, sanitary and phytosanitary measures, technical and technological cooperation, customs cooperation and dispute settlement.

3.36. MERCOSUR and Egypt signed an FTA in August 2010. Tariff liberalization will be made on the basis of four categories, the largest of which foresees elimination of tariffs in ten years, with a fifth category in which liberalization will be defined by the Joint Committee of the Agreement. The agreement contains provisions on rules of origin, preferential safeguards, technical regulations, standards and conformity assessment procedures, sanitary and phytosanitary measures, customs cooperation, and dispute settlement. The agreement provides for its entry into force thirty (30) days after the date of the notification to the Depositary of the instrument of ratification of the last Signatory Party.

3.37. In 2010, the Brazilian Congress approved the Preferential Trade Agreement between MERCOSUR and the Southern Africa Customs Union (SACU), which had been signed by the State Parties to MERCOSUR in 15 December 2008 and by SACU Member States in 3 April 2009. As of March 2013, consultations with the SACU Secretariat were still pending regarding some formal

adjustments to the Portuguese language version of the Agreement, in order to allow the ratification process to continue in Brazil. The agreement establishes fixed preference margins of 10%, 25%, 50% and a 100% for approximately 1,150 products on each side's list of concessions and contains provisions on rules of origin, preferential safeguards, technical regulations and standards, sanitary and phytosanitary measures and dispute settlement. The Agreement shall enter into force after all Signatory Parties have formally notified, through diplomatic channels, the completion of their respective internal procedures to that effect.

3.38. Between October 2008 and November 2010, MERCOSUR and the Kingdom of Jordan held four negotiating rounds with a view to concluding a Free Trade Agreement, following a Framework Agreement between the two Parties signed in June 2008. Negotiations were suspended in November 2010 and have not yet been resumed. Other MERCOSUR negotiations with partners outside Latin America have been initiated in the last few years but are still pending, namely with the Gulf Cooperation Council (last round in 2007), Morocco (last round in 2008), and Turkey (last round in 2008).

3.39. MERCOSUR signed an FTA with Palestine in 20 December 2011. The Agreement contains a tariff reduction schedule based on four categories, the largest of which foresees elimination of tariffs in ten years, with a fifth category containing products subject to tariff rate quotas and fixed margins of preference. Particular attention was given to the products of priority export interest of Palestine. The agreement has provisions on rules of origin, bilateral safeguards, technical regulations, standards and conformity assessment procedures, sanitary and phytosanitary measures, technical and technological cooperation, customs cooperation and dispute settlement. The agreement provides for its entry into force, bilaterally, after Palestine and one of the MERCOSUR States ratify it.

3.3.4 Global system of trade preferences

3.40. Brazil, along with other 42 developing countries, is a member of the GSTP (Global System of Trade Preferences among Developing Countries). In view of the large increase in South-South trade in recent years, GSTP has gained importance as an instrument to further enhance and deepen trade among developing countries. Hence, Brazil actively promoted the launch of a third round of negotiations of the GSTP, which took place in São Paulo, in June 2004, during UNCTAD XI.

3.41. The round was completed on 15 December 2010, at a Ministerial Meeting in Foz do Iguaçu, with 11 signatories: Cuba, South Korea, Egypt, India, Indonesia, Malaysia and Morocco and the MERCOSUR countries. Signatories account for a population of over 2 billion people and over 9% of world trade.

3.42. The general conditions established in the agreement are a preference margin of at least 20%, for at least 70% or each participants tariff lines. In practice, margins of preference will be accorded to more than 47,000 products.

3.43. Brazil has already initiated internal proceedings for the ratification of the Agreement and looks forward to its entry into force as soon as possible.

4 TRADE INSTITUTIONAL AND REGULATORY FRAMEWORK

4.1 Cross-Cutting Issues

4.1.1 Technical standards

4.1. The Brazilian institutional framework for technical regulations has remained broadly unchanged during the period under review. The National Institute of Metrology, Quality and Technology (INMETRO) was given new attributions by Law 12.545/11, which include taking part in SISCOMEX's consenting body for non-automatic licensing of goods, regulating measures to prevent deceptive practices of trade and working together with the Federal Police to improve the conformity assessment of goods, before they enter the country.

4.2. In accordance with the Agreement on Technical Barriers to Trade (TBT), Brazil has notified the WTO some 382 Technical Regulations and Procedures for Assessment of Conformity, including new regulations, addenda, revisions, and corrigenda and supplements. As a general rule, international standards are the basis for elaboration of technical regulations. INMETRO is the national enquiry point for technical regulations and conformity assessment procedures in Brazil. INMETRO also promotes bilateral, regional and multilateral cooperation with other WTO TBT enquiry points aiming at improving transparency and for the exchange of information.

4.3. From 2009 to 2012, Brazil has intensified its participation in international organizations dedicated to the creation and implementation of standards, such as the Codex Alimentarius; ISO; IEC; ITU; and the United Nations Committees on the Transportation of Dangerous Goods (SCETDG) and on the Classification and Labeling of Chemical Products (SCEGHS), among others, in order to keep its regulations aligned with international standards in the related sectors.

4.4. Brazil has also signed mutual recognition agreements with multilateral accreditation bodies such as the "Bureau International des Poids et Mesures" (BIPM), the International Laboratory Accreditation Cooperation (ILAC), the Inter American Accreditation Cooperation (IAAC), the International Accreditation Forum (IAF), the American Aerospace Quality Group (AAQG), the Program for the Endorsement of Forest Certification Schemes (PEFC) and the Global Partnership for Good Agricultural Practice (Globalgap). Moreover, in 2011, Brazil (through INMETRO) became a full party to the OECD decisions on the mutual acceptance of data (MAD) – Good Laboratory Practice (GLP) on pesticides, their components and related products and on industrial chemical products.

4.5. Under the framework of MERCOSUR, Brazil has worked with other members to develop a system of harmonization of technical requirements. After each MERCOSUR member has carried out domestic consultations, and before they are adopted by MERCOSUR in the form of Resolutions, technical regulations are notified to the WTO. Brazil also has bilateral cooperation initiatives on technical regulations with Argentina, Bolivia, China, Chile, Cuba, Costa Rica, the Dominican Republic, Ecuador, Germany, Guatemala, France, India, Italy, Japan, Lebanon, Mexico, Mozambique, Panama, Paraguay, Peru, Portugal, the Republic of Korea, Singapore, South Africa, Russia, Trinidad and Tobago, Turkey, Ukraine, the United Kingdom, the United States, Uruguay and Venezuela.

4.1.2 Trade facilitation

4.6. During the period under review, the Brazilian Chamber of Foreign Trade (CAMEX) established principles and rules, to be observed by government agencies, with a view to improving trade procedures, creating a more favorable environment and expediting commercial exchanges. CAMEX intends to reduce red tape and the regulatory burden, to streamline procedures, to improve transparency and to strengthen security. The objective is to reduce inspections by improving risk management systems; granting “Authorized Economic Operator” status for traders with good compliance records; reduce transaction costs; and develop automated systems and technologies to improve information exchange between border authorities.

4.7. In March 2008, Resolution CAMEX 16 established the Working Group on Trade Facilitation (GTFAC) that is comprised by the main agencies involved in foreign trade. The GTFAC has focused on the analysis of the performance and efficiency of government intervention in foreign trade and on the elaboration of proposals for legal and operational improvements. The GTFAC is tasked with monitoring, reviewing, reporting progress and proposing measures, including updating procedures and regulations, promoting better coordination and streamlining risk assessment analysis by government agencies. The GTFAC is also coordinating efforts for the expansion and improvement of the special regime for the modernization of port facilities (REPORTO).

4.8. Some of the results achieved by GTFAC include (i) the establishment of the Brazilian Foreign Trade Gateway (www.comexbrasil.gov.br), which contains the main requirements, procedures and regulations related to foreign trade, especially imports, and links to the sites of all government agencies involved with foreign trade; (ii) the improvement of electronic systems with a view to reducing average clearance times, using the single window approach; (iii) the setup of an Instantaneous Imports Licensing Deferring tool, intended to speed up approval of import licenses;

and (iv) the development of governmental qualification and training programs on trade facilitation for border control officials.

4.9. CAMEX has also set up a task force to develop a more detailed tariff schedule nomenclature which will add, at the national level, 4 (four) digits to the MERCOSUR Common Tariff Nomenclature (NCM). The expansion is called "Detalhamento Brasileiro de Nomenclatura" (DBN).

4.10. Brazil has also adhered to the Vienna Convention on Contracts for the International Sale of Goods. Adhesion was approved by Congress in 2012 and ratification is expected soon.

4.11. In 2009, the Brazilian customs and tax administration started online public external consultations, allowing operators and other stakeholders to know in advance and to submit comments to proposed new or amended customs regulations. Also since 2009, a calculator available on the Customs website allows importers and other stakeholders to calculate the value of all federal taxes levied on imports of a given product and to consult information regarding licensing and trade remedy measures.

4.12. Since 2011, the tax and customs administration has used the Administrative Digital Process (e-Process), which enables the electronic processing of documents and expedites administrative appeal procedures. The main benefits are the decrease in the cost and time needed for administrative actions and the online monitoring of appeals, as well as the possibility of consulting and appending documents in proceedings. In April 2011, the Brazilian customs authority received the Innovation Award in Tax Administration from the Inter-American Centre of Tax Administrations (CIAT), for the implementation of e-Process.

4.13. In the period under review, despite the continuing decline in the percentage of import and export declarations selected for verification, there was a substantial increase in the volume of seizures of goods and payment of taxes otherwise evaded. Brazil currently has a selection index of approximately 12% of foreign trade operations for verification, with a decreasing trend. Also during this period, the percentage of imports released by Customs in less than one day has increased, reaching 81.16% of the total imports in 2012. The average clearance time has been decreasing year by year, albeit with a slight increase in 2012, and is currently 53 hours for imports and 11 hours for exports.

4.14. Furthermore, with a view to improving the risk management of foreign trade operations, the National Centre for Customs Risk Management (CERAD) was created in 2012 with the primary mission of coordinating and guiding the studies and research aiming at the selection of operations of foreign trade and for the verification and identification of areas of greater risk to the customs control.

4.15. At the end of 2010, a new computerized system for documents and international express air shipments control began to operate, aiming at reducing bureaucracy and preventing fraud in this modality of imports. In 2012, more than 2 million express shipment import declarations were processed.

4.1.3 Sanitary and phytosanitary issues

4.16. Brazil is committed to animal and plant health and food safety in accordance with the WTO SPS agreement. All measures aiming at protecting human or animal health from food-borne risks, human health from animal or plant carried diseases and animals and plants from pests or diseases are regularly notified to the WTO and made available on the internet. The most important risk analysis processes are notified to the WTO, and the relevant sanitary or phytosanitary events immediately reported to the competent international organizations and authorities of trade partners. Brazilian Enquiry Points work in a coordinated manner and all of them attend SPS Committee meetings. Sanitary and phytosanitary measures are mostly based on standards and guidelines produced by Codex Alimentarius, OIE, and IPPC.

4.17. Since the creation of the WTO, Brazil has signed more than thirty bilateral agreements on sanitary and phytosanitary matters, based on SPS Agreement principles. The main purpose of these agreements is to identify common rules, simplify import controls, harmonize certification requirements, and facilitate bilateral trade and the entry of selected products. The importance of

such agreements for Brazilian exporters and their trade partners can be measured by the increase of the bilateral volume of trade exports with more than one hundred countries and the integration of medium and small-sized agriculture producers into the international market in sectors as honeybee, organic products, fresh fruits and flowers. However, the full potential of Brazil's agribusiness has yet to be fully developed, mainly due to the lack of recognition of equivalence agreements by some countries, as recommended by the SPS Agreement.

4.1.4 Competition policy

4.18. In May 2012, a new Competition Law entered into force in Brazil (Law 12.529). The new law introduced significant changes to the structure of the governmental agencies in charge of competition policy enforcement in Brazil, which includes mergers and unilateral and coordinated anticompetitive conducts control. CADE became the center of the Brazilian Competition Policy System (SBDC). The System is also composed by the Secretariat of Economic Monitoring (SEAE), under the Ministry of Finance. SEAE is currently responsible for competition advocacy, which includes dialoguing with public agents and proposing pro-competitive actions. CADE is in charge of all competition enforcement matters, including investigations of anticompetitive practices and mergers review. In exercising this role, CADE may reject or impose remedies to anticompetitive mergers, as well as apply sanctions towards companies and individuals that engage in anticompetitive conducts.

4.19. CADE operates at the Administrative level, as a member of the Executive branch. Anticompetitive conducts can also be challenged in judicial civil lawsuits. Executives and other personnel can be prosecuted in criminal courts.

4.20. The new Law retained CADE's independence and transparency obligations. CADE's President, Superintendent, Commissioners and Attorney-General are appointed for fixed terms, and CADE's decisions are final within the Executive branch. All opinions and decisions are published in the Brazilian Official Gazette and in CADE's website. The law establishes exceptions to publicity, which include companies' sensitive and strategic data and information.

4.21. The main substantive change introduced in 2012 was the adoption of a pre-merger control regime. Until last year, mergers were reviewed *ex post facto*, which reduced predictability and rendered difficult the application of remedies. The new Competition Law requires that mergers to be notified beforehand for CADE's analysis and approval.[7]

4.22. The new regime also established new notification thresholds. Until 2012, notification was based on the market share and the annual gross revenue of the merger. The new law eliminated the market share criteria and updated the revenue criteria. Currently, a merger must be notified for approval if the annual gross revenue in Brazil of one of the parties is equal to or greater than US$375 million and if the second party's revenue is greater than US$37.5 million. The new threshold has reduced the number of mergers that require examination by CADE, allowing the agency to focus on more significant anticompetitive cases.

4.23. The present legislation fixed a 240 day period in which a decision on the mergers approval or disapproval must be delivered. In particularly complex cases, this period can be extended by an additional 90 days. Failure to render a decision within this time limit implies automatic approval. In practice, the agency has been able to deliver final statements within this limit.

4.24. The new Competition Law maintained CADE's role of investigating and applying sanctions against companies and individuals engaged in cartels and abuse of dominance practices. The antitrust authority's jurisdiction covers any anticompetitive practices that may potentially cause effects to consumers in Brazil. This includes conducts that occur outside Brazilian territory that may affect its internal market, for instance through exports. International cartels are a major concern of CADE's and have required increasingly closer collaboration with other antitrust agencies throughout the globe.

[7] The failure or delay to notify a transaction to CADE subjects the parties to a fine up until US$30 million, besides the annulment of the operation and in certain cases to a cartel prosecution.

4.1.5 Trade remedies

4.25. Regarding the fight against unfair and trade distortive practices during the period under review, Brazil made use of trade defense remedies, such as anti-dumping duties, in conformity with the relevant WTO rules.

4.26. In order to adapt its legal framework for the use of such instruments, Brazil enacted new legislation in 2011 (Portaria SECEX 46/2011) in order to clarify the existing rules, as well as to simplify and expedite the conduct of AD investigations. In 2012, a new rule was enacted with a view to regulating the representation of stakeholders during investigations.

4.27. The modernization process of Brazilian trade defense legislation also encompasses the development of a new decree that will regulate administrative procedures relating to AD investigations. The main changes to be introduced by the new legislation relate to the establishment of shorter deadlines for investigations, introduction of new disciplines such as assessment scope and re-determination, refinement of rules for revision of existing measures and issues relating to the effectiveness of antidumping duties.

4.28. In the more recent period, the Brazilian investigating authority hired 47 additional trade defense investigators, bringing to 65 the total number of staff. The objective of these changes in regulations and personnel is (i) to reduce the length of AD investigations from 15 to 10 months and (ii) to allow for preliminary determinations within 120 days from the date of commencement of an investigation.

4.29. The improvements to the regulatory framework and the increase in the number of investigators and petitions in the last years do not represent any reduction in the technical rigor of the investigating authority work. On average, about 50% of the petitions filed do not result in investigations and, out of all investigations actually initiated, about 40% do not result in the imposition of definitive measures.

4.1.6 Intellectual property

4.30. In the last four years the Brazilian Government has consistently invested in expanding and modernizing its patent office, the National Institute of Industrial Property (INPI). This underlines the relevance attributed to the protection and enforcement of intellectual property by Brazil as a venue for further social and economic development of the country, therefore promoting technological innovation while ensuring a balance of rights and obligations, to the mutual advantage of producers and users of technological knowledge.

4.31. The most relevant effort carried out in the recent past is the modernization of INPI. Patent offices in developed as well as in developing countries face the challenge of coping with a continuous rise in the backlog of IP applications. This brings the necessity of reducing the time lapsed between the deposit of the application and the final decision by the Offices while simultaneously maintaining the quality of examination. INPI has accordingly increased the number of examiners, in particular in its Patent Directorate, with a first group of 250 new examiners hired in 2013 and the goal of reaching 700 patent examiners in 2015, a projected threefold increase. The premises and the technological infrastructure of INPI were also renewed, providing it with state-of-the-art equipment and databases. The Institute has developed a number of systems in order to streamline its internal process, eliminate redundant actions and increase the productivity of examiners; the most relevant is the on-line application system denominated "e-patentes", which allows the applicant to deposit the application and follow all examination phases on the internet, including the issuance of letter-patents. These changes are intended to provide adequate infrastructure to address the rising number of patent applications, which have increased by almost 50% since 2009.

4.32. It is also worth mentioning PROSUR, a cooperation project on industrial property among the Offices of nine South American countries, namely Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Suriname and Uruguay. PROSUR aims at (i) establishing a forum for the dialogue between offices, (ii) creating a common portal in order to offer a set of services for the South American users, such as centralized search in interconnected databases, (iii) database interconnection, and (iv) collaborative examination of patent applications. PROSUR's current

institutional framework is a Cooperation Agreement between the Offices signed in Santiago, Chile, on 5 July 2012. PROSUR's goal, in a nutshell, is to deepen the cooperation among Offices while maintaining their autonomy to use the information accrued from the Project. It is expected that the work carried out under the project will allow Offices to reduce their backlogs and strengthen the quality of their examination.

4.33. The National Council to Combat Piracy and Crimes against Intellectual Property (CNCP) was established in 2004 following the conclusion of a Parliamentary Commission that recommended actions to strengthen coordination among government agencies involved in the fight against piracy and counterfeiting. The Council is responsible for the design and implementation of the National Plan to Combat Piracy and Other Crimes against Intellectual Property and comprises representatives from both the Government and the private sector, including right holders and the civil society. By bringing together private entities and Government representatives, with equal rights to voice and vote, in a joint council, the Brazilian initiative is unique and innovative. The underlying assumption of the Council is that the combat against IPR violations involves measures to constrain the supply of such goods – through repressive activities – as well as those measures to address the demand of such goods – by educative and economic activities. Thus, in its activities, CNCP has a three-pronged approach: repressive, economic and educative.

4.34. The work of CNCP has produced, in certain areas and sectors, a decrease in the volume of commerce of items which violate intellectual property rights. This is a by-product of enforcement action but also of a shift both in consumer awareness of the negative effects of piracy in Brazil and in the business strategies of companies which have acknowledged the economic nature of the problem and decided to lower prices in order to reach out to lower-income classes. It is expected that the work of the Council will continue to build up respect for IP rights in a balanced way, ensuring also that the abuse of enforcement mechanisms by right-holders is effectively curbed.

4.2 Sectoral Issues

4.2.1 Industry

4.35. The global economic crisis that started in 2008 affected significantly the performance of the industrial sector in Brazil. From 2004 to 2008, the industrial sector showed positive growth rates. After an abrupt slowdown in 2009 (-7.3%), the industrial sector recovered in 2010 (10.6%). From 2010 to 2011, aggregate growth rates were positive, led by capital goods (21.1% in 2010, 3.6% in 2011) and intermediary goods (11.4% in 2010, 0.2% in 2011). Industrial production has tended, however, to lag GDP growth: 0.3% in 2011 and -3.6% in 2012, compared to GDP growth of 2.7% and 0.9% respectively.

4.36. The trade balance in the industrial sector has shown significant and growing deficits: US$38.8 billion in 2009, US$50 billion in 2010, and US$65.8 billion in 2011. From 2008 to 2011, the share of imported manufactured goods in total consumption increased by 27%. To a large extent, this is a reflection of the slump in demand in major developed economies, which reduced Brazilian exports and increased competition from cheap imports in domestic markets, and of the exchange rate misalignments: the exchange rate to the US dollar moved from R$2.33 in late 2008 to R$1.66 in 2010.

4.2.2 Agriculture

4.37. Brazil's long-standing agribusiness competitiveness and the trend of its production and exports have been supported by sustained investments in agricultural research, rising commodity prices and record grain production, consolidating the country leadership as a major agricultural producer and exporter.

4.38. In the period 2009-12, gross agricultural domestic product increased approximately 25%, reaching US$92.6 billion. Agricultural and agribusiness exports increased about 50% in the same period.

4.39. Brazilian grain production in 2011-12 reached the record amount of 166.2 million tons, 23% higher than in 2008-2009, in spite of adverse weather conditions in Southern Brazil, one of the country's most important agricultural regions.

4.40. Brazilian agricultural policy follows a market-oriented approach, emphasizing rural credit and risk management based on private rural insurance. Rural credit relies largely on private sources, and has increased steadily. Market price support is limited, consisting in the payment of premiums determined in a limited number of public auctions.

4.41. The main sources of agricultural financing are resources from demand deposits and rural savings compulsorily destined for rural credit, and credit lines managed by the National Economic and Social Development Bank (BNDES), as well as the "Constitutional Funds" aimed at reducing regional inequalities and promoting social and economic development through the financing of agriculture, agro-industry and other sectors, in addition to infrastructure, innovation and technology. These funds are targeted to the North, Northeast and Centre-West regions (FNO, FNE and FCO).

4.42. Since June 2012, the share of mandatory resources devoted to rural credit increased, respectively, from 28% to 34% of demand deposits and from 65% to 68% of rural savings. The latter rate was set to be reduced to 66% by May 2015.

4.43. The low carbon agriculture program ("Programa ABC") was set up to finance agricultural practices aimed at reducing greenhouse gas emissions, encompassing investment programs to support the recovery of forests (PROFLORA) and sustainable agricultural production PRODUSA).

4.44. In 2012 the PROCAP-AGRO investment program was created with the objective of increasing the capital of agricultural cooperatives by providing preferential credit for the acquisition of capital shares.

4.45. In 2009 the Federal Government launched the Sustainability of Investment in Capital Goods Program (PSI-BK) for a wide range of sectors, including agriculture (under the "PSI Rural"). PSI Rural covers investments in agricultural capital goods financed by the (BNDES). The Growth Acceleration Program (PAC), launched in 2007 and renewed in 2011 (PAC 2), includes investments in logistics, energy and social development that should further enhance the competitiveness of Brazilian agriculture.

4.46. According to the OECD Producer Support Estimates (PSE), Brazil is one of the countries that provide the least subsidies to agricultural producers, well below the OECD average. Brazil's price support mechanisms to family farmers have been regarded by OECD studies as non-market-distorting schemes, given the limited subsidies granted to commercial farmers facing high production and commercialization costs due to infrastructure deficiencies and long distances from ports and main domestic markets.

4.47. Family farming, comprised of small and medium-scale operations, account for 10% of GDP and for 33% of the value of agricultural production. This sector generates 12 million jobs, or 74% of all jobs in the country's agricultural sector. Family farmers produce approximately 70% of the food consumed by the Brazilian population and are thus essential for the country's food and nutritional security. Public agricultural policies for this sector, such as credit, technical assistance, public procurement, aim at enhancing its capacities in order to ensure the nation's internal supply, increasing agricultural incomes and strengthening local markets.

4.2.3 Services

4.48. The service sector has held a steady share of GDP since 2007, with the latest available data from 2011 showing 67% of participation of the sector in GDP. In terms of employment, the tertiary sector (including the public sector) accounted for 78% of formal jobs in 2011, according to the Brazilian Institute for Geography and Statistics (IBGE). Brazil has faced growing deficits in trade in services in recent years. In 2011, the deficit in services trade increased 23.8%, reaching US$36.7 billion.

4.49. From 2010 to 2011, services exports grew by 21% (compared to a world rate of 7.8%). Brazil ranks 30th among the world's largest services exporters. On the other hand, Brazilian services imports increased 22.4% in the same period, placing Brazil as the 17th top services importer in the world, with a 2% share of the world total imports.

4.50. According to the Balance of Payments' services account – which exclude government services, in accordance with the IMF standard – "business, professional and technical services" accounted for 47.6% of Brazilian revenues in services in 2011, followed by "international travel", with 17.6%, and "transportation", with a 15.1% share. "Financial services", which accounted for 6.9%, was the sector with the best performance in comparison to the previous year, with a 28.4% increase from 2010 to 2011.

4.51. "International travel", "rental of equipment" and "transportation" accounted for the bulk of Brazil's trade deficit in services in the period under review (27.8%, 21.9% and 18.5% of the total expenditure in services accounts, respectively).

4.52. Brazil's most significant trade partner for services, in 2011, was the US, which accounted for 44.4% of Brazil's export revenues, followed by the EU (26.2%) and Latin America, including MERCOSUR (6.7%). The EU was the main source of services imported by Brazil (47.1%) in 2011, while the US accounted for 29% and Latin America for 5.9%.

4.53. The Brazilian Government is currently implementing initiatives to improve information on the country's foreign trade in services. One of the innovations introduced to monitor foreign trade of services is the SISCOSERV – Integrated System of Foreign Trade in Services, Intangibles and other Operations that Produce Variations in the Capital of the Entities. SISCOSERV started operating on 1 August 2012. It records foreign trade transactions in services and intangible transactions between residents and non-residents. The system is not used for compliance with licensing requirements or other types of control. The system is an important tool for the formulation and monitoring of public policies and for gathering statistics on foreign trade in services, covering all positions of the UN Central Products Classification and the four modes of supply in accordance to the General Agreement on Trade in Services (GATS) of the WTO. It is jointly managed by the Federal Revenue Secretariat of the Ministry of Finance (SRF) and the Secretariat of Commerce and Services of the Ministry of Development, Industry and Foreign Trade.

4.54. SISCOSERV uses the Brazilian Nomenclature of Services and Intangibles (NBS), along with its Explanatory Notes (NEBS). The NBS and the NEBS, jointly developed by the Ministry of Development, Industry and Foreign Trade and the Ministry of Finance, are in accordance with well established international technical standards and are harmonized and compatible with the most commonly used international product classification, namely version 2.0 of the CPC/UN. The 9-character nomenclature, spanning a wide and thorough range of service products divided into 27 chapters, is currently undergoing public consultation for final adjustments.

4.2.4 Renewable energy

4.55. Brazil has one of the world's cleanest energy mixes. 44.1% of primary energy sources are renewable, compared to a world average of 13.3% and 8% in OECD countries. It is forecast that renewable sources will continue to account for a large share of supply, mostly due the use of hydropower and bioenergy, including biofuels. Only 30% of Brazil’s hydroelectric potential has been exploited. The potential for increased production of this renewable and affordable energy source is an integral part of the country's long-term strategy for the sector. Widespread access to affordable energy is crucial to achieving the goals of sustainable development, promoting social inclusion and poverty reduction; promoting national integration and the reduction of greenhouse gas emissions; and contributing to improve the economy's competitiveness. Brazil is, therefore, investing significant amounts in research and in new technologies to improve the generation and distribution of energy.

4.56. Brazil also considers bioenergy, including biofuels, an indispensable tool for the expansion and diversification of the energy matrix. Nowadays, biomass electricity – generated mostly from sugarcane processing plants – accounts for about 8% of Brazil’s total energy consumption. By 2021, biomass and wind generation are expected to supply 16% of the country's energy needs. In the transportation sector, the use of ethanol and biodiesel plays a key role in the pursuit of sustainable development, climate change mitigation and energy security. The Brazilian case shows that the long term and large scale sustainable production and use of biofuels are possible, and Brazil continues to work towards the creation of an international market for biofuels.

4.2.5 Land transports

4.57. The Brazilian Government has given priority to the development of land transports by investing heavily in infrastructure, in order to ensure permanent trafficability, as well as to improve safety and comfort in federal highways.

4.58. The Government is investing US$45 billion to expand the Brazilian rail network by 10,000 km. US$21 billion will be invested in the duplication of highways across the country. In both cases, investments must be concentrated in the first five years of the concession.

4.59. In the case of railway concessions, the first batch will involve 2,600 km and the second, the remaining 7,400 km. All notices will be published in 2013. The auction for the concession of the High Speed Train Rio de Janeiro–São Paulo–Campinas is planned for the second half of 2013.

4.60. Other projects approved in 2012 include the construction and/or expansion of urban train lines in Salvador, Belo Horizonte, Fortaleza, Porto Alegre, Curitiba, Brasilia and Rio de Janeiro, with an estimated investment of US$8 billion.

4.2.6 Air transports

4.61. Brazil is the world's fourth largest aviation market and has expanded fast during most of the period under review. Spurred by strong economic growth, between 2007 and 2010 Brazil's regular domestic and international passenger traffic grew by 53% and 57%, respectively, in terms of paid-seats per km flown. In 2010, Brazilian airlines served 71.4 million passengers on domestic flights. Out of 14.9 million passengers on international flights, 5.5 million flew on Brazilian airlines and 8.4 million on foreign airlines.

4.62. Until recently, the responsibility for formulating and implementing the civil aviation policy in Brazil rested primarily with the Ministry of Defense. However, Law 12.462 of 4 August 2011, created the Civil Aviation Secretariat (SAC), directly linked to the Chief of Staff Office and headed by a Secretary with ministerial status (Chief-Minister) who took over some of the civil aviation functions previously exercised by the Ministry of Defense.

4.63. Hence, SAC/PR is now responsible for, *inter alia*, formulating policies and strategic plans for the development of the civil aviation sector, overseeing plans to open up airport investment to private companies, approving concessions to build new airports and terminals, and delegating to the States, Federal District and municipalities the management, operation, and maintenance of public airfields.

4.64. The new Secretariat is also responsible for coordinating the activities of other government entities involved in civil aviation, and for establishing directives for Brazil's participation in international civil aviation conventions and agreements. The Civil Aviation Council (CONAC), previously chaired by the Minister of Defense, is now chaired by the Secretary Chief-Minister of Civil Aviation and is in charge of advising the President on matters of civil aviation policy and setting guidelines for the sector.

4.65. The National Civil Aviation Agency (ANAC), created in September, 2005, is responsible for the regulation and safety/security oversight of civil aviation in Brazil. Negotiations of treaties and agreements on International Air Transport are conducted by the Agency, in coordination with the Ministry for External Relations and the Civil Aviation Secretariat.

4.66. During 2012, 11 Air Service Agreements (ASA) were celebrated or renegotiated, with the following countries: Albania, Azerbaijan, Burkina Faso, Ecuador, Guatemala, Jordan, New Zealand, Saudi Arabia, Sierra Leone, Switzerland and Uruguay. At the closure of the 20th Ordinary Assembly of the Latin American Civil Aviation Commission (LACAC), in Brasilia, 8 November 2012, Brazil acceded to the LACAC Multilateral Open Skies Agreement. The Agreement is expected to lead to an increasing number of available flights in the region and opens up the possibility of new routes and greater connectivity between Latin American countries.

4.67. Decree 7.624, of 22 November 2011, established the conditions for the exploitation of airport infrastructure by private operators through concessions. All concessions must obtain prior

approval from the Civil Aviation Secretariat, while ANAC is in charge of carrying out the bidding procedures. In February 2012, ANAC auctioned the concessions for the operation of the airports of Guarulhos (São Paulo), Campinas/Viracopos (São Paulo) and Brasilia (Federal District).

4.2.7 Ports and maritime transports

4.68. In December 2012, the merchant fleet registered under the Brazilian flag (long-haul and cabotage) consisted of 155 vessels, operated by 36 shipping companies and with a total capacity of 2.9 million deadweight tons (DWT). Oil tankers represent 47% of total DWT capacity, followed by bulk carriers (20%), container ships (14%) and general cargo vessels (4%). The predominance of oil tankers and bulk carriers reflects the overall structure of Brazilian exports of goods, comprising mainly oil, iron ore, soybeans, sugar and other commodities.

4.69. With a coastline of 8,500 km, the transportation of goods and passengers by coastal shipping (cabotage) in Brazil has increased in recent years, and growth potential is still significant. Economic growth in the country's North and Northeastern regions, as well as the rising purchasing power of the emerging middle-class have created opportunities for the development of costal shipping in Brazil.

4.70. Brazil's port infrastructure handled 904 million tons of goods traded in 2012. This is equivalent to 80% of the total value of the country's foreign trade in the same year (85% of exports and 76% of imports) and to 97% of total foreign trade by tonnage (98% of exports and 90% of imports). Between 2002 and 2012, the total movement of cargo in ports and terminals in Brazil grew 5.6% annually (from 529 to 904 million tonnes). During this period, the movement of containers grew 9.9% per year in tonnes.

4.71. Out of the 34 maritime public ports in Brazil, 16 had their administration under concession or referred to state or local governments. The other 18 are administered directly by the "Companhias Docas". The majority of the stock of "Companhias Docas" is held by the Federal Government, under the supervision of the Secretariat of Ports (SEP/PR). There are 125 private terminals.

4.72. A major area of operation by SEP refers to the two phases of the PAC (PAC 1 and PAC 2). The priority is the maintenance, restoration and expansion of port infrastructure. Altogether, R$7.5 billion will be invested in ports. Under PAC 1, the Federal Government allocated around R$1.6 billion to the National Dredging Program (PND), R$1.8 billion to improving port infrastructure and R$50 million to logistics and intelligence. Under the PAC 2, planned investments for the period 2011 to 2014 are approximately R$1 billion for the National Dredging Program, R$2.8 billion in port infrastructure and R$350 million to logistics and intelligence.

4.73. The SEP also develops the "Paperless Port", a port data concentrator system establishing a single virtual document to process and distribute real-time information necessary for the functioning of the sector. Its implementation in full scope, will integrate the agencies and ministries concerned and give more speed to operations, reducing operating costs. The project will improve the performance of port operations by about 60% and reduce the length of stay of vessels in ports by 25%.

4.2.8 Telecommunications

4.74. The Brazilian telecommunications market continued to grow rapidly during the period 2009-12, particularly driven by the expansion of mobile data services and broadband Internet access. Investment in the telecommunication sector increased from R$18.9 billion in 2008 to R$25.3 billion, in 2012.

4.75. The mobile telephony market boomed during the years under review: the number of mobile telephone subscriptions reached 261.8 million in December 2012, with teledensity rising to 132.8 mobile lines per 100 inhabitants. Some 81% of mobile lines are pre-paid.

4.76. Internet usage also reported impressive growth, spurred by increased broadband access across the country, following initiatives by the Government to expand access and make broadband connections more affordable under the National Broadband Plan. The deployment of 3G networks

in Brazil significantly expanded mobile broadband access in recent years, reaching 65.9 million subscriptions by December 2012. The number of fixed broadband subscriptions has also shown solid growth. There were 20 million fixed broadband connections in late 2012.

4.77. In contrast, the number of fixed telephone lines grew slowly during the period under review, with only a slight increase in the teledensity level, which stood at 22.3 lines per 100 inhabitants in 2012 (21.7 lines per 100 inhabitants in 2008). In December 2012, there were 16.2 million pay TV subscriptions, of which 38.3% used cable technology.

4.78. Today, Brazil's telecommunication sector is fully open to competition and continues to attract new entrants. In 2012, the leaders of the fixed-line telephone market were Oi, with a 42.03% market share, Telefônica Brasil with 23.78%, Embratel (América Móvil) with 21.85% and GVT with 8.22%. In the mobile market, the largest operator was Vivo (owned by Telefónica), with a 29.08% market share; followed by Tim (Telecom Italia) with 26.88% of the market; Claro (América Móvil) with 24.92%; and Oi with 18.81% (December 2012). Three other operators shared the remaining 0.31% share of the mobile market. The fixed broadband sector was led by Oi, accounting for 31.50% of the market by December 2012; its closest competitor was NET Serviços (operating in partnership with Embratel; both owned by América Móvil) with a 28.37% market share. Other fixed broadband operators were Telefônica Brasil, GVT, Sercomtel and CTBC. The major operators in the pay TV market included Net Serviços/Embratel, Sky/DirecTV, Oi, Telefônica and GVT.

4.79. The National Broad Band Plan (PNBL) was instituted by Decree 7.175 of 13 May 2010, with the aim of boosting access to broadband services across the country and bridging the digital divide, in collaboration with private operators. The plan consists of a series of actions in several dimensions, including spectrum auctions to increase mobile broadband coverage (4G and telecommunications services for voice and data in rural and remote regions), the implementation of a national transmission network (backhaul and backbone), Agreements for the expansion of commercial broadband offers at low prices and regulatory measures aimed at promoting greater competition and network expansion.

4.80. Regarding technological convergence measures, Law 12.485, of 12 September 2011, changed and unified the regulatory framework for pay TV services. It removed the limit on foreign investment in cable TV (which did not apply to pay TV services provided through MMDS or DTH technologies). Law 12.485 also eliminated previous limitations on fixed-line telephony concessionaires to provide cable-TV services and removed regional restrictions on telecom operators, allowing them to provide pay TV services anywhere in Brazil.

5 FUTURE DEVELOPMENTS

5.1. Despite the uncertainty regarding the international economy, the outlook is for continued and steady growth of the Brazilian economy in the coming years. Expectations of market analysts collected by the Central Bank of Brazil forecast growth of 3.03% in 2013 and 3.5% in 2014.

5.2. Brazil continues, however, to suffer the effects of expansionary monetary policies in developed countries on its exchange rate and terms of trade. As a result of these actions, in recent years the Real has been overvalued compared to its equilibrium real rate, resulting in unfavorable conditions of competition for Brazilian producers against imported products. This has led to a reduction in the share of the industrial sector in GDP, from 23.7% in 2008 to 22.3% in 2012. Exports of industrial products fell, as a percentage of total exports, from 60.5% in 2008 to 51.01% in 2012.

5.3. In order to strengthen the country's ability to face the global crisis, the Federal government launched "Plano Brasil Maior", with a focus on industrial competitiveness, technological development and foreign trade. Among the priority actions are the reduction of labor and capital costs, the development of production chains, export promotion and the modernization of trade defense instruments. One of the objectives is to simplify and streamline the tax collection system, with a view to reducing the complexity and weight of the tax structure. Particular attention will continue to be paid to the reduction of payroll taxes, as well as to harmonizing the collection of taxes at the state level and to reducing the cost of tax compliance.

5.4. The Government will continue to attach priority to initiatives aimed at strengthening small and medium enterprises (SMEs), due to their important social role in creating jobs and expanding the formal labor market. According to the latest official data, SMEs account for 20% of GDP, 60% of the 94 million jobs in Brazil and 99% of the 6 million formal business establishments in the country. In order to support entrepreneurship, the Government developed a simplified tax system: the "Simples Nacional". As a result of the progressive expansion of "Simples Nacional", as well as the support of SEBRAE (Brazilian Service of Support for Micro and Small Enterprises), more than 2.8 million micro and small enterprises (MSEs) and over 1.6 million individual entrepreneurs (EI) are expected to join the formal economy by 2015.

5.5. In order to foster the current process of growth and social inclusion, the Government will continue to promote the improvement of infrastructure. PAC projects are clustered around the areas of Transportation, Energy, Urban Infrastructure, Housing and Social Services. At the end of its second year, the overall execution of the second phase of the Growth Acceleration Program (PAC 2) reached R$472.4 billion, out of an expected total investment of R$958.9 billion for the period 2011-14. For the post-2014 period, an additional investment of R$631.6 billion in infrastructural works is estimated, bringing the total to R$1.59 trillion.

5.6. A major challenge lies in ensuring the continued improvement of the educational level of the population. In addition to comprehensive programs aimed at improving basic and higher education, the Government will continue to strengthen actions directed at enhancing the qualification of the workforce. These efforts are deemed essential to increase the level of productivity of the economy and the promotion and attraction of productive investments. The National Education Plan (PNE) 2011-2020, currently under revision by Congress, lays down the main objectives in this area, including the complete eradication of illiteracy by the end of the period and raising Brazil's Basic Education Development Index at all levels, especially in high school.

5.7. With regard to social policies, there was a marked expansion of the Brazilian middle class over the last decade. An additional 15 million people are forecast to join the middle class by 2014, reaching 59% of the total population. Guaranteed income policies should continue to contribute towards the process of reducing social inequality and of socioeconomic inclusion of the poorest, with a strong impact on the consumption capacity of lower income sectors.

5.8. The Brazilian Government is committed to continue to manage its accounts in accordance with the principle of fiscal responsibility. The IMF projects that Public Sector Net Debt, which currently stands at 35% of GDP, will be reduced to 26% of GDP in 2017.

5.9. In the face of an external deflationary scenario – and in a context of positive fiscal results and consistent inflation target regime – the Central Bank of Brazil in recent years reduced the benchmark interest rate (SELIC) to its lowest ever levels both in nominal and real terms. This was reflected in the financial system, where bank spreads and interest rates on loans also reached record lows. Real interest rates are expected to remain at these subdued levels in the near future.

5.10. The financial system is anticipated to remain solid, given the sound economic fundamentals and continued operations in strict accordance with the Basel principles of banking supervision. Nevertheless, Brazil still has a relatively underdeveloped long-term financial market compared to advanced economies, and the Government is eager to create conditions for the development of a private long-term credit market. To do so, it has stimulated the creation of new financial instruments, such as debentures and Infrastructure Investment Funds (FIDC), Encouraged Debentures Funds, Infrastructure and Investment Participation Funds in (FIP-IE), among others. These new instruments should lead to a more significant participation of private capital in long-term financing operations in the coming years.

5.11. Reinforcement of the multilateral trading system will remain a priority. In light of the diversified nature of its trade and production structures, Brazil has a major stake in a smoothly operating system of multilateral trade rules that is able to provide the basis for the expansion of international trade on a non-discriminatory basis. Brazil will continue to play an active role in the WTO. It continues to believe that concluding the Doha Round on the basis of its development objectives would greatly contribute to making the multilateral trading system more efficient, open and equitable.

5.12. The strengthening and development of MERCOSUR will continue to be a major component of Brazil's trade policy strategy. The recent accession of Venezuela, the prospect of further expansion, the possibility of further expanding existing trade agreements within the region – as well as the establishment of new agreements with other countries and groups of countries – will promote integration and development, to the benefit of all countries in the region.