

BRAZIL - EXPORT FINANCING PROGRAMME FOR AIRCRAFT**FIRST WRITTEN SUBMISSION OF CANADA****I. INTRODUCTION**

1. At issue in this dispute is whether the *Programa de Financiamento às Exportações* (PROEX), the export financing support programme of Brazil, confers export subsidies on sales of Brazilian regional aircraft that are prohibited under Article 3 of the *Agreement on Subsidies and Countervailing Measures* (SCM Agreement).

2. Canada will show that payments made by the Government of Brazil under the "Interest Equalisation" component of PROEX¹ on export sales of Brazilian regional aircraft constitute subsidies within the meaning of Article 1. Canada will further prove that such subsidies are contingent on export performance and are therefore prohibited by Article 3.

3. PROEX payments are financial contributions by the Government of Brazil that, in the case of exported Brazilian aircraft, reduce the cost of such aircraft to the purchaser. The purchaser (for example, an airline) may receive these payments in one of two ways. First, PROEX payments may be used to lower the rate of interest paid by a purchaser by up to 3.8 percentage points per year. The net benefit conferred on a purchaser as a result of such an interest rate reduction can amount to as much as half of the total interest that would be payable by a purchaser in the absence of the payments. Second, a purchaser may, instead, receive these payments in the form of a lump-sum payment that reduces the cost of the aircraft by at least 13 to 15 percent.

4. The payments are made even where the financing is done by a non-Brazilian entity. The payments are made even in circumstances where the purchaser borrows funds, at commercial rates based on its own credit-worthiness, from non-Brazilian creditors in financial markets outside of Brazil. The payments are made even where elements of the financing are guaranteed by non-Brazilian multinational corporations. The payments are not made in return for any goods or services. The payments are never repaid and are not required to be repaid. The payments operate directly to increase the exports of Brazilian regional aircraft.

5. In short, in the regional aircraft market, PROEX payments are grants tied to the purchase of Brazilian regional aircraft exports. Such grants are subsidies within the meaning of Article 1. As they are contingent on export performance, these grants constitute prohibited subsidies within the meaning of Article 3.

6. PROEX subsidies to Brazilian regional aircraft have resulted in serious distortions in the regional aircraft market -- the market for jet and turboprop aircraft that have between 20 and 90 seats.

¹ Referred to as "PROEX payments" or "PROEX subsidies" in this submission.