Canadian direct investment in Brazil is now valued at nearly $4.0 billion, and it continues to grow at a high rate.

Due to the significant levels and long history of Canadian investment in Brazil, it is regarded as one of Canada's highest-priority countries for concluding a FIPA. Negotiations were initiated in June 1998 and will continue throughout 1999.

Import Credit Restrictions

In 1997, Brazil introduced provisional measures requiring Brazilian importers to finance their purchases through domestic rather than foreign banks, thereby voiding the competitive disadvantage imposed on local producers by the high-interest rate policies of the Brazilian government. More specifically, the restrictions require that foreign exchange for imports that are financed up to 179 days must be purchased immediately upon clearing the goods through Brazilian customs, i.e., the 180-day credit is eliminated. For goods financed between 180 and 360 days, foreign exchange must be purchased six months before the loan matures. In other words, importers either pay cash on sight for imports, or secure greater than 360-day financing terms from the exporter. The provisional measures do not apply to shipments valued under US$10,000 or to petroleum products. The Brazilian Central Bank has exempted from these measures its Mercosur partners, as well as Chile, Bolivia and signatories to the Latin American Integration Association. These regulations are being addressed under the auspices of the WTO, and Canada is monitoring developments to verify whether the Brazilian measure is consistent with its WTO obligations.

Customs Valuation

In late January 1999, the Brazilian government announced a change to the official exchange rate used for customs valuation from a monthly adjustment to a daily adjustment. This forced a 40 percent devaluation on the value of the Real for customs purposes from one day to the next. Such a move could reasonably be expected to cause importers to cancel or attempt to cancel orders for goods that have not yet been shipped. Many goods already in-transit or already in Brazil, but not yet cleared customs may be charged duties and taxes at a rate 40 percent higher than importers had expected. At press time, Foreign Affairs and International Trade was seeking more information on the change and assessing the impact on Canadian exports.

Meat Certificate Validation Requirements

Canadian meat exporters remain concerned over Brazil's requirement for the validation of inspection certificates for meat products by the Brazilian embassy or consulates prior to export. This creates additional delays and costs for Canadian exporters. Canada's position is that the requirement is contrary to common international practice and unnecessarily trade-restrictive. Canada has continued to make representations requesting removal of the requirement. Brazilian authorities inform us that a change in legislation that will remove this requirement is expected in the coming months.

Mutual Recognition of Poultry Inspection Systems

Canadian exporters have expressed an interest in exporting processed food containing chicken to Brazil. Brazil does not currently allow the importation of 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. Canada and Brazil 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. Canada will continue to pursue the issue in 1999.

Memorandum of Understanding on Agricultural Cooperation

The Canada-Brazil MOU on Agricultural Cooperation was signed in January 1998. It envisions a range of cooperation activities in 12 major agri-food commodity areas to be monitored and promoted by the Canada-Brazil Working Group on Agricultural Cooperation. The Working Group facilitates the exchange of information and bilateral consultation and it seeks to contribute to the expansion of agricultural relations between the two countries. Agriculture Ministers agreed in September 1998 that the two countries should bring the MOU into full operation.