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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 meeting of the Trade Policy Review Body on Brazil.

CONTENTS

	<i>Page</i>
I. INTRODUCTION	5
II. THE GENERAL ECONOMIC AND INSTITUTIONAL ENVIRONMENT	6
(1) THE ECONOMIC ENVIRONMENT	6
(2) GENERAL LEGAL AND REGULATORY FRAMEWORK	7
III. TRADE POLICY DEVELOPMENTS (2000 – 2003)	10
(1) LATEST DEVELOPMENTS IN BRAZILIAN FOREIGN TRADE	10
(2) PARTICIPATION IN THE WTO	12
(3) PREFERENTIAL AGREEMENTS	14
(4) PRODUCTION AND EXPORT PROMOTION POLICIES	17
IV. THE TRADE INSTITUTIONAL AND REGULATORY FRAMEWORK	18
(1) CROSS-CUTTING ISSUES	18
(2) SECTORAL ISSUES	21
V. FUTURE DEVELOPMENTS	24

I. INTRODUCTION

1. As many other emerging markets, especially in Latin America, Brazil has been subject to a set of external and internal economic shocks since its last Trade Policy Review (TPR), in 2000. Even though at the cost of low growth and high unemployment, the Brazilian economy has been able to successfully withstand these impacts.

2. Overcoming the negative effects of the 1999 currency crisis, the economy secured a strong recovery in 2000. Since 2001, however, it has faced adverse international conditions, engendered by a weakened global environment and heightened risk aversion towards emerging markets. This scenario was aggravated by market instability as the previous government was coming to an end in 2002. As a result, investments were curtailed, and the economy slowed down. Notwithstanding, following a smooth political transition, confidence was restored in 2003. Over the last twelve months, a number of positive developments have set the basis for sustainable economic growth. Production and consumption have rebounded, economic activity accelerated, unemployment gradually declined, and inflation was kept under control.

3. Confronted with such domestic and international challenges, Brazil has concentrated endeavors, over the last four years, to enhance institutions and policies, and strengthen its resilience to shocks. The fall in capital flows to Brazil was faced by a swift, but flexible response, including further adjustment of macroeconomic policies and additional external financing from the International Monetary Fund (IMF). The floating of the national currency has been key to allow a smooth current account adjustment. On the domestic front, macroeconomic stability has been enhanced by the continued operation of the inflation targeting framework for monetary policy and by the improvement of the performance and quality of fiscal consolidation.

4. Macroeconomic stability is regarded as a precondition to achieve, on a permanent basis, sustained economic growth with social justice. Actually, social programmes are part and parcel of the country's economic recovery. Targeted programmes have been put in place with a view to attaining reduction of poverty and social inequalities, an increase in job creation, and reallocation of public expenditures to meet social requirements.

5. Economic growth has been also pursued through the implementation of a comprehensive reform agenda, which, essentially, aims at freeing the productive sector from unnecessary regulations, rationalizing the tax structure and fostering entrepreneurship, innovation, and credit markets. Amongst such reforms, the government is implementing a comprehensive tax overhaul, social security restructuring, and modernization of labour legislation. These reforms are set to increase Brazil's productivity and growth potential.

6. Since 2000, Brazil has continued to implement new market-based initiatives and to integrate itself into the world economy, despite the major constraints imposed by external adjustment measures. Brazil's trade policy has been consistent with such developments, both in unilateral terms, through additional tariff reductions and improvements in transparency and regulation, and in international terms, through active participation in the WTO, including the Doha round, and progress in starting and concluding trade agreements together with its Mercosul partners.

II. THE GENERAL ECONOMIC AND INSTITUTIONAL ENVIRONMENT

(1) THE ECONOMIC ENVIRONMENT

7. The Brazilian economy currently combines strong attributes in support of sustained growth: price stability, fiscal discipline, lower levels of real interest rates, and both trade and current account surpluses. This favorable scenario is anchored in the consistency of macroeconomic policies that have been in place since 1999, mainly through rigorous fiscal discipline and debt management, an inflation targeting monetary regime and a floating exchange rate.

8. Once the stabilization had been assured in response to the currency crisis in 1999, the economy expanded at 4.4% in 2000. This performance was affected by an unfortunate sequence of domestic and external shocks. On the international front, the Argentinean crisis, the uncertainties related to the recovery of the world economy, particularly in light of the slowdown in the United States, the concerns over terrorism since September 11 and a series of corporate scandals, as well as a rebound of oil prices were detrimental to emerging markets such as Brazil. On the domestic front, an energy shortage crisis led to substantial rationing of electric energy from June 2001 to February 2002 and to a severe contraction of industrial growth, from 6.6% in 2000 to 1.6% in 2001. The external and domestic shocks constrained the expansion initiated in 2000 over the following year. Therefore, growth rates were modest in 2001 and 2002, at 1.3% and 1.9% respectively. Moreover, the economic environment showed some sensitiveness to political prospects in the context of the 2002 presidential elections. This coincided with the peak in country-risk in 2002, amplified due to current account deficit and high exposure of exchange rate-indexed debt.

9. Notwithstanding, the Brazilian government has managed to maintain its macroeconomic policies on track. It has pursued fiscal primary surpluses, kept inflation under control, and preserved the floating exchange rate regime. The primary fiscal surplus target raised to 4.25% of GDP in 2003, from the previous 3.75% of GDP, paving the way for the reduction of the public debt-GDP ratio over the medium and long term. This has been possible through a combination of increases in revenues and curtailment of expenditures. The debt management and its impact on the debt dynamics have also been addressed by, *inter alia*, reducing the share of foreign exchange-indexed securities. At the same time, interest rates were reduced from 23% by the end of 2002 to 17% by the end of 2003. Inflation was also lowered from 12.5% (2002) to 9.3% (2003), despite the sharp currency devaluation. As a result, both country-risk and exchange rate volatility were reduced. Although for 2003 as a whole GDP registered a 0.2% contraction, there was a positive change in the level of activity and in expectations in the last quarter.

10. The economic recovery has also been characterized by a benign role of the external adjustment. Due to competitive and flexible exchange rates, an increase in commodity prices and growing demand worldwide, Brazilian exports peaked to an accumulated US\$88.9 billion in the 12 months ending in August 2004, mostly in manufacturing exports. The trade surplus was US\$24.8 billion in 2003, leading to the major positive shift observed in the current account. Having remained in deficit for eleven years, at above 4% of GDP from 1999 to 2001, the current account deficit was reduced to 1.7% of GDP in 2002 and turned to a surplus of 1% in 2003. In the twelve-month period ended in July 2004, the surplus attained 1.7% of GDP. The increase in exports is being accompanied by a gradual expansion in imports, improving competition in the domestic market. Foreign direct investment decreased annually from 2000 to 2003. In tandem with the improvement in economic conditions, however, prospects for FDI have been shifted upwards. Foreign investment is expected to reach US\$15 billion by the end of 2004, a net inflow about 50% higher than that of 2002.

11. Meanwhile, thanks to the external adjustments over the last four years, Brazil's resilience to external shocks has been significantly improved. The ratio of external debt to exports is almost half the 2000 level. Moreover, the country-risk premium has fallen substantially, and the debt service ratio has also undergone some improvement.

12. In 2004, the economy embarked on a solid path to sustained growth. As in the previous two consecutive quarters, in the second quarter of 2004, GDP presented variation above 6% in annualized terms. Domestic demand has achieved a sustained growth pace, and consumer confidence has attained in 2004 the highest levels since 1999. The economy is forecast to grow at 4.5% in 2004 and 3.5% in 2005.¹ It is expected that, by the end of the current year, inflation will remain within the target, close to 7%, and that the fiscal primary surplus will be increased. The new target for such a surplus has been set at 4.5% of GDP. Thanks to a higher growth trend and to comparatively lower domestic real interest rates, prospects for the debt dynamics have been ameliorated. External adjustment is being further reinforced, with trade balance and current account surpluses expected at US\$32 billion and US\$9 billion respectively, by the end of 2004.

(2) GENERAL LEGAL AND REGULATORY FRAMEWORK

13. In addition to sound macroeconomic policies, Brazil has been pursuing a number of structural and microeconomic reforms aiming at the improvement of the institutional framework and the business environment. These reforms have been conceived and implemented to meet the challenges of economic and social development over the medium and long term. Overall, they are geared to improve the conditions for entrepreneurship, to put into place effective and affordable social security, and to enhance institutional building in line with fiscal and monetary responsibility.

Pension Funds and Tax Reform

14. In 2003, the National Congress approved a comprehensive reform of the public pensions system, which will reduce the costs of civil servant pensions for the federal budget. It includes the taxation of retired civil servants' pension earnings and the availability of complementary pension schemes for civil servants.

15. Progress has been made towards a comprehensive Tax Reform. Initial steps of the reform have been accomplished in the period under review, including the approval of required constitutional amendments by Congress. The approved reforms include reductions in taxes levied on capital goods and measures to rationalize and simplify the tax structure, by replacing, for example, cumulative taxation on added value. When fully implemented, it will result in enhanced overall tax efficiency.

Data Dissemination and Transparency

16. In March 2001, Brazil subscribed to the IMF's Special Data Dissemination Standard (SDDS), thus enhancing transparency and diffusion of information about the economy. Monetary policy decisions, fiscal results, other economic policy reports and documents, as well as statistical information, have also been made available to the public on the website of the Central Bank and competent Ministries and agencies.

¹ Market expectations refer to the median of aggregates, as in the *Market Readout*, Banco Central do Brasil, October 8, 2004.

Financial System and Credit Market

17. Financial institutions were able to weather the impacts of the many different shocks that affected the Brazilian economy since the adoption of the floating exchange rate regime. In order to improve the soundness of the financial system, a new Brazilian payment system (*Sistema de Pagamentos Brasileiro*) was implemented in 2002, which contains systemic risks by providing automated real-time settlements in inter-bank operations. Moreover, a Bill was sent to Congress to set up a framework to subject the financial system to the anti-trust Authority (the Brazilian System of Competition Policy). This Bill aims at greater competition in financial inter-mediation and, as a result, a reduction in the cost of credit.

18. In order to further develop credit markets and increase the availability of resources at lower costs, particular attention has been given to the reduction of spreads. Loans guaranteed automatically by payroll with debt repayments made directly from checking accounts (*crédito por consignação*), originally limited to civil servants, have been extended to employees of the private sector and pensioners. Private pension funds have also established similar loans for their participants. Furthermore, financial institutions have been granted the right to securitize in only one instrument a set of bank credit operations with borrowers. Other instruments to expand credit and lower costs are being considered on the basis of appropriate collateral or guarantees and reduced insolvency risk. An example is the Positive Credit Data Base (*Cadastro Positivo*), which will provide financial institutions with better information about borrowers (in particular, credit history) and reduce information asymmetry in the credit market.

19. The Bankruptcy Law, under examination in Congress, seeks to preserve the bankrupted firms' assets (tangible and intangible), in a business-oriented way. This approach can assure creditor's rights and create conditions for economically viable companies to resume their activities. Such a framework might also lead to a reduction in the cost of capital and promote further business and investment activities.

Investments

20. A series of measures have been taken to improve the environment for foreign investment in Brazil: the use of electronic declaratory registration, designed to speed up the registration process; the Investment Account Law, which grants tax facilities to financial applications; the reduction of income tax on long-term investment; and the implementation of CMN Resolution 2,689 (January 2000), which provides foreign investors with the same rights as domestic investors in the Brazilian financial and capital markets.

21. The National Investment Information Network (RENAI) was launched in February 2004, with the objective of monitoring and diffusing investment activities in Brazil. In 2001, the Central Bank started, on an annual basis, to conduct the Census on Brazilian Capital Abroad, in order to provide information about Brazilian investments in other countries. This activity complements the one carried out by the Central Bank on foreign investments in Brazil.

Entrepreneurship, Innovation and Competitiveness

22. An Industrial, Technological and Foreign Trade Policy has been implemented to promote innovation, productivity and competitiveness of the Brazilian industry. Under this policy, some measures have been adopted, such as the reduction from 4% to 2% of the *ad valorem* tax on IT and capital goods, and the reduction of the Tax on Industrial Products (IPI) on machines and equipment. These measures will stimulate new investments and the modernization of the productive capacity, raising the industry general competitiveness.

23. A Technological Innovation Bill is under consideration in Congress. It seeks to promote partnership arrangements between universities and enterprises for the development of new products and processes, and to divert more resources from the private sector into R&D. It also aims at increasing patent registrations. It is seen as a key policy instrument to foster the transfer and dissemination of knowledge. Another Draft Law to establish an Industrial Development Agency is under discussion in Congress.

24. A wide debate has been promoted on entrepreneurship, innovation and competitiveness through such means as the Competitiveness Fora and the Industrial Development National Council, both gathering representatives from Government, Congress, private sector and trade unions. Mercosul, promoting similar exchanges and closer industry integration among its member countries, has launched the program Mercosul Competitiveness Forum in December 2002.

25. In order to promote entrepreneurship and job creation and, at the same time, reduce informality in the economy, special incentives in the form of tax and labor policies, oriented towards small enterprises have been created. Elimination and simplification of formalities and other requirements to start up companies have been considered.

Regional Policies

26. As part of the policy to reduce the regional inequalities throughout Brazil, two basic support mechanisms have been implemented: (a) a system of income tax exemptions and reductions for industrial or agricultural companies in the less developed North and Northeast regions; and (b) the Constitutional Funds, to finance productive capacity in the North, Northeast and Mid-west regions (FNO, FNE and FCO). In the period between 2000 and 2003, those regions received about US\$3 billion for projects in several sectors, such as agribusiness, mining, industry, tourism, infrastructure, and services.

Social Policies

27. Policies designed to combat poverty have been adopted in the areas of social welfare assistance, income transfer, food security, and hunger eradication. These activities are integrated under the Family Stipend Programme, which articulates the goals to be attained. The Programme is part of a public policy named Zero Hunger Programme, aimed at eradicating hunger and social exclusion. The Zero Hunger Programme identifies hunger as a national political issue, and not as merely an individual fatality. This policy is geared towards social inclusion, through the universalization of citizenship rights, by tackling initially the fundamental social rights, i.e. access to food, education, social welfare, and employment protection. The programme is expected to contribute to the improvement of living standards in the short and long-terms, and to ensure that the next generation can break the vicious circle of poverty and exclusion.

Family Farming

28. As a central element of the Zero Hunger Programme, family farming accounts for about 40% of agricultural production in Brazil and is spread around 4.1 million farms, accounting for 84% of agricultural properties in the country. It plays a key role in social development and in distributing economic growth and income more evenly around the country. It is also a tool in reducing rural exodus to large metropolitan areas. Family farming is supported through national programmes, such as the PRONAF (for the strengthening of family farming), PAA (for food acquisition) and PNRA (for agrarian reform).

29. PRONAF reported a record expenditure of US\$1.86 billion in the financing of family farming, 40% above the average of the previous years. The ceilings of expenditure and investment of this Programme were raised on average by 20%, though in specific areas — such as in farming projects for women, young farmers, tourism, and ecology — the ceilings were raised in higher ranges. The agricultural microcredit facility, used for fighting poverty in rural areas, has also been increased substantially: in the 2003-2004 Harvest Plan, financial resources were 219% above the 2002-2003 level. Since its inception, in August 2003, the PAA has invested more than US\$55.20 million in the purchase of produce from family farming. Aiming at improving the competitiveness of the family farming producers and making food available for the Zero Hunger Programme and other social projects, PAA benefited more than 80 thousand families across the five regions of Brazil. In 2003, the PNRA settled in plots 36,301 families and provided staple food for 219,786 people. Up to May 10, 2004, 15,407 families had been settled.

Sustainable Development and Environment Responsibility

30. The National Water Agency (ANA), created in 2000, is linked to the Ministry of the Environment and was established under a special regime with administrative and financial autonomy. Its goal is to regulate the use of water in rivers and lakes under federal jurisdiction, ensuring quality and quantity for multiple uses. It is also responsible for implementing the National Water Resources Management System, a set of legal and administrative mechanisms that aim at the sound management of water, together with local and state governments as well as civil society, including the search for solutions to two serious problems in the country: pollution in rivers and prolonged droughts in the Northeast Region.

31. Pilot initiatives such as the Sustainable Business Project, supported by UNCTAD, have been implemented to support local community initiatives in the Amazon in the field of biotrade. Pilot experiences of this kind are now being examined to become part of a National Biotrade Programme.

32. The Amazonian Ecotourism Development Programme (PROECOTUR) was adopted in 2000, with a view to providing a sustainable form of development to the Northern region of Brazil. In 2003, a similar programme (the National Ecotourism Programme), established to encourage sustainable tourism projects, was extended to the whole country.

III. TRADE POLICY DEVELOPMENTS (2000 – 2003)

(1) LATEST DEVELOPMENTS IN BRAZILIAN FOREIGN TRADE

33. Since the previous Review, Brazilian foreign trade has expanded significantly. The average openness ratio (exports plus imports of goods and services divided by GDP) has risen from 18.1% in the 1996-1999 period to 27.3% in 2000-2003. The economy has attained the highest degree of openness in its post-war history. Exports and imports of goods have increased, on average, from 8.0% to 14.1% over the two periods, and of services from 10.1% to 13.2%. Both exports and imports of goods and services are historically at their highest levels in relation to GDP.

34. The growth of exports in goods has been particularly fast, outpacing the growth of imports, in both absolute and relative to GDP terms. Such an achievement has been driven by the diversification of products and markets, growth in the export share of non-traditional Brazilian states, and increase in the number of exporters. Commodities exports have also grown, largely thanks to the rising international prices, and manufactured exports showed a steep increase in volume. The main industrial items exported by Brazil during the period under review have been civil aircraft, vehicles and parts, steel, chemicals, machinery, electric and electronic equipment, paper and pulp, and footwear. As for commodities, soya beans, ores, oil, meat, coffee, sugar and tobacco maintained a

leading share. Fruits, maize and cotton have raised their share in the total exported. Overall, goods exports rose by an average of 9.9% during the 2000-2003 period. Commodities shipments, which account for almost one third of all exports, grew 19.0% yearly on average, and manufactures, 7.2%. Exports of goods as a proportion of total GDP rose from 9.1% in 2000 to 14.8% in 2003. Until August 2004, goods exports had showed a 34.8% increase in comparison with the same period of last year.

35. In parallel to the growth in exports volume, Brazil has diversified its trading partners. Brazilian exports between 2000 and 2003 were higher not only to the major trading regions, such as the United States (26.4% growth) and the European Union (24.9%), but significantly to regions hitherto with rather small share in Brazil's trade: Africa displayed an 112.3% increase as recipient of Brazilian exports; Middle East, 109.7%; Eastern Europe, 108.6%; Asia, 84.6%; and LAIA, excluding Mercosul, 40.2%.

36. More firms have been involved in export activities, which has proven to be a successful formula to boost sales, foster better-paid employment and modernize domestic industry. Access to new markets also opens up possibilities for acquiring quality inputs and new technologies to enhance productivity and expand capacity of the domestic industry. The number of exporting firms in Brazil has increased by 9.2%, from 16,246 exporters in 2000 to 17,743 in 2003.

37. Brazilian imports of goods and services as a proportion to GDP peaked in 2001 (14.1%) and have undergone marginal decreases in the following years, on account of the economic slowdown and exchange rate adjustment. In absolute terms, imports decreased from US\$55.8 billion in 2000 to US\$48.3 billion in 2003. The figures of 2003 reveal a recovery in imports that is gaining momentum in 2004. Until August 2004, Brazilian imports have increased 24.7% as compared to the same period in 2003. Imports are growing at the fastest rates in the manufacturing sector, both in terms of inputs and raw materials and capital goods.

38. The sustained growth of exports from 2000 to 2003, which was accompanied by a comparatively steady flow of imports, has turned the trade balance from deficit into surplus. The trade surplus attained a historical record of US\$24.8 billion in 2003. In 2004, until August, the trade surplus in absolute terms grew 45% over the same period of 2003.

39. The expansion of Brazil's foreign trade, in particular of its exports, in the last four years has contributed to greater integration into the global economy. However, Brazil accounts for only 1% of world trade. Substantial increases in Brazil's share in world trade hinges not only on further expanding the foreign trade to GDP ratio, but also on gaining better market access in international trade negotiations, particularly in sectors in which Brazil is more competitive, such as agriculture.

40. It is worth noting that, though having undergone strong external adjustment, in which it had to produce trade surpluses to restore a healthy balance of payment, Brazil has refrained from reinstating protective measures. On the contrary, tariffs, by far the most significant instrument of Brazil's trade policy, have been further lowered in the period under review. The average applied MFN tariff shrank from 13.7% in 2000 to 10.4% in 2004. Moreover, the import-weighted average tariff rate has undergone a significant shift downwards. At the same time, the coefficient of tariff variation (standard deviation corrected by the average) has been much lower than in its major trading partners, revealing, for instance, that Brazil's exports might be affected by tariff escalation and peaks from the latter.

(2) PARTICIPATION IN THE WTO

41. Brazil has been actively involved in the WTO, as it regards multilateralism as a cornerstone of its foreign policy, as well as one of the main pillars for the establishment of a fair and balanced global economic system, which can foster welfare and mitigate poverty worldwide. Consistently with those guidelines, Brazil was a strong advocate of the launching of the Doha Round. In particular, it was a driving force behind the Doha Declaration on TRIPS and Public Health. It remains engaged in contributing to a successful conclusion of the Round, which it hopes can become a truly Development Round.

WTO Regular Activities

42. Between 2000 and 2003, Brazil actively participated in the work of the WTO Market Access Committee, having submitted the required mandatory notifications. The negotiations regarding adjustment in the Brazilian Schedule of Tariff Concessions (Schedule III) to the changes in the 1996 Harmonized System (HS) were completed. Thereafter, Brazil notified the changes to the 2002 HS, which have modified the Brazilian Schedule of Tariff Concessions. Likewise, Brazil has actively participated in the discussions concerning the Work Programme for the Harmonization of Rules of Origin, in the WTO Committee on Rules of Origin. It has submitted several proposals, concerning specific origin requirements as well as the general architecture of the Agreement. Furthermore, Brazil has addressed the implications of the harmonized rules of origin for other WTO Agreements. It has also attached great importance to the regular activities of the Committees on Import Licensing, Customs Valuation (CV), Technical Barriers to Trade (TBT), and to the Textiles Monitoring Body (TMB). It has circulated over 145 TBT notifications. Moreover, Brazil has participated in various Working Groups for accession of new Members.

43. In the context of the Agreement on Sanitary and Phytosanitary Measures, Brazil has notified 17 SPS measures, besides taking part in discussions for the implementation of the Agreement. It has followed closely the implementation of the commitments undertaken by Members under the Agreement on Agriculture, with a view to clarifying specific aspects and ensuring full compliance with the provisions of the AoA. Likewise, Brazil has been an active participant in the sessions of the Trade Policy Review Mechanism (TPRM).

Participation in the Doha Round

44. In the Doha Round, Brazil considers that priority should be assigned to a successful and meaningful agreement on agriculture, since the sector remains subject to a wide array of trade distortions and protectionism in world trade, which hamper effective exploitation of developing countries' competitiveness in that sector. Brazil is one of the founding members and is currently the coordinator of the G-20. It has played a leading role in the agriculture negotiations that resulted in the framework approved by the General Council on 1 August 2004. The emergence of the G-20 during the preparations for the V Ministerial Meeting in Cancún (2003) responded to the need to keep agriculture at the core of the negotiations and, at the same time, guarantee prospects for the achievement of meaningful results in line with the level of ambition of the Doha Mandate. The G-20 represents a major breakthrough in the WTO, enabling developing countries to actively participate in its decision-making process. The Group seeks to address distortions and restrictions affecting agricultural trade in three pillars: (i) reducing, with a view to phasing-out, export subsidies and other export enhancement measures; (ii) reducing and further disciplining trade-distorting domestic support; and (iii) substantially improving market access, especially for developing countries products. Furthermore, the Group sustains that operational and effective special and differential treatment (S&D) should be part and parcel of an agreement on agriculture, in particular to cover food security

and livelihood concerns of rural populations.² Besides that, Brazil is a member of the Cairns Group and works in close coordination with it.

45. Developing countries concerns are central to Brazil in non-agricultural market access (NAMA) negotiations, especially as regards the principle of “less than full reciprocity”, the challenges of addressing tariff peaks, tariff escalation, and non-tariff barriers, as well as of providing more transparent rules to anti-dumping and subsidy investigations. Thus, in the Negotiating Group on Rules (NGR), Brazil has been playing an active role in the identification of areas of the Agreements on Anti-dumping and Subsidies and Countervailing Measures that require clarification and improvement, as mandated by the Doha Ministerial Declaration. It has already tabled 25 submissions to the NGR, of which 21 in conjunction with the “Friends of Antidumping”. The main topics of concern to Brazil have been, *inter alia*, sunset reviews, zeroing, the use of the lesser duty rule, export credits, implementation and countervailing duties.

46. Brazil is committed to achieving progress in the services negotiations, which, in its view, should move in parallel with other areas, mainly agriculture. Brazil submitted its initial services market access requests in July 2002 to eighteen WTO Members and received initial requests from approximately twenty Members. In addition, the country presented its initial offer³ for the Doha negotiations on July 21, 2004, with substantive improvements in several sectors. Fourteen new sub-sectors have been included. Brazil advocates the enhancement of the development component in the services negotiations, through the implementation of S&D and focus on sectors, issues and modes of supply of interest to developing countries (i.e. tourism, Mode 4). It has circulated several proposals addressing a number of sectors such as computer and related services, distribution, audiovisual, and construction services. Brazil is committed to strengthening the rules of the Services Agreement (domestic regulation, safeguards, subsidies) as a way to improve security and stability for an expanded world trade in services.

47. Regarding implementation issues, Brazil along with other developing countries has put forward proposals on the compatibility between the TRIPS agreement and the Convention on Biodiversity (CBD), to better protect genetic resources, and on flexibilities to implement TRIMs, in order to give some policy space for developing countries to pursue proper public measures to achieve their development goals. On S&D, Brazil is fully committed to strengthening those provisions and to fully integrating them into the WTO architecture.

Dispute Settlement

48. Brazil has been a major user of the WTO dispute settlement system. Since 1995, it has appeared as complainant or respondent in 34 cases submitted under the “Understanding on Rules and Procedures Governing the Settlement of Disputes” (DSU), ranking first among developing countries. Considering all WTO Members, Brazil ranks fourth in terms of participation in that mechanism, after the USA (161 cases), the European Communities (113) and Canada (38 cases). As a complainant, it has appeared in 22 disputes, ranking fourth after the USA (78 cases), the European Communities (64 cases) and Canada (26 cases). Taking also into account the disputes in which Brazil has participated as third party, it has appeared in 51 cases out of the 316 disputes registered by the WTO since 1995. Brazil's participation in the WTO dispute settlement system epitomizes its reliance on a mechanism designed to guarantee the implementation of the obligations undertaken by the Members

² More information on the G-20 can be found on the web site www.g-20.mre.gov.br.

³ TN/S/O/BRA.

in the various agreements. In the period under review (2000-03), Brazil has appeared in 15 cases as complainant and in 4 cases as respondent⁴.

(3) PREFERENTIAL AGREEMENTS

49. Brazil believes that bilateral and regional trade agreements can be a useful complement to the multilateral system, by deepening the integration of markets, reinforcing the role of trade in economic growth, and promoting gains of scale for domestic firms. From that perspective and in accordance with WTO disciplines on regional trade agreements, Brazil continued to place Mercosul as the centrepiece of its trade policy. Brazil also participates in other regional agreements within LAIA (Latin-America Integration Association) and is engaged in negotiations with important partners, such as the United States, under the Free Trade Agreement of the Americas (FTAA), and the European Union, under the Bi-regional Association Agreement E.U.-Mercosul. As far as other developing countries outside LAIA are concerned, Brazil (through Mercosul) is currently negotiating preferential trade agreements with India and the Southern Africa Customs Union (SACU), and attaches great importance to the new round of the Global System of Trade Preferences among Developing Countries (GSTP) as an opportunity to increase South-South trade.

MERCOSUL

50. Brazil's main trade agreement is Mercosul, a backbone for further regional integration and negotiation of extra-regional agreements. During the period under review, Brazil achieved further convergence of a large number of tariff headings towards the Common External Tariff (CET), through measures such as (i) the reduction in the number of items in the exception list to the CET, currently limited to 100 tariff headings; (ii) the conclusion of the convergence schedule for capital goods; and (iii) the elimination of the temporary tariff increase to the CET.

51. Regarding trade in services, the fourth round of liberalization in service sectors was completed, and a fifth round is under way. The Mercosul Council of Common Market approved, in December 2003, two important instruments to deepen integration: (i) the Mercosul Visa, which contains common rules for temporary movement of services providers, and (ii) the Mechanism for the temporary exercise of professional services, which lays down directives to celebrate mutual recognition agreements between professional entities as well as disciplines to grant temporary licenses.

⁴ (a) As complainant: DS208 – Turkey – Anti-dumping duty on steel and iron pipe fittings; DS209 – European Communities – Measures affecting soluble coffee; DS216 – Mexico – Provisional anti-dumping measure on electric transformers; DS217 – United States – Continued Dumping & Subsidy Offset Act of 2000; DS218 – United States – Countervailing duties on certain carbon steel products from Brazil; DS219 – European Communities – Anti-dumping duties on malleable cast iron tube of pipe fittings from Brazil; DS222 – Canada – Export credits & loan guarantees for regional aircraft; DS224 – United States – U.S. Patents Code; DS239 – United States – Certain measures regarding anti-dumping methodology; DS241 – Argentina – Definitive anti-dumping duties on poultry from Brazil; DS250 – United States – Equalizing excise tax imposed by Florida on processed orange and grapefruit products; DS259 – United States – Definitive safeguard measures on imports of certain steel products; DS266 – European Communities – Export subsidies on sugar; DS267 – United States – Subsidies on upland cotton; DS269 – European Communities – Customs classification of frozen boneless chicken. (b) As respondent: DS046 – Brazil – Export financing programme for aircraft (brought by Canada); DS197 – Brazil – Measures on minimum import prices (brought by the USA); DS199 – Brazil – Measures affecting patent protection (brought by the USA); DS229 – Brazil – Anti-dumping duties on jute bags from India (brought by India).

52. Moreover, the Council of the Common Market adopted Mercosul's Protocol on Government Procurement, which will enter into force upon ratification by two of the four member countries. The Protocol improves the transparency of government procurement and contains MFN and national treatment clauses. It provides for the opening to other Mercosul countries of the purchases by central government of goods and services above US\$75,000 (subject to country-specific reservations) and of public works above US\$3,000,000.

53. The Olivos Protocol, signed in February 2002, entered into force in January 2004, bringing innovations to the regional dispute settlement mechanism, especially with the creation of the Permanent Review Court (PRC), which may confirm, modify or revoke the juridical basis and the decisions of the *ad hoc* Arbitration Court. The constitution of the PRC with permanent arbitrators is designed to generate a coherent and systematic case-law, seeking a standardized interpretation of Mercosul rules, as well as preventing conflicting decisions on similar issues.

MERCOSUL and Regional Agreements

54. Brazil, as member of Mercosul, benefits from a broad range of free trade agreements subscribed by that customs union — within the framework of LAIA — with Bolivia, Chile and Peru, separately, and a plurilateral one with Colombia, Ecuador, and Venezuela. The latter, as well as the Agreement with Peru, have not had their LAIA protocol processes concluded yet. In July 2002, a partial scope agreement providing for free trade in the automotive sector after a transition period lasting up to 30 June, 2011 was signed between Mercosul and Mexico. It should be noted that since 30 June, 2001 Mercosul member countries are not allowed to sign individually trade preference agreements with third parties, according to a Common Market Council Decision.⁵ The remaining agreements previously concluded by each Mercosul member country are being replaced by agreements that involve Mercosul as a whole.

55. Preferential margins granted within the framework of the free trade agreements between Mercosul, Chile and Bolivia have been regularly expanded since the entry into force of the corresponding agreements (in 1996 and in 1997, respectively). Chile and Bolivia became Mercosul associate members, upon their request, after the conclusion of the mentioned free trade agreements. In December 2003, Peru became the third associate member of Mercosul⁶, after the signature of LAIA Economic Complementation Agreement No. 58, which provides for the establishment of a free-trade area within a maximum transition period of fifteen years. In July 2004, Mexico announced its intention to apply to become a Mercosul associate member.

56. On 16 December 2003, the Mercosul countries and three members of the Andean Community (Colombia, Ecuador and Venezuela) signed an agreement aiming at the establishment of a free trade area between the two blocks within a maximum transition period of fifteen years. Asymmetry concerning the level of development of the member countries was duly taken into consideration. The agreement concluded a process launched in 1998 and revived in December 2002 with the signature of a framework agreement.

57. Besides the aforementioned agreements in the framework of Mercosul, Brazil has bilateral fixed tariff preferences agreements with Cuba (since the latter's accession to LAIA, in 1999; new preferences have been agreed upon in the last meeting of the Administrative Committee, in Havana, August 2004), the Andean Community countries but Bolivia (also from 1999, still in force in attendance of the conclusion of the protocol processes of Mercosul's agreements with Peru and with

⁵ Decision CMC/DEC/32/00.

⁶ Decision CMC/DEC/39/03.

Colombia, Ecuador and Venezuela), and Mexico (signed in July 2002, in the context of a Mercosul-Mexico Framework Agreement from the same year). Brazil has also a Special Scope Agreement with Guyana, signed in 2001, in which nearly all the negotiated products enjoy 100% tariff preference.

MERCOSUL and Extra-Regional Agreements

58. Also as a member of Mercosul, Brazil has taken part in the negotiations for the creation of an Inter-Regional Association between Mercosul and the European Union, which encompasses political dialogue, and commercial and cooperation aspects. The trade chapter of the agreement under negotiation aims at the establishment of a Mercosul–EU free trade area, covering agricultural and non-agricultural goods, services, investments, intellectual property, rules of origin, competition policy, anti-dumping, government procurement, sanitary and phytosanitary measures, dispute settlement and business facilitation measures. The conclusion of the agreement was initially foreseen for October 2004 in order to allow its entry into force in 2005. Negotiations, however, were still under way when this report was drafted.

59. Mercosul and South Africa signed a framework agreement in December 2000, with a view to negotiating a free-trade agreement. In 2003, the other SACU (South African Customs Union) members joined the negotiations. Currently the two blocks are discussing a preferential trade agreement as a first step to achieve free trade. Likewise, Mercosul and India signed a Framework Trade Agreement⁷ in June 2003, aimed at strengthening relations between the parties, promoting expansion of trade and the negotiation of a free-trade area agreement in conformity with the rules and disciplines of the WTO. The Framework Agreement provides, as a first step, for the negotiation of a partial scope agreement, aimed at increasing bilateral trade flows through the granting of mutual concessions. The main text of a preferential trade agreement between Mercosul and India was signed on January 2004, containing general disciplines on safeguards, anti-dumping, countervailing measures, technical barriers to trade, sanitary and phytosanitary measures, and dispute settlement procedures. Additional disciplines on these matters, as well as lists of concessions, are still under negotiation.

Free Trade Area of Americas (FTAA)

60. Brazil has taken part in the negotiations for the establishment of the Free Trade Area of the Americas (FTAA), which has, as its main target, the progressive reduction of barriers to trade in goods and services among thirty-four countries of the Western Hemisphere as of 2005. Discussions have been held in negotiating groups dealing with market access; agriculture; subsidies, anti-dumping and countervailing duties; investments; government procurement; intellectual property rights; services; competition policy; and dispute settlement.

61. During the 8th FTAA Ministerial Meeting, held in Miami, in November 2003, Ministers recognized the need for flexibility in the negotiations taking into account the needs and sensitivities of all FTAA partners. It was decided that countries would be allowed to assume different levels of commitments in the agreement. They would seek to develop a common and balanced set of rights and obligations applicable to all countries. In addition, negotiations would also allow for countries, within the FTAA, to agree to additional obligations and benefits. One possible course of action would be for those countries to conduct plurilateral negotiations within the FTAA to define the obligation in the respective individual areas.

62. In February 2004, the Trade Negotiations Committee held a meeting to discuss the common set of rights and obligations, but no consensus was reached at the time. Consultations ensued in order

⁷ Approved by Decision CMC/DEC/09/03.

to finalize the “common set”. Despite progressing some areas, a final agreement has not yet been reached.

Global System of Trade Preferences among Developing Countries

63. Brazil, along with other 42 developing countries, is a member of the GSTP (Global System of Trade Preferences among Developing Countries). Since South-South trade has been increasing well above world trade average growth and is, thus, becoming a significant source of dynamism for the global economy, the GSTP has gained more 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. Brazil will continue to be engaged in those negotiations and hopes that other developing countries, especially LDCs, take part in the Round, since it is a timely opportunity to promote new markets and generate trade among developing economies, within a rule-based and predictable framework.

(4) PRODUCTION AND EXPORT PROMOTION POLICIES

64. The Brazilian foreign trade policy seeks to promote innovation and technological development, as well as the increase of competitiveness for the Brazilian productive structure, in both the traditional sectors and those in which Brazil is still becoming competitive. Among sectors deemed strategic, biotechnology, nanotechnology and biomass encompass activities that may affect horizontally all the productive structure. The main objective has been to coordinate and integrate Government institutions, entities and information systems regarding these sectors in providing a good environment for the participation of the private sector.

65. The Strategic Plan of Export Promotion launched in 2003 aims not only at increasing exports, but also at diversifying the export markets, expanding the number of exporters, and improving market information available to potential exporters.

66. Specially designed programmes are geared to assist the development of entrepreneurship capacities with different tools, focusing on small and medium-sized companies, such as the website *Portal do Exportador* (Exporter Gateway), which contains more than 500 links to other websites worldwide with information and services on foreign trade. It aims at expanding the insertion, the visibility, and the competitiveness of the Brazilian exporter in the international market. Another programme, available in the *Portal*, is *Fala Exportador* (Speak, Exporter), a direct channel through e-mail. Also, the Encomex (Foreign Trade Meetings), for instance, a road-show held at Brazilian major cities, is designed to promote a deep integration between the private and public sectors, where both can share knowledge and information about many aspects of the exporting activity. From 2000 until August 2004, 13,959 enterprises took part in Encomex. Another programme is the *Redeagentes* (Network Agents), which promotes training and seminars with exporters all over Brazil. Since 2000, there were eight thousand entrepreneurs trained by the project. The *Exporta Fácil* (Easy Export), a logistics facility provided by specific rules for courier companies, is also an important tool for small and medium-sized companies. The PROGEX, a specific support for SMEs, is designed to better deal with technical barriers to trade.

Export Finance and Insurance

67. The Export Financing Program (PROEX) is a Governmental program of financing Brazilian exports of goods and services. The Program has two modalities: direct financing (PROEX Financing) and interest rate equalization system (PROEX Equalization). The main purpose of the Program is to

make available for Brazilian exporters the same international financing conditions of exporters elsewhere. With the objective of expanding the Brazilian exporter base, by the end of 2002, new criteria were defined for PROEX Financing, in order to benefit micro, small and medium-sized companies, since these companies normally encounter more difficulty to access the credit markets. Furthermore, new priorities were defined for financing small exporting companies and establishing a specialized department within BNDES, Brazil's main bank for export financing.

68. The Brazilian government established an export credit guarantee fund in 1997 and put in place an export credit insurance system. The Export Credit Insurance (ECI) is one of the instruments that have contributed to bolster Brazilian exports. Between 2000 and 2003, Brazil's ECI-supported financed exports rose by 44.9% (from US\$718 million to US\$1.04 billion), thus outpacing the growth of the Brazilian financed exports in the same period. Civil engineering and capital goods sectors, which require medium and long-term payments in accordance with international standards, have been leading ECI-backed transactions. Since 2004, there are three insurers⁸ that operate with their own resources.

IV. THE TRADE INSTITUTIONAL AND REGULATORY FRAMEWORK

(1) CROSS-CUTTING ISSUES

Trade Remedies

69. Since its last TPR, Brazil has not been brought to respond to any complaints related to trade defense measures in the WTO Dispute Settlement Mechanism, which emphasizes the consistency of Brazilian use of trade remedies with the multilateral rules. Moreover, during the period under review, the application of new contingency measures over imports in Brazil fell in comparison with 1999. Brazilian exports, however, remain a major target to safeguards, anti-dumping, and countervailing measures abroad. The sectors most affected were chemicals, steel, and agriculture products.

Technical Standards

70. Since 2000, Brazil has published about 1700 standards, of which 19% are straight adoption of ISO or IEC standards. The remaining standards either result from national initiatives or reflect International Standards, with appropriate adaptation to address fundamental climatic or geographical factors, as well as insufficient level of safety or technological problems. The adoption of International Standards has concentrated in the areas of hospital equipment, electrical equipment, machines, automobiles, road machines and tools, and others in which standards conform a reference for the development of technical regulations.

Trade Legal Procedures

71. In 2003, about 87 normative acts referring to import operational procedures were consolidated in a single document.⁹ The Import Administration System has been adapted to the WTO rules, with the introduction of automatic licensing as the standard procedure. Imports of capital goods, comprising 1600 products, were exempt from non-automatic licensing. Other import norms and procedures have also been simplified and made available through the internet. New measures were put in place to facilitate exports¹⁰: public notice in the internet about the consolidation of export procedures; increasing the number of products allowed to export in consignment, including

⁸ SBCE, SECRESB and EULER HERMES.

⁹ Portaria SECEX No. 17, of December 1st 2003.

¹⁰ Portaria SECEX No. 12, of September 3rd 2003.

agricultural, semi-processed and processed goods; elimination of the “Registro de Venda” (Sales Registry) — which the exporter was supposed to fill up prior to receiving the export license — for aluminium, soluble coffee, and cocoa; end of the limit of US\$50,000 for a single export license with various products, at different prices, in the same HS Code (NCM).

Customs Modernization

72. From 2000 to 2003, Brazilian Customs Administration has intensified its work in order to speed up customs clearance of goods and modernize risk analyses techniques. There has been a reduction in the average clearance time, and measures have been put in place in line with the WTO rules, regarding customs valuation, rules of origin and tariff classification, among others. It recognizes the importance of the real implementation on paragraph 8.3 of the Decision on Implementation Issues and Concerns adopted in the IV WTO Ministerial Conference, regarding the application of Article VII of the GATT 1994. An Inter-ministerial Commission on trade facilitation has been created to reform and simplify procedures and other bureaucratic requirements. Such work is expected to lower foreign trade transactional costs.

Sanitary and Phytosanitary Issues

73. Transparency on sanitary measures and technical regulation has been enhanced in Brazil. All published technical regulations related to food, drugs, cosmetics, medical devices, medical equipment, maximum pesticides residues, home sanitation products, health services, and sanitary checks related to human health are regularly notified to WTO and made available on the internet. A second Enquiry Point for the SPS Agreement was established in 2002, and since then Brazil has been able to make significant contribution to the WTO SPS Committee and Codex Alimentarius meetings. The most important risk analysis processes are notified to the WTO, and the relevant sanitary or phytosanitary events immediately reported to competent international organizations and authorities of our trade partners.

74. Since the WTO creation, Brazil has signed more than thirty bilateral agreements on sanitary and phytosanitary matters, using the SPS Agreement principles. The main purposes of these agreements is to identify common rules, simplify import controls, harmonize certification requirements, and facilitate the bilateral trade and 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 such different sectors as honeybee, organic products, fresh fruits and flowers. However, the full potential of Brazil’s agricultural exports has yet to be fully developed, mainly due to the limited use of Equivalence agreements, as recommended by SPS/WTO Agreement.

Competition Policy

75. During the last four years, a number of provisions of the Brazilian antitrust law have been modified with the purpose of strengthening enforcement of anti-competitive laws and of improving the Brazilian System for Competition Policy (BSCP). Thus, competent authorities have been granted new powers, especially during cartel investigations. In 2003, the BSCP created an intelligence center for cartel investigation together with the federal police and public prosecution offices. The first dawn raid related to cartel investigation was successfully carried out, and thirteen others followed; for the first time in the Brazilian Competition history, a leniency agreement was signed; and the use of wire tapping by the criminal authorities was intensified.

76. Brazil has put in place a post-merger review system, which establishes, *inter alia*, that transactions must be notified to the competition authorities within fifteen days after its occurrence and that authorities may issue a “Preliminary Injunction” on complex and potentially anti-competitive merger cases. Also, a “Fast-Track System” for simple cases has been introduced, reducing in about 86 days the review period. Currently, 50% of the caseload is being reviewed under this simplified procedure. In 2004, the Brazilian authorities added a new category of cases that are now eligible for the “Fast-Track”, which are those where the merging parties' turnover within Brazil is less than R\$400 million (around US\$135 million).

Regulatory Agencies

77. Since Brazil's last TPR, there has been a process of consolidation of several regulatory agencies, such as the National Water Agency (ANA), National Agency for Waterways Transportation (ANTAQ), National Agency on Land Transportation (ANTT), National Health Agency (ANS) and National Sanitary Surveillance Agency (ANVISA), National Telecommunications Agency (ANATEL), Electric Energy National Agency (ANEEL), Petroleum National Agency (ANP). The Congress is discussing a Bill on regulatory agencies aiming to guarantee the autonomy of these entities, including the mandates of their directors, and to emphasize co-ordination among all competing bodies. The proposal would strengthen the role of agencies and clarify their respective spheres of competence in relation to the Executive and to Congress.

Intellectual Property

78. Since 2000, legal and regulatory, institutional and social developments have improved the protection of intellectual property rights (IPRs) in Brazil. The IPRs' framework has been modified by the enactment of several instruments. A mechanism of co-operation was established between government agencies in the analysis of pharmaceutical patent applications, which demonstrates Brazil's full commitment to the Doha Ministerial Declaration on the TRIPS Agreement and Public Health. Rules have been provided for protection of undisclosed information submitted to the authorities responsible for marketing approval, in line with Article 39 of the TRIPS Agreement. Provisions to facilitate collective management of rights related to phonograms, to improve the enforcement of copyrights and neighbouring rights, and to prevent piracy have been established. The legislation about the *ex officio* grant of compulsory licenses in the event of national emergency or public interest has been modified to balance properly the needs of patent holders and the public at large, as well as social, economic and technological development objectives.

79. Among the institutional rearrangements that contributed to a more integrated and efficient government co-ordination for intellectual property issues, mention should be made to the establishment in 2001 of an inter-ministerial anti-piracy committee (CICP), whose actions focus on the prevention and repression of violations of copyrights and neighbouring rights. In that year, the Inter-ministerial Group of Intellectual Property (GIPI) was given formal structure. It plays a key role in the co-ordination of the government position concerning the Brazilian IPR's policy. Furthermore, the National Institute of Industrial Property (INPI) has been strengthened, and provided with a new structure. It includes, for instance, the Partnership and Technological Information Directory with the aim to foster co-operation between industry and academic research projects on science and technology.

80. In May 2004, an anti-piracy working group of the Ministry of Science and Technology encouraged the development of studies by the private sector, with government support, on new technologies for the prevention of piracy. The Parliamentary Inquiry Commission, established in Congress to investigate actions of piracy and tax evasion, accomplished its work in June 2004 and

submitted its conclusions, which indicate courses of action to combat piracy in Brazil. In order to give effect to these conclusions, a new anti-piracy council was established in October 2004. Noteworthy is the increase of 467,90% in the destruction of pirated goods in the first semester of 2004 compared to the first semester of 2003.

(2) SECTORAL ISSUES

Agriculture

81. Recognizing the importance of agricultural trade for the Brazilian economy, there has been a continuous dialogue among representatives of private, public, and academic geared to the discussion and the analysis of trends and policies, which can enhance a business-friendly environment for agricultural trade. Such is the case, for instance, of the promotion of organic production methods, especially among medium and small-sized producers.

82. New financial instruments have been issued to assist farmers in marketing their production. The Farming Deposit Certificate and the Farming Warrant, both in a final process of implementation, aim to confer greater efficiency to the agricultural market. In their implementation, the warehouses will participate as active marketing agents. In addition, it is under consideration a new Storage Law to update methods and procedures for storing food. Another priority is the development of a securitization mechanism of agriculture credits through the creation of the Certificate of Receipts (CRA) and the authorization for the constitution of Special Purposes Societies, incorporated by private capital.

83. Another important feature of the Brazilian modern agriculture is the increasing use of market instruments to deal with risks, leading to a growing participation of foreign re-insurers. Results of this policy can already be seen, for instance, in the number of crop insurance policies, posting an increase of 247% in premium income in the period of 2000 to 2003.

Transports

84. Given the size of Brazil's territory, foreign trade still lacks an adequate transport infrastructure. Basic investment in improving the transport network is required. The government is considering a new transportation matrix, with a better exploitation of the mainland river ways, coastal navigation, and railroads. It has introduced in Congress a Bill on the use of Public Private Partnership (PPP), which is expected to play a leading role in promoting investments in transport.

(i) Land transports

85. During the period 2000-2003, the National Agency of Land Transport (ANTT) has continued to develop and enhance regulation to improve the system of transports for goods and passengers along the ten bordering countries. This task included the extension of a computer-led system to authorise and control the movement of goods through borders, which, in 2003, reached over 10 million tons.

(ii) Air transports

86. The Government has paved the way for the creation of the Civil Aviation National Agency (ANAC), which will be in charge of regulating and inspecting Brazilian civil aviation. A Bill defining the operating rules for the Agency is under discussion in the Brazilian Congress. Relations with third countries in air services are conducted on the basis of the principle of reciprocity, enshrined in a number of international bilateral agreements. As a principle, no preferences are granted to carriers

from countries other than those that signed bilateral instruments, including those of MERCOSUL, since the Protocol of Montevideo has yet to be incorporated into domestic law. Brazil has subscribed some 58 air transport agreements and 6 Memoranda of Understanding, mostly with Latin American and European countries, as well as with the United States and Japan. None of these are open-sky agreements. It is worth mentioning that airport charges applied in Brazil do not discriminate between foreign and Brazilian airlines operating in the country.

(iii) Ports

87. Established in 2001, the National Agency for Waterways Transportation (ANTAQ) is responsible for implementing the waterways (i.e., maritime, inland and coastal) transportation policy formulated by the Ministry of Transportation and the National Council for the Integration of the Transportation Policies (CONIT), subject to the principles and directives established by Law, as well as to regulate, supervise, and control the provision of waterways transportation services and the use of infrastructures of ports and waterways. The Agency activities aim (i) to assure the trade transit of goods and passengers in accordance with standards of efficiency, safety, users' convenience, timely services, and reasonable freight rates and tariffs, (ii) to harmonize interests of customers and services producers, thereby safeguarding the public interest, and (iii) to solve conflicts of interests that might arise between different parties, as well as to prevent market situations of imperfect competition or contrary to the country's public interest.

88. Despite its short period of existence, ANTAQ has already succeeded in establishing national rules for the registering of Brazilian shipping companies, the operation of vessels flying the Brazilian flag, the freighting of foreign and national vessels, and the authorization for the transportation of reserved cargo by foreign vessels, among other initiatives aiming to promote efficiency and fair competition in the sector, taking into account the principles of reciprocity and no discrimination. Apart from attaining a complete privatization of port services rendered to shippers and shipping companies, a new security system has been implemented in Brazilian ports and terminals, thereby complying with the new requirements established by IMO — the ISPS Code.

89. The port system in Brazil has been revamped in a model that assigns port ownership to the Federal Government, through the Port Authority, while the operation is in the hands of the private sector. The new model has allowed decentralization of the sector and has generated new investments, by means of modernization of the cargo operations, introduction of new technologies, increase in productivity, and reduction in time of ships in port.

Insurance

90. The insurance industry has grown significantly in recent years thanks to the favourable economic environment. Between 2000 and 2003, insurance premium has increased by 62.3%, capitalization by 37.1%, and open private pension funds by 45.5%. This growth has been generated not only by economic stabilization, but also by the liberalization introduced in some sectors. As a result, the participation of foreign capital in the insurance industry premium income has risen from 29.54% in 1999 to 31.4% in 2003. In the open private pension funds, the increase in foreign capital participation went up from 21% in 1999 to 36% in 2003. At the end of 2003, there were 65 companies in operation (insurance, capitalization, and open pension funds).

91. The national regulatory insurance agency, SUSEP, has introduced new mechanisms of risk management into the insurance, open private pension funds and capitalization markets. SUSEP has moved toward a risk based supervisory regime consistent with international standards and practices, such as the IAIS Principles.

92. Furthermore, SUSEP is encouraging the creation and development of popular insurance products meant for all layers of the Brazilian population, especially the poor or low-income households. One of these measures was the reduction on tax over financial operations (IOF) for life insurance. The first effects of this popular insurance policy have already borne fruit. Several insurers have announced the creation of new products, extending the coverage of the patrimony and the interests of the low-income layer of the population, increasing savings and the investments that can bring benefits for this segment of the population. Taxes related to life insurances have been phased-out, in order to reduce costs and increase coverage for low income families.

Securities and Corporate Governance and Responsibility

93. The *Comissão de Valores Mobiliários* (CVM) is an independent agency regulating securities and supervising the stock exchange, public companies and equity investment funds. Along with the Central Bank, it licenses and regulates securities brokers and dealers, and supervises the futures and commodities exchange, clearing systems, and fixed income funds. The CVM has rule-making powers. It also issues accounting rules and provides accreditation for auditors of public firms. The CVM can initiate administrative proceedings and impose penalties.

94. The legal framework of the securities market has been substantially improved and modernised, especially in the last few years. Notable achievements have been made in key areas, such as protection of minority shareholders, corporate good governance culture, and transparency. Consideration is being given to improve some legal and regulatory mechanisms. These include legislation regarding accounting and auditing professions, investment advisers and the simplification or elimination of complexities and inconsistencies of some regulations regarding collective investment schemes as well as the legal framework for self-regulation.

95. Among institutional developments in connection to corporate governance and responsibility, it is also worth noting that Brazil as a subscribing party participated in the 2000 revision of the OECD Guidelines for Multinational Enterprises. The National Contact Point, in its new format, was established in 2003 to implement the revised Guidelines.

Private Pensions

96. In the 2003-2004 period, the norms that define and organise the closed system of complementary pensions in Brazil have been reviewed and updated. The National Monetary Council (CMN) issued norms regarding investments, including limits for pension funds investing abroad. The system of closed private pensions comprises 360 pension funds. Investments amount to US\$82.2 billion, which correspond to 15.9% of the GDP (as of December 2003). The Federal Government has taken measures to provide the State Secretariat for Pension Funds with the necessary tools in order to exert an adequate supervisory role of the system.

Telecommunications

97. From 2000 to 2003, the transition from state monopoly to an open and competition-based regime in telecommunications was reinforced. Policy for the sector is set by the Ministry of Communications (MC) and implemented by the regulatory agency ANATEL. Competition among operators has been possible through the development of a regulatory model that established clear and reliable rules and regulations. This new framework has provided domestic and international investors with a high degree of confidence, and has targeted rules on universal service, service continuity, and quality principles in order to meet the telecommunications needs of the Brazilian population.

98. The Brazilian telecommunications regulatory model is based on three pillars: universality, competition and quality of services. A framework of obligations was established for operators to provide services in areas that at first may not seem commercially viable. Development of market competition was conceived in two stages: first, up to 2002, through a duopolistic approach, in which incumbents in local fixed telephony were made to compete with a "mirror" company in each given region; and second, mobile telephony was opened up to competition with a transition phase based on a duopoly model until the year 2000. The sector is subject to specific legislation and has its competition practices supervised by a special regulatory agency. Within a specific regulatory framework, Brazil has achieved a technologically advanced telecommunication services system, in line with the International Telecommunications Union quality recommendations.

V. FUTURE DEVELOPMENTS

99. The Brazilian economy is set to sustain its recovery and enter a long cycle of growth in the forthcoming years. Following an expansion of around 4.5% in 2004, the growth rate is expected to surpass 3% in 2005. Such a performance is to be accompanied by a continuation of current conditions of macroeconomic stability, which are grounded in effective fiscal and monetary policies put in place since 1999 and enhanced in the last two years. Coupled with a credible inflation targeting regime, fiscal consolidation and discipline will enable gradual reduction of the public debt to GDP ratio and a more determined focus on social policies on the public expenditure side.

100. Over the medium and long term, the conditions for sustainable growth with social justice can be improved thanks to advances in the approval and the implementation of institutional, structural, and microeconomic reforms that have been emphasized. The tax and social security reforms are expected to provide greater efficiency to the economy and, jointly with other reforms, such as the projected Bankruptcy Law and other improvements in financial markets, will strengthen capital and credit markets. Development of these markets should lead to higher levels of investments in the economy, including in R&D, which also might benefit from the Technological Innovation Law under discussion in Congress. A stronger regulatory system, with a new Law strengthening and unifying the structure of the regulating agencies, might further increase the efficiency, by reducing transaction costs and providing more stability for business. The Brazilian economy is undergoing a number of institutional improvements geared to foster investment activities, job creation, innovation and growth generation.

101. Another fundamental reform being discussed in Congress is the judicial reform. A set of proposals has been put forward in order to guarantee an efficient and fast claim resolution, with incentive to mediation and to the reform of the judicial process code. These measures are seen to impact positively on the business environment and the credit system.

102. The Government has also put forward a Draft Law on Public-Private Partnerships (PPP). It might be a key complementary policy instrument to expand infrastructure investments that are crucial for business, including foreign trade, and sustainable economic and social development. It is an efficient mechanism of risk-sharing to grant private long-term investment in sectors that produce wide social externalities. Once put in place, it might enlarge opportunities for domestic and international investments in Brazil's infrastructure, not only within the country, but also along axes of physical integration in the South American sub-region.

103. In addition to the improvements derived from the implementation of the macroeconomic stability and the comprehensive reform agenda, Brazil is gradually positioning itself to take greater benefits in world trade and investments, as well as in regional economic integration. From a trade policy perspective, Brazil will seek to keep playing an active role at the WTO and a constructive role in building economic and trade associations at all geographic levels.

104. Reinforcement of the multilateral system will remain a priority in Brazil's endeavors to pursue an efficient and equitable international economic and trading framework. Brazil will continue to be actively engaged in the Doha negotiations, seeking to translate the Doha mandate at the level of ambition preserved by the July Package into concrete and credible modalities. Brazil understands that it is in the best interest of all WTO members to guarantee that work on modalities be completed by the next Ministerial meeting in Hong Kong. It attaches great importance to agriculture and its three pillars to address market liberalization and reform. It advocates that progress in this sector lies at the core of a successful development round. At the same time, it has been working with its G-20 partners in agriculture and all involved parties to provide the round with balanced and compatible results in all sectors.

105. The strengthening and development of Mercosul will be another major component of Brazil's trade policy strategy, in particular with regard to the association of new members and to trade agreements with countries and group of countries inside and outside the sub-region. Bi-regional agreements will continue to be pursued. Moreover, Brazil on its own and via Mercosul will be engaged in fostering South-South trade not only at the level of enhanced cooperation and economic ties with key partners, but also through the recently launched round of negotiations within the GSTP, whose members account for 55% of the trade among developing countries.

106. In 2005, the economy is expected to go on generating trade and current account surpluses, though at lower levels than those predicted for 2004.¹¹ A sustained growth in the next years will be fundamental to allow a continuation of foreign trade expansion in Brazil, consistent with high levels of both export and import ratios to GDP.

¹¹ Latest market projections, compiled by Market Readout of the Central Bank of Brazil (www.bcb.gov.br) over October 2004, have indicated a trade surplus of US\$27 billion in 2005, against US\$32 billion in 2004, and a current account surplus of US\$3.5 billion in 2005, against US\$9.1 billion in 2004.