TRADE POLICY DEVELOPMENTS PAPER NO. 28

Trade Policy Monitoring Report

Of

Brazil

Vol. 6 (July 2012- September 2012)

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This report is prepared at the request of CWS, IIFT, New Delhi.

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ABBREVIATIONS

ANP - Agência Nacional do Petróleo/National Agency of Petroleum, Natural Gas and Biofuels
ANVISA - Agência Nacional de Vigilância Sanitária/National Health Surveillance Agency
BNDES - Brazilian National Bank for Economic and Social Development
CET - Common External Tariff
COFIN - Social Security Financing Condition
COFINS - Contribuição para o Financiamento da Seguridade/ Social Contribution for the Financing of Social Security
Copom - Brazilian Central Bank's Monetary Policy Committee
CSS - Social Contribution for Health
DECOM - Department of Commercial Defense
EEC - European Economic Community
FINEP - Brazilian Innovation Agency
GATT - General Agreement on Tariffs and Trade
GPA - Agreement on Government Procurement
ICT - Information and communications technology
IMF - International Monetary Fund
INMETRO - National Institute of Metrology, Standardization and Industrial Quality
INSS - Instituto Nacional do Seguro Social/National Institute for Social Security
IPI - Imposto sobre Produtos Industrializados/Tax over industrialized products
IT - Information Technology
MDIC - Ministério do Desenvolvimento, Indústria E Comércio Exterior/Ministry of Development, Industry and Commerce
MERCOUSR - Mercado Comum do Sul / Common Southern Market
No - Number
PIS - Social Security Tax
PNMPO - National Program of Oriented Productive Microcredit
PSI - Investment Support Program
SDA - Secretariat of Animal and Plant Health
SISCOMEX - Integrated System of Foreign Trade
TRIMS - Agreement on Trade-Related Investment Measures
US - United States
WTO - World Trade Organization

Executive Summary& Agenda for Next report

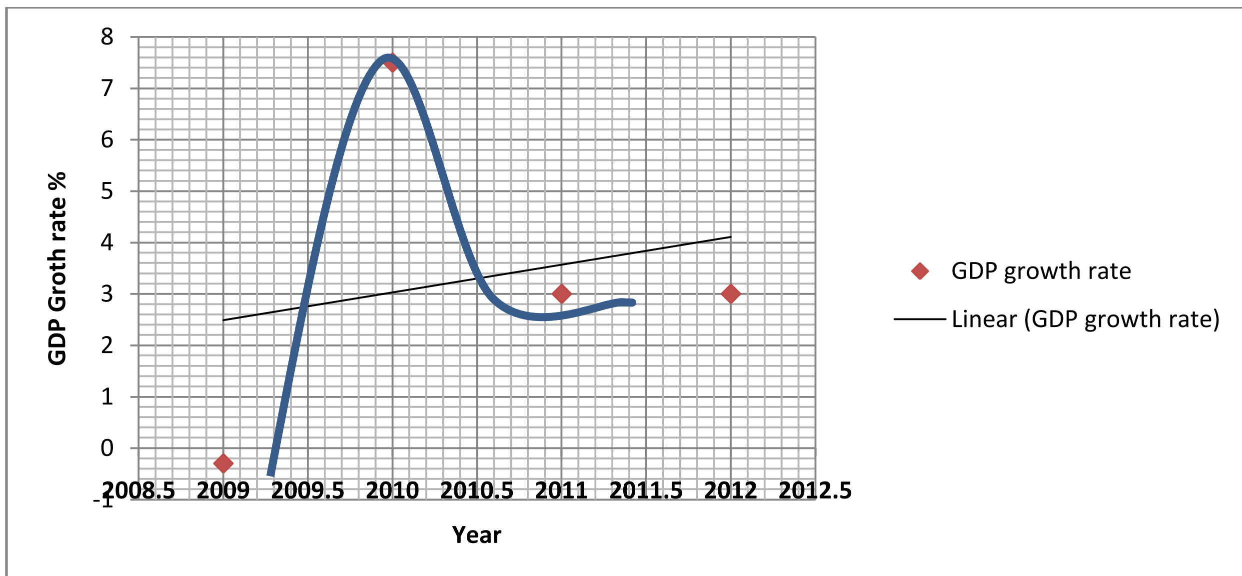
1. The Brazilian economy is expected to grow just 1.5-2.5% in 2012, according to a recent forecast by the International Monetary Fund.
2. Brazil and China signed a ‘ten-year cooperation plan’ to enhance trade and investment in June 2012.
3. The Brazilian government decided in CAMEX Resolution N 040/2007, published in the Official Journal on 08/10/2007, an increase to 26% -35% on tariffs applying to imports of textiles and shoes, and changes in the Brazilian list of exceptions to the Mercosur Common Tariff (CET).
4. During May- September 2012, Brazil initiated 27 new antidumping cases which is higher than any other country within the BRICS group.
5. Brazil has introduced a measure that would prohibit the use of certain additives in tobacco products. Exporters of Burley and Oriental leaf tobacco contend the measure discriminates against these tobacco varieties and "American Blend" cigarettes, which are manufactured from a blend of these tobaccos cured with additives.
6. Brazil’s automobile policy, specifically its local content requirements and import tariff policy has invited concerns from several WTO members. This policy measure will be examined in depth.
7. The next report will provide a comprehensive coverage of Brazil’s antidumping policy which is drawing attention from all leading exporting countries.

Brazil Economy

The Brazilian economy is expected to grow just 1.5-2.5% in 2012, according to a recent forecast by the International Monetary Fund. This is a significant blip from the growth rate of 7.5% in 2010.Most market analysts now expect the GDP growth to be much not more than 3% next year. Brazil trails other BRICS economies in terms of GDP growth data for the most part of 2012.

The weakness in advanced economies and especially in China will weigh on external demand, which could affect Brazil as leading commodity exporter.

Table I: Brazil- GDP Growth Rate



Source: Data from Economist

On the current account data, the IMF noted that the current account deficit in Brazil since 1970 had averaged about 2 percent of GDP, close to that for 2011. Moreover, the IMF suggested that had Brazil not experienced large terms of trade gains and associated wealth effects in the second half of the 2000's, the non-commodity trade balance would have been stronger.

The exchange rate has weakened substantially in 2012, but remains well above the average level of 2004– 09. The real has depreciated almost 8½ percent in 2012 against the dollar (25 percent compared to July 2011 levels), equity markets have declined again recently and external spreads have risen somewhat. While exchange rates have depreciated this year across many emerging markets, the relative weakness of the Real appears to reflect in part the downside growth surprise, falling interest differentials, as well as the recent drop in commodity prices important for Brazil, among other

factors. However the local bond market has held up, reflecting both expectations of lower interest rates and the strength of the domestic investor base.

It is estimated that Brazil's International reserves in mid- 2012 is around US$370 billion, compared to US$200 billion in mid-2008. Liquidity buffers at commercial banks have likewise increased and currently stand at some 10 percent of the GDP.

Brazil has a relatively low rate of saving and investment by comparison with its BRICS counterparts. Household saving is especially modest, in part reflecting a generous pension system.

Investment levels are also low in comparison to other G-20 emerging markets especially in the context of structurally high real interest rates, burdensome taxation, and infrastructure gaps.The saving rate in Brazil is below that of most G-20 emerging economies, in part reflecting a generous pension system. While both saving and investments have increased in the last years, levels remain low and the current account deficit has widened despite Brazil's large resource exports.

Box1: Excerpts from President Dilma's Speech at the UN General Assembly

"Controls must be imposed on the currency war through the adoption of floatingexchange rate regimes. This means putting an end to exchange rate manipulation bothby excessively expansionary monetary policies and by the stratagem of fixed exchangerates.

The reform of multilateral financial institutions must proceed, with an increase in theparticipation of the emerging countries, who are chiefly responsible for growth in theglobal economy.

We should fight protectionism and all forms of trade manipulation, for they increasecompetitiveness in a spurious and fraudulent manner."

Source: United Nations

Box 2: Brazil's Concerns on Quantitative Easing by Advanced Economies
Excerpts from the Speech of Mr. Mantega, Brazil's Finance Minister

"Advanced countries cannot count on exporting their way out of the crisis at the expense of emerging market economies. I have been arguing that "currency wars" will only compound the world's economic difficulties. Trying to grasp larger shares of global demand through artificial means has many side effects. It is a selfish policy that weakens the efforts for concerted action. As mentioned above, advanced countries should rethink their macroeconomic strategies and avoid simultaneous fiscal contractions and the consequent overburdening of monetary policy. Emerging markets and developing economies cannot passively endure the spillovers of advanced countries' policies through large and volatile capital flows and currency movements. All forms of trade and currency manipulation must be avoided because they improve international competitiveness in a spurious manner."

Mr Mantega coined the phrase currency wars two years ago when the second round of QE by the US Federal Reserveled to dramatic appreciation of many emerging market currencies, especially Brazil's, Real.

Source: IMF& Financial Times

Brazil: Free Trade Agreement and Economic Cooperation

Brazil- China Ten Year Cooperation Plan

Brazil and China signed a 'ten-year cooperation plan' to enhance trade and investment in June 2012. President Dilma Rousseff of Brazil and Prime Minister Wen Jiabao of China agreed on a common agenda of investments in the mining, industrial, aviation and infrastructure sectors to encourage commerce between the two nations.[1]Brazilian Finance Minister Guido Mantega said that manufacturing and sales from Embraer in China should experience a boost. Embraer, the Brazilian airplane maker was once banned from making planes in China.[2]

I. Customs Duties and other Border Measures

Customs duties

Normative Instruction 1,291/2012 (NI 1,291/2012), published in the Official Gazette of 21 September 2012 introduced regulations to the Special Customs Regime for Industrial Warehouse under Computerized Control (Regime Aduaneiro Especial de Entreposto Industrial sob Controle Informatizado – RECOF).Under the RECOF, qualifying entities are eligible for a suspension of taxes levied on import or domestic purchase of goods and inputs to be use in the industrialization of products for exportation.

NI 1,291/2012 reduced the threshold for qualifying for the RECOF by determining that companies are eligible to this special customs regime, provided that they achieve a minimum annual export revenue of US$10 million (previously, the threshold ranged from US$10 million to US$20 million, according to the company's business sector).

However, in the first year, qualifying companies are required to comply only with 50% of the minimum annual export revenue, i.e. US$5 million.

Increase in Tariff on Textiles and Shoes

The Brazilian government decided in CAMEX Resolution N 040/2007, published in the Official Journal on 08/10/2007, an increase to 26% -35% on tariffs applying to imports of textiles and shoes, and changes in the Brazilian list of exceptions to the Mercosur Common Tariff (CET).

The Brazilian Ministry of Development, Industry, and Trade has said in a statement that the Chamber of Foreign Trade (CAMEX) has decided to increase import taxes on 100 products in order to stimulate domestic production. A maximum rate of 25% will be applied for up to a year on a range of goods including petrochemicals, tyres, glass, and iron pipes.

Although CAMEX periodically issues new lists of products not available locally that are to benefit from reductions in import taxes, an increase in taxes is less common. As such the move is likely to increase concerns about increased protectionism in Brazil. Since Brazil's new president took office in January 2011, the government has taken a series of actions that have stifled importers, including

[1] *Brazil and China signed trade agreements*, N.Y.TIMES, June 22, 2012, at http://www.nytimes.com/2012/06/23/business/global/brazil-and-china-sign-trade-agreements.html

[2] http://digitaljournal.com/article/327237#ixzz2J3ZDBv5U

increasing taxes on automotive imports. The Minister of Development, Industry, and Trade has defended the measure against charges of protectionism as Brazil is remaining within the bound tariff limits set by the World Trade Organization (WTO) which allows import tariffs of up to 35% for industrialised goods and 55% for agricultural products.

In September 2012, the government approved a new list of exceptions to the CET of 100 tariff lines where CAMEX decided to increase tariffs. The tariffs for viscose yarn (tariff line 5510.11.00) and upper parts of shoes and soles (tariff lines 6406.10.00 and 6406.20.00) were raised from 18% to 25%.

Vide Camex Resolution No. 47 and 48 of 5 July 2012, Brazil reduced the import tariffs on Temporary reduction of import tariffs (to 2%) on informatics and telecommunication equipment. The import reduction which was to be applied till the end of the year included the following products: (NCM 8517; 8528; 8529; 8530; 8536; 8541; 8543; 9030); and (to 2%) on 550 capital goods tariff lines (NCM 8207; 8405; 8407; 8412; 8413; 8414; 8417; 8419; 8421; 8422; 8424; 8426; 8427; 8428; 8429; 8430; 8431; 8433; 8436; 8438; 8439; 8440; 8441; 8442; 8443; 8445; 8447; 8448; 8451; 8452; 8453; 8455; 8456; 8457; 8459; 8460; 8461; 8462; 8463; 8464; 8465; 8466; 8468; 8472; 8474; 8477; 8478; 8479; 8480; 8481; 8483; 8501; 8502; 8503; 8514; 8515; 8517; 8543; 8608; 8609; 8701; 8704; 9007; 9014; 9015; 9018; 9019; 9022; 9024; 9027; 9030; 9031), and temporary elimination of import tariffs on 1 tariff line (9018.90.40), through the "ex-out" regime.

Vide Camex Resolution No. 51 of 24 July 2012 and SECEX Portaria Resolution No. 28 of 8 August 2012, temporary reduction of import tariffs (to 2%) were extended to vegetable fats and oils and their fractions (NCM 1516.20.00), under an import quota of 750 tonnes. The duty reduction will be in force for one year until 24 July 2013.

Vide Camex Resolution No 58 of 21 August 2012 and SECEX Portaria Resolution No 32 of 21 September temporary reduction of import tariffs (to 2%) were provided to sardines (Sardina pilchardus, Sardinops spp., Sardinella spp.), brisling or sprats (NCM 0303.53.00), under an import quota of 50,000 tonnes. The duty reduction is scheduled to be in force until 17 February 2013.

Vide Camex Resolution No. 60 and 61 of 20 August 2012, Brazilian government reduced the import tariffs (to 2%) for a temporary period on informatics and telecommunication equipment tariff lines falling under NCM 8443.32.99; 8517.62.91; 8525.50.29; 8525.60.90; 8528.49.21; 8530.10.10; 8536.50.90; 8537.10.20; 8541.30.29; 8541.60.10; 8542.39.19; 8543.70.99; 9030.40.90; 9030.89.90; 9032.89.21; 9032.89.29; 9032.89.89); and on 501 capital goods tariff lines (NCM 8207; 8402; 8404; 8406; 8408; 8410; 8412; 8413; 8414; 8417; 8419; 8420; 8421; 8422; 8423; 8424; 8426; 8427; 8428; 8429; 8430; 8431; 8433; 8434; 8436; 8438; 8439; 8440; 8441; 8442; 8443; 8446; 8451; 8453; 8454; 8455; 8456; 8457; 8458; 8459; 8460; 8461; 8462; 8463; 8464; 8465; 8466; 8468; 8474; 8475; 8477; 8479; 8480; 8481; 8483; 8486; 8501; 8502; 8514; 8515; 8543; 8602; 8604; 8608; 8609; 8704; 8708; 8907; 9007; 9015; 9018; 9019; 9022; 9027; 9030; 9031; 9402; 9406), through the "exout" regime.

Vide Camex Resolution No. 41 of 25 June 2012, Brazil issued a temporary reduction of import tariffs (to 2%) on coconut (copra) oil and its fractions (de amêndoa de palma (palmiste)) (NCM 1513.29.10), under an import quota of 223,365 tonnes.

With effect from 1 October 2012, Brazil notified a temporary increase of import tariffs (up to 25%) on certain products, i.e. prepared or preserved vegetables, petroleum oils, organic chemicals, organic surface-active agents, photographic film, chemical products, plastics, rubber, paper and paper board, yarn, parts of footwear, glass and glassware, iron and steel, articles of iron and steel, copper tubes and pipes, aluminium and articles thereof, machinery and mechanical appliances, electrical machinery, railway or tramway equipment, medical apparatus (100 tariff lines at 8 digits) (NCM 2004; 2710; 2901; 2905; 2909; 2917; 2937; 3402; 3701; 3824; 3901; 3904; 3906; 3907; 3918; 3920; 3921; 3924; 4002; 4008; 4011; 4013; 4805; 4810; 5510; 6406; 6902; 7005; 7007; 7208; 7213; 7217; 7219; 7222; 7225; 7229; 7302; 7303; 7304; 7305; 7306; 7307; 7411; 7606; 7607; 7614; 8413; 8418; 8429; 8537; 8606; 8607; 9022). Brazil adopted MERCOSUR Decision No. 39/11 by means of Presidential Decree No. 7.734 of 28 May 2012, implementing into its domestic legal system, the special authorization to increase the Mercosur Common Tariff applied rates on 100 tariff lines. Camex Resolution No. 70, established the Brazilian national list

On October 1st, 2012, the Government of Brazil implemented an increase of the Common External Tariff (AEC, the acronym in Spanish) applicable to 100 goods, such as iron, steel, machinery, plastics, chemicals, and paper, among others.

The AEC is the Most Favored Nation (MFN) import tariff established by the members of the MERCOSUR -Argentina, Brazil, Paraguay, and Uruguay- as a block, which applies to the rest of the world.

According to this resolution, as of 1 October 2012, the applicable import tariff rate for these products will be between 14% and 25%. Before the application of this measure, the import tariff rates for these goods were between 0% and 18%.

The measure implemented today affects Brazilian imports that totaled a value of 9 billion dollars in 2011. The most affected sectors are: the metal industry, with 25 tariff lines that correspond to iron and steel foundries and articles thereof, copper and aluminum; electrical and non-electrical machinery with 19 items; plastics with 20 products, and the chemicals industry with 12 items.

The products subject to the tariff increase are classified under the following chapters of the Harmonized System: 20, 27, 29, 34, 37, 38, 39, 40, 48, 55, 64, 69, 70, 72, 73, 74, 76, 84, 85, 86, and 90.

Export Taxes

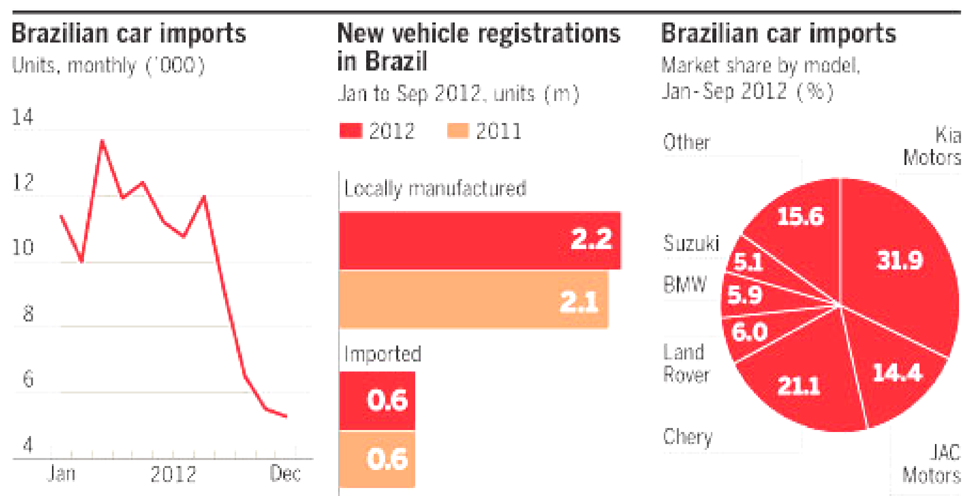
Brazil used to apply two different export taxes on leather raw materials. The details of the export taxes are mentioned below:

- Since 1995, a 9% export tax on bovine raw hides, skins (HS 4101, 4102, 4103) is applied. The export tax was originally due to expire on 30 November 2003, but is still in place.
- Since 2004, a 7% export tax on semi-processed bovine hides and skins, including wet-blue (HS 4104.11 and 4104.19), which was due to be reduced to 4% in 2007 and to 0% from 1 January 2008 onwards.

TRIMS

Brazil's Automobile Policies

According to Roland Berger Strategy, a consulting firm, Brazil could overtake Japan to become the world's third-largest car market after China and the U.S. as early as 2015.



Source: Brazil Auto Importers Association

Vol. II of the TPMR (Brazil) had reported in 2011 that by virtue of Decree 7.567 Brazil had increased horizontally the "IPI tax' by 30 percent, allegedly to stimulate local production and to guarantee investment. However, under the 'Bigger Brazil Plan' tax reduction was provided based on compliance with a number of local content requirements. Accordingly, manufactures that (i) use 65 percent of domestically produced components (including components manufactured by Members of Mercosur such as Maxico and Paraguay); (ii) accomplish core manufacturing processes within Brazil; and (iii) invest at least 0.5 percent of its total gross revenue in innovation and R&D activities in Brazil were eligible to receive a tax reduction. There is a strong view that the requirements mandated by Brazil in order to qualify for the reduction of "IPI tax" raise issues regarding its computability with GATT 1994, TRIMS and the SCM Agreement.

WTO Members have already raised concerns about this local content requirements and preferential treatment given to domestic producers within the Council for Trade in Goods (CTG).

There are confirmed although unreported news thatBrazilian firms could avoid a 30 percent tax increase if they comply with fuel efficiency, use Brazilian made part and invest in research and development. The initial indication is that such a policy might adversely affect foreign automakers. According to unconfirmed reports, Brazil intends to increase tariff on automobile parts and components with a view to alluring foreign automakers to establish production facilities in Brazil itself.

Box 1: New Tax Regime for Automobile Industry

Decree 7,819/2012, published in the Official Gazette of 3 October 2012, regulates the Programme for Incentive of Technological Innovation of the Production Line of Automotive Vehicles (Programa de Incentivo à Inovação Tecnológica e Adensamento da Cadeia Produtiva de Veículos Automotores – INOVAR-AUTO), created by PM 563/2012, later converted into Law 12,715/2012.

The INOVAR-AUTO regime aims to improve technological development, innovation, safety, environmental protection, energy efficiency and quality of cars, trucks, buses and auto parts produced in Brazil.The regime is valid until 31 December 2017 and is available to manufacturing and sales companies acting in the country and to those with an approved investment plan.

In order to qualify for the tax benefits, companies are required to comply with various requirements related to the production process, such as:
Improve vehicle efficiency (i.e., consume at least 12.08% less fuel)
Minimum percentage of the vehicle's manufacturing process performed in the country
Investments in R&D, engineering and supplier's enablement

The main tax provisions brought by Decree 7,819/2012 are summarized below:
Fictitious credits to be offset against the tax on manufactured products (Imposto sobre Produtos Industrializados – IPI) due by qualifying entities;
Suspension of the IPI levied upon the custom clearance of listed products imported by qualifying entities
As of 1 January 2013, reduction for IPI of the tax rates levied upon customs clearance of vehicles and related internal operations performed by importers authorized under INOVAR-AUTO.

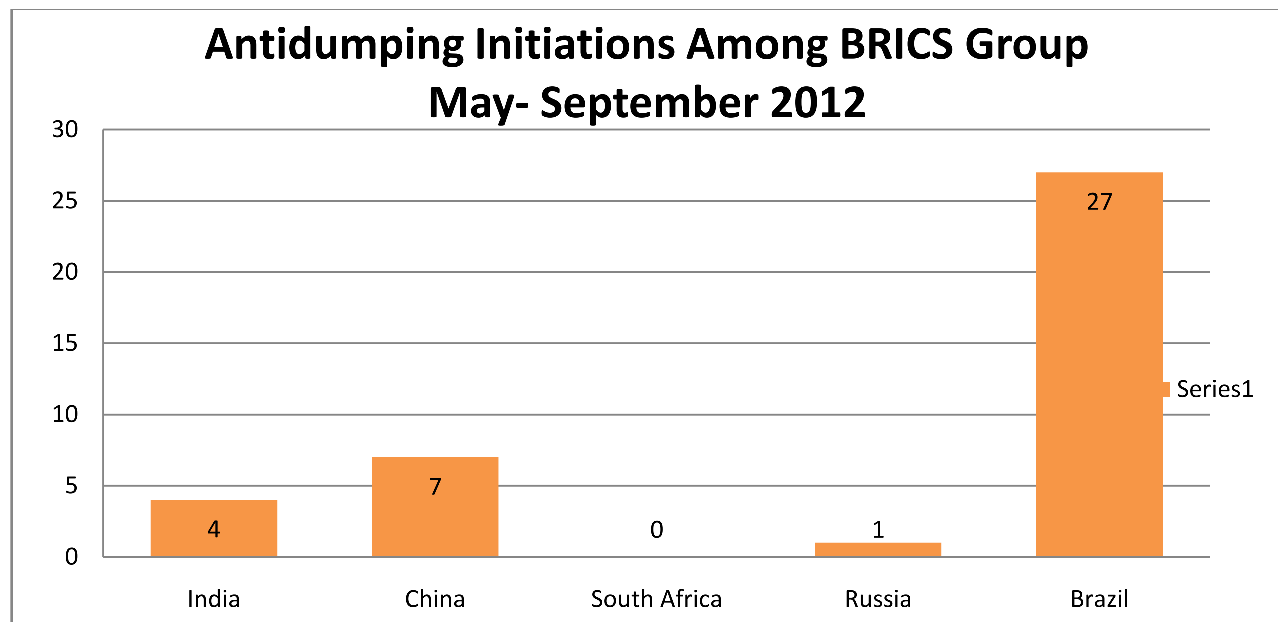
According to Decree 7,819/2012, the fictitious credits calculated in accordance with the INOVAR-AUTO regime are not taken into account for the purpose of the contribution to the employee's profit participation programme (Contribuição para o Programa de Integração Social – PIS) and the contribution for the financing of social security (Contribuição para o Financiamento da Seguridade Social – COFINS), and should not be accounted for the purpose of calculating the corporate income tax (Imposto sobre a Renda da Pessoa Jurídica – IRPJ) and social security contribution (Contribuição para o Instituto Nacional de Seguridade Social – INSS).

Trade Remedy Measures

Brazil is fast acquiring the reputation of the becoming the leader in the use of trade defence instruments. Brazilian President Dilma in her speech at the United Nations noted, "We cannot accept that legitimate trade defense initiatives by developing countries be unfairly classified as protectionism."

Antidumping

During May- September 2012, Brazil initiated 27 new antidumping cases which is higher than any other country within the BRICS group.



Source: WTO notifications

The details of new investigations, expiry reviews and termination of antidumping actions are provided in the table below:

Date	Product	Targeted countries	Description of measure
25 June 2012	New pneumatic tyres of rubber for motor cycles (NCM 1513. 29.10)	China and Chinese Taipei	A new antidumping investigation was initiated (Camex Resolution No. 41)
27 June 2012	Line pipe for Oil and Gas pipes (NCM 7304. 19.00)	China	A new antidumping investigation was initiated
28 June 2012	Refractory bricks, blocks, tiles, and similar ceramic goods (NCM 6902.10.18 & 6902. 10. 19)	China, Mexico and the United States	A new antidumping investigation was initiated (Secex Circular No. 3)
6 July 2012	Synthetic Filament Yarn of Nylon or other Polyamides (NCM 5402. 31. 11; 5402.31.19; 5402.45.20)	China, Republic of Korea, Chinese Taipei and Thailand	A new antidumping investigation was initiated (Secex Resolution No. 32)
19 July 2012	Pneumatic tyres of Rubber for Motor cars (NCM 4011.10.00)	China, Republic of Korea, Chinese Taipei, Thailand and Ukraine	A new antidumping investigation was initiated
30 August 2012	New pneumatic tyres of Rubber forcycles	China, India & Vietnam	A new antidumping investigation was initiated. The investigation

	(NCM 4011.50.00)		was requested by the Brazilian enterprise Industrial Levorin S.A. (Secex Circular No. 42)
1 October 2012	Imports of yarn (other than sewing thread) of synthetic staple fibre, not put up for retail sale.	Indonesia	A new antidumping investigation was initiated (Secex Circular No. 48)
Termination of antidumping actions			
29 August 2012	NCM 5509. 51.00; 5510.11.00; 5510.12.00; 5510.20.00; 5510.30.00; 5511.30.00	Turkey and Vietnam	Terminated the antidumping investigation without measure on 29 Aug 2012 (Secex Circular No. 40)
26 September 2012	Flat-rolled products of iron or non-alloyed steel (NCM 7210.30.10; 7210.49.1072)	India, Australia, Republic of Korea & Mexico	Terminated the antidumping investigation without measure on 26 September 2012 (Secex Circular No. 47)

Countervailing Duty Investigations

Brazil did not initiate a countervailing duty investigation during this period. On the other hand, Brazil terminated a CVD investigation on mixed fibres of yarn. The details are as follows.

Date	Product	Targeted countries	Description of Measure
28 August	Yarns of mixed fibres containing 50% or above of viscose fibres	India, Indonesia & Thailand	Terminated the CVD investigation without measure on 28 August 2012 (Secex Circular No. 41)

Source:

Non-Tariff Measures

TBT Measures

Brazil has introduced a measure that would prohibit the use of certain additives in tobacco products. Exporters of Burley and Oriental leaf tobacco contend the measure discriminates against these tobacco varieties and "American Blend" cigarettes, which are manufactured from a blend of these tobaccos cured with additives. By way of comparison, a significant share of the tobacco leaf grown in Brazil is of the Virginia variety, which does not require blending with additives to increase palpability.

The following is a list of TBT notifications of Brazil which may have a certain significance for India.

TBT Notification No	Product	Title	Description
G/TBT/N/BRA 91	Wires/cables and electric flexible cords (HS 8544)	Ministerial Act (Draft Resolution)	
G/TBT/N/BRA 494	Centrifugal clothes	The Ministerial Act of	Proposed procedures to assess the

	draft (HS 8421.12)	Aug. 30, 2012	conformity for wires, cables and electrical cords by a compulsory third party certification carried out by an accredited body.
G/TBT/N/BRA 495			Conformity assessment procedures for lifting platforms used in urban public transport with a focus on safety accessibility needs, through the establishment of a mandatory certification carried out by an accredited body, in order to reduce risks of accidents.
G/TBT/N/BRA 496		Draft Resolution No. 48, 13 July 2012 - Establishes the protocol for electronic issuance of Product Certificate and Certificate to Foreign Government (5 pages, in Portuguese)	

The European Union had raised significant concerns to one of the notification submitted by EU in 2011, viz, G/TBT/N/BRA/440. This draft resolution regulates used, refurbished, rented and lent medical devices that must be registered at Anvisa according to Resolutions RDC 185/2001 and RDC 24/2009.

Medical devices that are covered by this Resolution are: devices used for medical, dental, laboratorial and physical therapeutic purposes, directly or indirectly used for diagnosis, treatment, rehabilitation and humans monitoring devices used for beauty and esthetic purposes. Import, marketing, commercialization, exchange, donation and sale of used medical devices are forbidden in Brazilian territory, unless the medical devices have been through a process of reconditioning, according to the criteria established in this Technical Regulation.

This resolution sought to revoke resolution RDC nº 25 of 15 February 2001.

SPS Measures

Ecuador has raised concerns at Brazil's restrictions on shrimp due to certain fish diseases at the SPS Committee meeting. The details will be covered in the next Quarterly Report.

Tax Measures

According to Press Reports, President Dilma Rousseff has approved new tax incentives to various industrial and services sectors. The measures, published in the Official Gazette, are part of the government's Brasil Maior ("Bigger Brazil") plan unveiled in August 2011 to strengthen the productivity and competitiveness of Brazilian industries.

Accordingly, Provisional Measure 582/2012 (PM 582/2012), published in the Official Gazette of 21 September 2012 and effective as of that date, extended the tax benefits currently available under the Brasil Maior, and introduced new specific tax breaks.

(i) The Government once again enlarged the list of benefited business activities for the purposes of the new tax on gross income that replaced the standard social security contribution (normally due by employers at the rate of 20% on payroll).

(ii) The new tax on gross income at the rate of 1% applies now to business activities related to the production of certain goods, including:

   i. Meat
   ii. Paint and varnish
   iii. Beauty products
   iv. Bricks, glass, iron and screws
   v. Medical equipment
   vi. Phone devices

Additionally, some specific tax breaks were introduced by PM 582/2012, which are summarized below:

(i) Accelerated depreciation: legal entities assessing taxable income under the actual profit method are entitled to use accelerated depreciation rates as of 1 January 2013, provided that the qualifying assets are acquired between 16 September 2012 and 31 December 2012. The type of assets eligible for the accelerated depreciation will be further regulated.

(ii) Special regime for the fertilizer industry: a special regime for the promotion and infrastructure development of the fertilizer industry (Regime Especial de Incentivo ao Desenvolvimento da Infraestrutura da Indústria de Fertilizantes – REIF) was introduced, through which tax benefits on leasing and purchase of machinery, equipment and tools improving the infrastructure for fertilizer production are granted.

(iii) Special tax regime for the national defense industry (Regime Especial Tributário para a Indústria de Defesa – RETID): a zero rate is granted for contribution to the employee's profit participation programme (Contribuição para o Programa de Integração Social – PIS), contribution for the financing of social security (Contribuição para o Financiamento da Seguridade Social – COFINS) and tax on manufactured products (Imposto sobre Produtos Industrializados – IPI) sold to the national army, provided that the goods are sold by a legal entity qualifying under the RETID.

(iv) Orange-related tax benefit: the contribution to the employee's profit participation programme (Contribuição para o Programa de Integração Social – PIS) and the contribution for the financing of social security (Contribuição para o Financiamento da

Seguridade Social – COFINS) levied on oranges acquired for the production of orange juice to be exported is suspended.

(v) Transport of freight: the taxable basis for the purpose of calculating the income tax levied on autonomous truck drivers was reduced from 40% to 10% of the gross income.

Export Benefits

REINTEGRA, a tax incentive measure, established the possibility for exporters to be reimbursed, partially or fully, for the tributary residual cost existing in the supply chain. The amount is calculated as 3% of the exporter's gross income. The residual calculation does not include goods whose cost of imported inputs exceed 40% of the export price. Goods imported from MERCOSUR bloc are considered as Brazilian origin for the application of REINTEGRA.

Investment policy measures

On 14 June 2012, Brazil reduced the application of its 6 percent rate of the Tax on Financial Transactions (IOF) to overseas loans and bonds with a maturity of up to 720 days. The change reverts two changes that had progressively broadened the scope of operations subject to the tax, previously levied on loans or bonds with maturities of up to 1800 days (between 12 March 2012 and 13 June 2012) and three years (between 1 March 2012 and 11 March 2012).

Intellectual Property Rights

Although there are improvements in IPR protection and enforcement, problems of counterfeiting and digital piracy remain of concern for investors in Brazil. INPI (the national IP office) has undergone restructuring and is still recruiting extra staff, this should help in decreasing the current trademark and patent backlogs. A forthcoming online application system for trademarks should also help speed up the process. However, the Ministry of Health (ANVISA) seems to have a power of veto (for public health reasons) on pharmaceutical patent applications that interferes with patent granting in the medical sector. This is of serious concern for countries such as India. The Brazilian court system is slow and sanctions are not deterrent enough to combat IP infringements.

On 23 August 2012, the Brazilian Minister of Communications announced that a bill defining Internet rights was ready and would be submitted to the Congress for its review. The salient features of the Bill include internet neutrality, maintenance of registry of users and specific regulations for content providers. According to the Ministry of Communications, the goal of the new regulatory framework is to define the rules and rights of users and companies that use the Internet. At present, Brazil has no regulation on the matter.

One of the criticisms against the Bill is that it appears to be too focused on access issues and does not include a reference to the protection of intellectual property. Moreover, the Bill introduced notice and take down system only after a court order. Such a system, it is believed, would be counterproductive and make it difficult for rightholders to intervene.

Key Sectors of the Economy

Agriculture

Brazil's Ambassador to the WTO Mr. Azevedo issued a letter to Mr. Isi siddqui, Agriculture Negotiator at the USTR on the changes that that should be to the US Farm Bill's safety net provisions. The letter was forwarded to the Senate Agriculture Committee on July 13. In the July 9 letter, Azevedo laid out eight steps that the United States should take "at a minimum" in order to make sure that its policies are WTO consistent. Of these, seven involve changes to the cotton support program known as STAX, which was designed and proposed by the National Cotton Council (NCC).

According to this letter, the first step should be not to reintroduce a fixed "reference price" into the STAX program. An early draft of the Senate Farm Bill included a $0.65 per pound reference price for STAX, although it was dropped in the face of criticism from Brazil. But the US House version of the Farm Bill reintroduced a reference price element—and at a higher price of $0.68 per pound.

The details of the letter are available on *InsideUSTrade*. It may be noted that Brazil successfully established in a series of WTO disputes that the GSM 102 program violate the various provisions of the WTO treaty. While the United States is yet to comply with the ruling, both sides agreed under a temporary interim deal in 2010 that the next five year Farm Bill would bring the U.S. policies in line with the WTO DSB recommendations.

Services

In Brazil there is growing state intervention in the telecommunications sector, notably through the National Broadband Programme adopted in 2010, raising concerns of potential distortion of competition in broadband markets. Moreover, foreign ownership requirements in the broadcasting sector limit the provision of pay TV services, which undermines the development of broadband in the country.

Brazil and WTO Dispute Settlement

During this period, Brazil was involved in the following cases as either a complainant or a respondent. The details are as follows:

1. *Complaint by Brazil (DS 439: South Africa — Anti-Dumping Duties on Frozen Meat of Fowls from Brazil)*

On 21 June 2012, Brazil requested consultations with South Africa with regard to the preliminary determination and the imposition of provisional anti-dumping duties by South Africa on frozen meat of fowls of the species *Gallus Domesticus*, whole bird and boneless cuts, originating in or imported from Brazil. The challenged preliminary determination and provisional anti-dumping duties were notified in the International Trade Administration Commission's Report No. 389 and published in Notice No. R-105of Government Gazette No. 35030.

Brazil alleges that the preliminary determination and the imposition of provisional anti-dumping duties, as well as the initiation and conduct of the investigation, to be inconsistent with South Africa's obligations under the provisions of the GATT 1994 and Articles 2.4, 2.4.2, 3.1, 3.2, 3.4, 3.5, 4.1, 5.2, 5.3, 5.8, 6.1, 6.1.2, 6.2, 6.4, 6.5.1, 6.5.2, 6.7, 6.8, 6.9, 6.10, 7.1 and 12.2.1; paragraphs 7 and 8 of Annex I; and paragraphs 1, 3, 5, 6 and 7 of Annex II of the Anti‑Dumping Agreement.

Brazil as a Third party

1. Complaint by EU and Japan *(DS 426: Canada — Measures Relating to the Feed-in Tariff Program)*

On 11 August 2011, the European Union requested consultations with Canada regarding Canada's measures relating to domestic content requirements in the feed-in tariff program (the "FIT Program").

The European Union claimed that the measures are inconsistent with Canada's obligations under Article III:4 and III:5 of the GATT 1994 because they appear to be laws, regulations or requirements affecting the internal sale, offering for sale, purchase, transportation, distribution, or use of equipment for renewable energy generation facilities that accord less favourable treatment to imported equipment than that accorded to like products originating in Ontario; that the measures could be internal quantitative regulations relating to the mixture, processing or use of a specified amount or proportion of equipment for renewable energy generation facilities which require that equipment for renewable energy generation facilities be supplied from Ontario sources; and that the measures appear to require the mixture, processing or use of equipment for renewable energy generation facilities supplied from Ontario in specified amounts or proportions, being applied so as to afford protection to Ontario production of such equipment, contrary to the principles of Article III:1 of the GATT 1994.

The European Union also claimed that the measures appear to be inconsistent with Article 2.1 of the TRIMs Agreement.

EU also alleged that the FiT scheme amounts to a prohibited subsidy because it was in the nature of a financial contribution or a form of income or price support, and a benefit is thereby conferred. It is also claimed that the subsidy would be a prohibited subsidy under Articles 3.1(b) and 3.2 of the SCM Agreement as it appeared to be provided "contingent … upon the use of domestic over imported goods", namely contingent upon the use of equipment for renewable energy generation facilities produced in Ontario over such equipment imported from countries such as the European Union.

2. Complaint by US, Japan and EU against China *(DS 431, 432 and 433: United States — Countervailing Duty Measures on Certain Products from China)*

On 13 March 2012, the United States requested consultations with China with respect to China's restrictions on the export of various forms of rare earths, tungsten and molybdenum. The request

refers to materials falling under but not limited to 212 eight-digit Chinese Customs Commodity Codes and over 30 measures. The request also refers to a number of Chinese published as well as unpublished measures that, operating separately or collectively, allegedly impose and administer export restrictions. These restrictions include export duties, export quotas, minimum export price requirements, export licensing requirements and additional requirements and procedures in connection with the administration of the quantitative restrictions. The United States claims that these measures are inconsistent with Articles VII, VIII, X and XI of the GATT 1994; and paragraphs 2(A)2, 2(C)1, 5.1, 5.2, 7.2, 8.2 and 11.3 of Part I of China's Protocol of Accession, as well as China's obligations under paragraph 1.2 of Part I of the Protocol of Accession.

Japan and EU have have also filed a similar complaints against the same measure which is number as DS 432 and DS 433 to which also Russian Federation is a Third Party.

3. Complaint by Ukraine against Australia *(DS 434: Australia — Certain Measures Concerning Trademarks and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging)*

On 13 March 2012, Ukraine requested consultations with Australia concerning certain Australian laws and regulations that impose trademark restrictions and other plain packaging requirements on tobacco products and packaging. Ukraine challenges two key measures: (1) Australia's Tobacco Plain Packaging Act 2011 and its implementing Tobacco Plain Packaging Regulations 2011; (2) the Trade Marks Amendment (Tobacco Plain Packaging) Act 2011; and (3) all further regulations, related acts, policies or practices that have been adopted by Australia to implement the two key measures.

Ukraine claims that Australia's measures, especially when viewed in the context of Australia's comprehensive tobacco regulatory regime, appear to be inconsistent with:

- Articles 1, 1.1, 2.1, 3.1, 15, 16, 20 and 27 of the TRIPS Agreement;
- Article 2.1 and 2.2 of the TBT Agreement; and
- Article III:4 of the GATT 1994.

Brazil, Canada, the European Union, Guatemala, New Zealand, Nicaragua, Norway and Uruguay have joined the consultations.

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