

## **PROEX**

PROEX, a Brazilian export subsidy, reduces financing costs for Brazilian exports under its "interest equalization" component. Canada has been particularly concerned about its application in the aircraft sector, where it may have cost Canadian firms up to \$1.5 billion in lost annual sales. In 1998, after unsuccessfully attempting to resolve the matter bilaterally, Canada sought a WTO dispute settlement panel to examine the matter. The panel ruled that PROEX was a prohibited export subsidy as applied to regional aircraft (confirmed on appeal) and instructed Brazil to remove the subsidy by November 1999. As a result of concerns that Brazil did not comply fully with the panel ruling, Canada has requested a compliance panel to formally assess Brazilian implementation.

In a related WTO panel, it was determined that Technology Partnerships Canada and EDC's Canada Account were also prohibited export subsidies, as applied to regional aircraft. Although Canada acted to bring these programs fully into compliance with its WTO obligations, Brazil has challenged Canada's implementation of the panel ruling. Canada is confident that a panel will confirm its compliance. The WTO is examining the two challenges under separate panels. At press time, the decisions of both panels were expected in mid-March or early April. For the latest update, visit <http://www.dfait-maeci.gc.ca/tna-nac/dispute-e.asp>.

Both sides are also working bilaterally to arrive at a mutually satisfactory settlement that should include significant changes to the PROEX subsidy regime applied to regional aircraft. It is clear, however, that if agreement is not reached and this dispute proceeds to the retaliation stage, the cost to Canada-Brazil trade and investment relations would be very high.

## **Customs Valuation**

On February 13, 1998, Brazil published Decree #2.498/98, implementing the Customs Valuation Agreement of the WTO. The agreement was further regulated by the adoption of two normative instructions (16/98 and 17/98) issued by the Brazilian Revenue Department, which establish that all goods are subject to verification and that the process is a selective one. The verification process takes into consideration the declared price of the merchandise, the integrity of the documents presented, information on freight

costs, costs relative to loading and unloading of the merchandise and costs relative to freight insurance. In addition, Brazilian authorities may request further documentation from the importer to confirm the declared price of the merchandise. Canada will closely monitor how Brazil applies its customs valuation regime on Canadian exports to insure that it is applied in ways that are consistent with Brazil's international trade obligations.

## **Meat Certificate Validation Requirements**

Canadian exporters remain concerned over the fact that the Brazilian consulates must validate inspection certificates for meat products prior to export (so-called consularization requirement). This creates additional delays and costs for Canadians in advance of shipping. Canada does not impose such a requirement on imports from Brazil or any other country. Canada believes that this requirement is contrary to common international practice and that it constitutes an unnecessary barrier to trade, so has made numerous representations requesting its removal. Brazilian authorities informed our Embassy in early 1999 that a change in legislation that will remove this requirement was expected in the coming months. Although Brazilian senior government officials have given repeated assurances since then, the requirement remains. Given the commitments of Brazilian government officials, Canada will continue to press the Brazilian government to confirm officially that the validation requirement for Canada has been removed.

## **Mutual Recognition of Poultry Inspection Systems**

Canadian exporters have expressed an interest in exporting processed food containing chicken to Brazil. Brazil currently does not allow the importation of most Canadian poultry meat on the grounds that Brazil has not yet reviewed and recognized Canada's meat inspection system for poultry or approved Canadian establishments (Brazil does currently accept ratite meat and duck meat from Canada). CFIA officials and their Brazilian counterparts are now working on a mutual review of the poultry meat inspection systems. At the first meeting of technical officials in August 1998, Brazil and Canada agreed upon the approach for the review. Bilateral discussions have been ongoing since then. Both countries have completed their information-gathering exercise