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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.

Contents

1 OVERVIEW

1.1. The Brazilian Government is pleased to submit its Seventh Trade Policy Report to WTO Members. Brazil considers this periodic review mechanism as a key element of the multilateral trading system embodied in the WTO, contributing to a more transparent and comprehensive understanding of Members' trade policies and regulatory frameworks.

1.2. The period examined in this TPR (2013-16) has been a challenging one for Brazil and Brazilians. Nevertheless, Brazil has continued to pursue a trade agenda that is geared to contribute, domestically, to the country's sustainable development and to the reduction of poverty and social exclusion, and, internationally, to enhance cooperation, mutual benefits and to eliminate trade distortions – such as those that exist in trade in agriculture – that undermine opportunities for developing countries.

1.3. The multilateral trading system is a priority in Brazil's foreign trade policy. Brazil believes that well-functioning multilateral trade rules are essential for the efficiency of international trade and for the good functioning of the global economy, contributing significantly to counter anti-trade sentiments and protectionism. Brazil has insisted on development-oriented and tangible results in the negotiations in the World Trade Organization, having the DDA and its mandates as the main reference. It is also currently actively engaged in the discussion of all other topics on the table for the 2017 Buenos Aires Ministerial Conference, including the so-called new issues, on their own merits.

1.4. Notwithstanding the priority it attributes to the multilateral trading system, Brazil believes that preferential trade agreements can play a complementary role in the efforts to harness the benefits of international trade towards the goal of economic and social development of all Members. In the period under review, Brazil engaged, therefore, in the negotiation of new bilateral and regional trade agreements with partners in Africa, Asia, Europe, Latin America and the Middle East as well as has undertaken talks to expand the scope of existing agreements.

2 GENERAL ECONOMIC ENVIRONMENT

2.1 Macroeconomic Overview

2.1. The Brazilian economy is beginning to recover from the unprecedented recession in 2015-2016, as the gradual implementation of an agenda of structural reforms and fiscal consolidation begins to have a positive impact on the expectations of the industry and consumers. Since 2015, the economic activity has declined around 7%, led by strong contractions in consumption and investment. The unemployment rate has increased from 6.5% in December 2014 to 11.9% in November 2016, and 2.9 million formal jobs have been lost. After growing 3.0% in 2013 and 0.5% in 2014, GDP contracted 3.8% in 2015 and 3.6% in 2016. Brazil suffered a severe supply shock that combined factors such as: (i) the fall in commodity prices that began in 2011 and impacted exporters of commodities through the reversal of favourable terms of trade that had been in place for a decade; (ii) the growth of public and private spending, leading to high indebtedness levels; and (iii) distortions in administrative prices that contributed to raise inflation, leading to monetary policy tightening.

2.2. The public sector is now seeking fiscal consolidation in accordance with the principle of fiscal responsibility, one of the pillars of Brazil's economic policy. Consistent primary surpluses from 2002 to 2013 contributed to a decline in public debt. During that period, primary surpluses averaged 2.9% of GDP. Net public debt was reduced from 59.9% of GDP in 2002 to 30.5% in 2013 and gross public debt reached 51.5% of GDP in 2013, declining 5 p.p. of GDP compared to 2006, when historical series started. However, influenced by the slowdown of economic activity, the nonfinancial public sector has incurred in primary deficits, from 0.6% of GDP in 2014 to 2.5% at the end of November 2016, in cumulative 12-month terms. Net public debt and gross public debt reached, respectively, 43.8% and 70.5% of GDP.

2.3. In order to avoid that public debt reach an unsustainable path, several measures were implemented to return to fiscal equilibrium, including a constitutional amendment that limits, for the next twenty years, the increase of total federal primary spending to the previous year's inflation rate. Besides, the Government proposed a bill to Congress in order to reform the pension system and approved a plan to reprogram subnational government debts, extending maturities and granting some relief in debt service. The Budget Guidelines Law for 2017 envisages reductions in both the primary and nominal deficits for the next years – reaching a primary surplus of 0.2% of GDP in 2019 –, as well as an inversion of the public debt upward trajectory.

2.4. The federal securitized debt has low exposure to foreign currency and is held, largely, by domestic investors. Besides, the maturity of federal securitized debt has remained relatively stable since the end of 2014, averaging 54 months in November 2016. In terms of composition, between 2014 and November 2016, the share of fixed rate bonds in federal securitized debt fell from 43.1% to 37.2%; the share with floating interest rates increased 9.5 p.p. reaching 28.7%; and the inflation indexed share declined from 32.8% to 29.7%.

2.5. After reaching 10.7% in 2015, above the upper-limit of the target range, 12-month inflation declined to 6.3% at the end of 2016 (within the tolerance limits of the target), as a result of the tighter monetary policy of *Banco Central do Brasil* (Central Bank of Brazil – BCB). The spike in 2015 was largely explained by relative price adjustments, mainly in monitored prices. Due to the significant weight in the CPI basket, the impact of this adjustment over headline inflation and expectations was widespread. After the conclusion of the adjustment, as second round effects were limited by a tighter stance on BCB's monetary policy, inflation expectations receded. In this context, expectations for 2017 moved down to around 4.8%, converging to the 4.5% target for 2018 and longer horizons. Short-run inflation behaviour has been more favourable, which may signal lower inflation persistence. As inflation has decreased towards the inflation target, the BCB began to reverse the monetary cycle, allowing the reduction of the basic interest rate (SELIC, the monetary policy rate), which generates a more stable and positive outlook of the economy. After 15 months at 14.25%, SELIC has been reduced since October 2016, reaching 11.25% at the last meeting of the Monetary Policy Committee, held in April, 2017.

2.6. Interest rates on loans are also expected to decline, reversing the upward trend seen in previous years. The credit market has contracted significantly, due to demand constraints driven by slow economic activity, heightened uncertainties, high indebtedness level of the corporate sector and increased unemployment. In this scenario, the outstanding stock of loans in the financial system contracted by 3.5% in 2017, reaching 49.5% of GDP. Loans to the corporate sector retreated by 9.5%, while loans to households increased by 3.2%. Interest rate spreads, that had increased in line with the tighter monetary policy cycle, are expected to decline as the basic interest rate has been reduced.

2.7. Brazil has been one of the early adopters of macroprudential policies. The National Monetary Council (CMN) and the BCB played a major role in monitoring and acting to ensure financial stability during the global financial crisis. The BCB has been actively developing its macroprudential policy framework for some time, devoting resources to systemic risk monitoring, implementing various macroprudential or capital flow management measures and, more recently, establishing a Financial Stability Committee within the BCB.

2.8. Regarding foreign trade, after an increase in 2013, it declined at an annual average rate of -8.5% in exports and -16.9% in imports. Exports decreased from US$242.0 billion in 2013 to US$185.2 billion in 2016, while imports declined from US$239.7 billion in 2013 to US$137.6 billion in 2016. In the 2013-2016 period, the current account deficits, as a percentage of GDP, reached 3.0%, 4.2%, 3.3% and 1.2% in each of those years. At the same time, the country has remained attractive to foreign investment, mainly foreign direct investment (FDI), which totalled US$78.92 billion in 2016. Thus, the current account deficit was fully financed by net FDI inflows. International reserves remained at high levels, reaching US$372.22 billion at the end of 2016, bolstering the ability of the Brazilian economy to face external shocks. In February 2017, the stock of international reserves represented US$375.3 billion, four times more than the debt service for the 12 months ahead.

2.2 General Legal and Regulatory Framework

2.2.1 Business environment

2.9. Brazil believes that the concept of competitiveness must be considered at a global level. In addition to the fiscal adjustment currently in progress, the Brazilian Government is implementing an important agenda to promote productivity and competitiveness. This plan reflects the dynamism and commitment of the Government to achieve openness in international trade, reduction of red tape, attraction of investment and enhancement of innovation and productivity.

2.10. The Government is working on transversal policies with a great impact on the competitiveness of companies. In this regard, the Government has pursued policies ranging from the modernization of public management to the improvement of the business environment. Projects include a restructuring of the national industrial property system, the Foreign Trade Single Window Program, and efforts to simplify internal procedures and revisit the legal frameworks that create unnecessary transaction costs for the production sector.

2.11. In this connection, it is important to highlight Brazilian programs to boost innovation in the business environment, for example the Pronatec Productive Sector, which is a large-scale professional qualification program aimed at fostering innovation and competitiveness in Brazilian companies. The program provides for the adaptation of government-backed vocational courses to the reality of the market by mapping demands of the private sector for the skilled work.

2.12. In addition, the Government is developing partnerships and new instruments for international cooperation, in order to encourage joint research, development and innovation (RD&I) between Brazilian and foreign companies. The Ministry of Industry, Foreign Trade and Services launched four calls for proposals for joint RD&I projects between Brazilian and foreign companies, in partnership with the Governments of Israel, France, Germany and the United Kingdom. Currently, the calls between Brazil and the last two countries are operative. Through these calls for proposals, each country undertakes to use available financial mechanisms to support their companies in bilateral private sector projects aimed at developing new products, processes and technologies. The overall objective is to stimulate the inception and strengthening of partnerships between Brazilian and foreign companies, the development of innovative solutions and the integration of Brazilian companies in global value chains.

2.13. In 2015, the Government launched a national program to develop RD&I centres, aiming to institutionalize a permanent process of attraction of investment in innovation to Brazil: the Innovate in Brasil Program (http://www.innovateinbrasil.com). The program seeks to increase investment in innovation through the development of R&D centres and projects. In order to do that, it establishes a one-stop shop in the Federal Government for investment in innovation – Apex-Brasil – which concentrates and provides information about the Brazilian market, technological infrastructure, skilled human resources and governmental incentives, offering customized packages for each investor with essential information for the success of the investment.

2.14. The InovAtiva Brasil Program (http://www.inovativabrasil.com.br) is also active, being responsible for connecting innovative early-stage businesses to investors and to other national programs that foster innovation and promote their international insertion. The Program was launched in 2013 with the purpose of training thousands of entrepreneurs, focusing on business skills. The idea is to accelerate innovative business in a free, practical way with world-class quality. Currently, there are more than 21,000 entrepreneurs signed on the program's platform and more than 6,000 startup projects submitted. 600 volunteer mentors (business executives, angel investors, successful entrepreneurs) have been responsible for almost 10,000 hours of mentoring to 900 selected startups from all regions of the country (420 reaching the final stage of connection, presenting their business to investors and executives at InovAtiva Demodays).

2.15. It is also important to mention that Brazil adopts international accounting standards issued by the International Accounting Standards Board (IASB), based in London. Thereby, the accounting of Brazilian companies is aligned with the best international standards, followed by more than 120 countries in the world. The adoption was initiated in 2007 with the approval of Federal Law 11.638, dated 28 December 2007 and it was consolidated in 2010, when all companies that operate in the securities market presented their financial statements according to the new standard. Therefore, Brazil has a regulatory accounting framework that offers high quality information about the reality of the companies that operate in its territory and allows investors from all over the world to do their business in a reliable and transparent environment.

2.2.2 Financial system

2.16. The stability of the Brazilian financial system has remained high in recent years, although the real economy adverse scenario has affected credit risk indicators, resulting in cautious credit granting policy as well as low borrower demand. The level of credit in Brazil still seems modest in international comparisons, as mentioned in the IMF/WB FSAP report. Recently banks have raised their capacity to absorb short term liquidity shocks while structural liquidity risks remained unchanged, with long-term assets fully supported by sources of stable funding. The system continues to surpass the required regulatory minimums even considering the Basel III stricter conditions, the economic scenario and political turbulences. Additionally, the leverage ratio, well above the requirements in discussion in international fora, reinforces the financial system solvency. Stress tests outputs indicate that the banking system is able to absorb shocks from adverse macro-economic scenarios, as well as from abrupt changes in interest and exchange rates, from increase in defaults and from widespread decline in house prices, despite the increase in impacts due to materialization of risks from macroeconomic environment.

2.17. Brazilian authorities have continuously and promptly implemented measures to improve the financial system's regulatory framework, such as minimum requirements to be observed by systemically important financial institutions when developing and implementing recovery plans, as well as rules to enhance the safety and efficiency of financial institutions transactions. For instance, the Credit Information System (SCR) could be mentioned. Managed by the BCB, it functions as credit bureau since 2002. Currently the SCR gathers (credit) data for exposures to individual domestic borrowers above R$200 (U$60 in Jan/17) reducing information asymmetries among borrowers, contributing to improve the efficiency of the credit market and the risk management by lenders. The SCR is used also to conduct impact studies for regulatory policies and to identify early warnings of threats to financial stability that can lead to the development of regulatory policies.

2.18. Brazil remains committed to implement the Basel III capital framework in a schedule consistent with goals for capital definition, minimum capital requirements, capital buffers, liquidity ratios and leverage ratio. Final regulations were issued on 1 March 2013 by the National Monetary Council and by the *Banco Central do Brasil*, covering the redefinition of capital; new capital requirements and introduction of capital buffers for institutions in general; optional simplified new capital requirements and capital buffers for single credit cooperatives; scope of consolidation of accounting statements of financial institutions; the methodology of calculation of risk-weighted assets (RWAs) for credit risk, market risk and operational risk for institutions that use the standardized approaches or the advanced approaches of capital calculation.

2.19. Law 12.683 of 7 September 2012 modernized the legislation against money laundering through the significant expansion of the list of economic sectors participating in the efforts to prevent and combat money laundering and the financing of terrorism, while preserving the set of obligations affecting such sectors. Law 12.683 also broadened the scope of the legislation against money laundering, by establishing that any criminal offence can be considered a predicate offence to money laundering. These changes in the Brazilian anti-money laundering legislation aimed at enhancing the effectiveness of the prosecution of that crime in Brazil. Furthermore, in 2016 two laws came into force that significantly contributed to strengthen Brazil's framework to prevent and combat money laundering and the financing of terrorism: Law 13.260 of 16 March 2016, which, among other aspects, criminalizes terrorism and its financing, and Law 13.170 of 16 October 2015, which regulates the procedures related to the freezing of assets in accordance with relevant United Nations Security Council Resolutions. At the international level, the Council for Financial Activities Control (COAF) – Brazil's financial intelligence unit – has worked with the Financial Action Task Force against Money Laundering and Terrorist Financing (FATF) in the implementation of the FATF's recommendations, which are internationally recognized standards against money laundering and the financing of terrorism.

2.20. Interest rate spreads have increased in line with the tighter monetary policy cycle – the basic interest rate increased from 10% at the end of 2013 to 14.25% in July 2015. As price indexes have sharply decreased towards the inflation target set by the Monetary Policy Council, the monetary cycle stabilized during 2016 and began to reverse. After 15 months at 14.25%, the basic interest rate has been reduced since October 2016, reaching 11.25% in April 2017. As a result, interest rate spreads are expected to decline.

2.21. Law 12,865 of October 2013 granted to *Banco Central do Brasil* new competencies to regulate and oversee the payment systems such as payment cards, e-money issuers, credit card acquirers and issuers. In 2016, *Banco Central do Brasil* strengthened its actions to meet the objectives of granting non-discriminatory access to payment services and market infrastructures, promoting competition, financial inclusion, innovation, and interoperability within the Brazilian Payment System, taking into account its importance to the soundness and normal functioning of the National Financial System. Part of these actions consisted in thorough discussions with the several Brazilian Payment Systems stakeholders seeking solutions through specific working groups.

2.22. In order to catalyse efforts to promote effective financial inclusion in Brazil, the National Partnership for Financial Inclusion (PNIF) was launched in November 2011, under the coordination of *Banco Central do Brasil*. In 2015, PNIF launched its second action plan: the Plan for Strengthening Financial Citizenship, which will last from 2016 to 2019. This plan joins actors from the public and private sectors in initiatives aimed at strengthening the three pillars of Financial Citizenship, namely Financial Education, Financial Consumer Protection and Financial Inclusion. The Plan is aligned with the new Sustainable Development Goals (SDGs), along with other drivers as the Maya Declaration and the G20's Financial Inclusion Action Plan (FIAP). Until December 2016, nine institutions submitted 32 different actions and initiatives, related to four thematic groups: financial inclusion of small businesses; the relationship between citizens and the financial system; measurements of financial well-being; and financial vulnerability. The progress of these initiatives will be monitored throughout the year and reported in the Financial Citizenship annual forum, which usually takes place in November.

2.23. Over the past five years, the share of population with an active relationship with financial institutions increased by 21%, reaching 138 million people, or 87% of the population aged 15 and above. Currently, all 5,570 Brazilian municipalities have at least one point of face-to-face access to financial services. In addition, more than half of all financial transactions are being made through non face-to-face access channels, such as call centres, mobile phones, internet and tablets. It is noticeable that almost 2 in 3 transactions through remote channels refer to internet banking and a substantial growth of more than 100% has also been observed in the number of transactions made through mobiles and tablets.

2.24. In 2010, Brazil established its National Strategy for Financial Education (ENEF), a multi-sectoral mobilization around the promotion of financial education initiatives in Brazil. The strategy was established as a perennial State policy, assuring the commercial impartiality of every program, including those developed within public-private partnerships. The goal of the strategy, created through Federal Decree 7.397/2010, is to contribute to the strengthening of citizenship by providing and supporting programs that help citizens to make well-informed financial choices. Cross-cutting programs comprise financial education in elementary, junior high and high school levels. Sectoral programs are developed by several of the eight governmental and four non-governmental members of the National Committee for Financial Education (CONEF), among which some of the most prominent are those conducted by *Banco Central do Brasil* (BCB) and by the Brazilian Capital Markets Board (CVM). In the aftermath of the installation of Brazil's National Committee, *Banco Central do Brasil* established its Financial Citizenship Program, targeted at promoting financial education and access to information and contributing to financial consumer protection and to a better relationship between consumers and financial service providers. BCB's Program, aligned with Brazil's National Strategy for Financial Education, with the National Partnership for Financial Inclusion (PNIF), and with the National Plan for Consumption and Citizenship (Plandec), focuses on money management and on the relationship between financial service consumers and providers. In 2016, CVM established a Centre on Financial Education and Literacy for Latin America and the Caribbean, in partnership with the OECD. The Centre has been designed to serve as a hub for knowledge exchange on efficient financial education and related issues in Brazil and LAC.

2.2.3 Insurance market

2.25. By the end of 2016, there were 118 insurance companies, 16 local reinsurers and 39 admitted reinsurers registered with SUSEP, the Superintendence of Private Insurance, as compared to 118, 12 and 29 in 2012, respectively. As of December 2016, taking into account 98 occasional reinsurers in addition to the local and admitted reinsurers, the number of reinsurance companies authorized to do business in Brazil totals 153, as compared to 102 in late 2012. The Brazilian Reinsurance Institute (IRB-Brasil Re), the sole provider of reinsurance in Brazil until 2007, remains the top reinsurer operating in Brazil.

2.26. In 2016, the number of foreign-owned companies was 42, with a market share of 16.6% (life) and 35.7% (non-life). The number of foreign-owned reinsurers was 146 (39 admitted, 98 occasional, 9 local) with a market share of 46.4%. Foreign insurance companies providing insurance of any kind, except reinsurance, are required to be incorporated under Brazilian law, as a corporation. Insurance companies are precluded by law from engaging in other financial activities; nevertheless, they may provide more than one type of insurance service and may hence be composite (life and non-life insurer).

2.27. The year of 2017 marks the 10th anniversary of the reinsurance market reform. Since 2007, after a long period of the state-owned IRB-Brasil Re monopoly, the reinsurance business has been open to private reinsurance companies, including foreign-owned and foreign-based. Reinsurance and retrocession may be held with local reinsurers (established as a corporation under Brazilian law and headquartered in Brazil, with the sole objective of operating in reinsurance and retrocession), admitted reinsurers (based abroad, with a representative office in Brazil, registered with SUSEP to carry out reinsurance and retrocession) or occasional reinsurers (foreign reinsurance company based abroad without a representative office in Brazil, also registered as such with SUSEP).

2.28. All insurance, local reinsurance, capitalization and private pension fund companies are subject to a supervisory fee (*Taxa de Fiscalização dos Mercados de Seguro e Resseguro, de Capitalização e de Previdência Complementar Aberta*). The fee increases in line with the margin of solvency, whereas for admitted reinsurers there is a single fee per supplier. Insurance companies must pay a (higher) fee for the head office and for each risk location.

2.29. Minimum capital requirements vary according to the region of operation, the company's internal risk-management model, and the type of activity. For insurance companies and open pension funds that only operate in microinsurance, the minimum capital requirements are defined by Resolution No. 321/2015 Article 65, I of the National Council for Private Insurance (CNSP). There are no barriers to the domestic trade of insurance services as long as the company complies with these minimum capital requirements.

2.30. There were no major changes in the institutional framework of the insurance industry. The Federal Government is responsible for designing insurance policies, as well as for establishing standards and overseeing operations in the National Private Insurance System. CNSP remains the main body responsible for setting policies, including establishing the characteristics of the various insurance contracts, and for the regulation of the National Private Insurance System. SUSEP, the Superintendence of Private Insurance, an autonomous body under the Ministry of Finance, is in charge of the control and supervision of insurance, reinsurance, open private pension funds, and capitalization (investment plans) and brokerage operations. SUSEP implements the CNSP policies.

2.31. The main regulatory developments for insurance operations between 2013 and 2016 were the implementation of operational and market capital requirements, completing the set of solvency capital requirements in line with the concepts of the EU's Solvency II regime. This led to Brazil being granted provisional equivalence to Solvency II (under article 227) by the European Insurance and Occupational Pensions Authority – EIOPA – in 2015. Other developments included the regulation of remote sales of insurance and open private pension products, microinsurance, travel insurance, whole life insurance, procedures for the formalization of reinsurance and retrocession contracts, Enterprise Risk Management-ERM and the revision of investment norms (Resolution CMN No. 4444/2015), popular car insurance allowing the use of used-car parts and the Stability Rural Insurance Fund.

2.32. As for reinsurance, a significant relaxation of reinsurance requirements relating to the mandatory cession level to local reinsurers and the intra-group cession cap took place in July 2015 (CNSP Resolution 322/2015 and 325/2015). Under the new rules, the preferential offer to local reinsurers remains at 40% of each cession, but the mandatory minimal cession rates are being gradually reduced to 30% in 2017, 25% in 2018, 20% in 2019, and 15% in 2020. Likewise, the cap on intra-group cession for companies affiliated or belonging to the same financial conglomerate headquartered abroad, provided that they are admitted or occasional reinsurers duly registered with SUSEP, is being raised annually to 30% in 2017, 45% in 2018, 60% in 2019, and 75% in 2020.

2.33. New insurance products do not require SUSEP's prior approval but they should be submitted for analysis and filing prior to their marketing. Life insurance products that offer surviving coverage and annuities as well as capitalization plans and open pension products require prior approval from SUSEP. SUSEP may suspend or ban any product that is found not to comply with the industry's regulatory framework or specific provisions thereof, including technical flaws. Between 2013 and 2016 there were almost 13,000 products submitted to SUSEP with the following output:

Type	Products			
	Approved	Banned	Suspended	Total
Open pension	6.371	9	280	6.660
Life	1.229	106	93	1.428
Non-life	1.909	257	241	2.407
Capitalization	2.178	150	163	2.491
Total	**11.687**	**522**	**777**	**12.986**

2.34. The contribution of insurance activities to the Brazilian GDP rose from 2.92% (2012) to 3.47% (2016).

2.35. Life segment remains larger than non-life segment reaching in gross premiums, respectively, US$42.6 billion and US$20 billion in 2016, from US$47.3 billion and US$24.5 billion in 2012. This overall 13% decrease is mainly due to exchange rate variation. In Brazilian Real terms, there was real growth.

2.36. Market concentration in the insurance activity is still high. In 2016 the market share of the ten largest companies in the industry remained around 70% in terms of direct premiums – similar to the levels observed between 2012 and 2016.

Year	10 largest companies (MKT share in %)		
	Non-life	Life	Total
2012	64.69	88.22	68.20
2013	59.16	87.70	66.17
2014	62.25	88.67	67.65
2015	61.79	89.18	68.01
2016	61.82	89.74	70.50

2.37. Brazil accounts for almost 50% of Latin America's insurance premiums, although only 16% of reinsurance premiums. The volume of business written in Brazil is expected to grow as the Government invests in energy projects and infrastructure upgrades.

2.38. In 2016, the total amount of assets was as follows:

Total asset (US$ billion)	2013	2014	2015	2016
Insurance and Reinsurance	66.2	62.9	43.2	55.7
Open pension funds	137.4	146.7	124	186.1
Capitalization	13.5	12.7	8.7	10.2

2.39. Bancassurance is significant, especially in life business; many larger banks offer a full range of insurance services whereas large stand-alone companies tend to dominate non-life insurance. Nevertheless, brokers remain an important distribution channel. Insurance brokers must register with SUSEP after passing a technical exam.

2.40. SUSEP has in place MoUs with the Federal Insurance Office-FIO (USA) and Argentina and an MoU with the International Association of Insurance Supervisors-IAIS, through which it can cooperate and exchange information with all other signatories (currently 60 insurance supervisors).

2.2.4 Securities market

2.41. Different segments of the capital markets in Brazil were affected in different ways during 2013-16 by the international and domestic environment, which was marked by uncertainty and volatility. In general terms, public offerings (primary market) were more negatively affected in 2015 and 2016, while the secondary market remained active.

2.42. Regarding the primary market, public offerings dropped significantly from the year 2013 (US$90.62 billion) to Jan-Nov 2016 (US$34.46 billion). It is worth noting that the figures were strongly impacted by the devaluation of the Brazilian currency (US$1.00 = BRL 2.04 as of Dec. 2012 to US$1.00 = BRL 3.26 as of Dec. 2016).

2.43. On the other hand, the secondary market remained active. Although the stock cash trading decreased in terms of US dollar from US$791 billion (12 months August 2012 to July 2013) to US$414 billion (12 months August 2015 to July 2016), the number of transactions grew. In the same period, the trading of non-financial corporate bonds kept the pattern of previous years of increasing liquidity: the value of transactions grew from US$86 billion to US$94 billion and the number of transactions, from 35,000 to 66,000. Derivatives markets ended 2016 at the same level of 2013.

2.2.5 Government procurement

2.44. Brazil has a decentralized procurement system. Federal, State and Municipal authorities can make public purchases, in accordance with the Bidding Law (Law 8.666 of 1993), which provides for 5 types of bid proceedings that can be used by agencies and public entities: open tendering; price consultation; invitation; contest; and public auction. According to the general Law, public entities cannot establish differential treatment between Brazilian and foreign companies. For procurement of common goods and services, reverse auction ("*Pregão*") has been consolidated as the most popular modality, performed mostly by electronic means, having enhanced the efficiency and transparency of Brazil's procurement system.

2.45. During the period under review, the Government continued to advance towards the modernization of its procurement systems, having set an online system for biddings under the new regime (*Regime Diferenciado de Contratações Públicas* – RDC).

2.46. An important feature of the Government procurement system in Brazil is access to information. Bidders can easily find substantial information online through the Government Procurement website (http://www.comprasgovernamentais.gov.br) and the Transparency Portal (http://www.portaltransparencia.gov.br). In addition, the legislation requires both federal and sub-federal governments to give wide publicity to tendering processes.

2.2.6 Exchange rate and foreign capital regime

2.47. There is a single foreign exchange market in Brazil. Clients may freely negotiate currency and the exchange rate with institutions authorized to operate in the foreign exchange market. There is no repatriation requirement of export proceeds, and exporters are allowed to keep all their revenues abroad.

2.48. There is no approval requirement to bring foreign capital into Brazil. Nevertheless, all foreign capital – including foreign direct and portfolio investments, foreign credit and financing – entering Brazil must be registered at the Central Bank. The registration is made in declaratory and electronic forms in the corresponding modules of the Electronic Declaratory Registration (RDE), at the Central Bank Information System (Sisbacen). Repatriating investments and income related to foreign capital such as liquidated equity and bond investments, dividend payments and making payments on a foreign loan don't need Central Bank´s authorization. It is important to highlight that, recently, in January 2017, the rules of foreign direct investment registration at the Central Bank have been improved, including simplification of procedures, accompanying the technological modernization of the computerized registration system (RDE-IED).

2.49. In 2007, CMC Decision No. 25 created the Local Currency Payment System (*Sistema de Pagamentos em Moedas Locais* – SML) between the members of MERCOSUR as voluntary bilateral agreements between their central banks. These SMLs are regulated by CMN Resolution 4.331, of 26 May 2014. It was an initiative to reduce transaction costs, promote financial integration and consequently increase trade among the member countries, mainly encouraging micro and small entrepreneurs to participate in foreign trade. The SML allows users to set their payment and receipts in their own local currencies. The SML rate is published daily and it is a cross-rate between the Brazilian Ptax rate (BRL/USD) and the counterparty reference rate. The Central Banks act as clearing houses. In October of 2008, the Central Banks of Brazil and Argentina started to allow trade settlements in local currencies through this mechanism. Currently, around 5% of total bilateral trade between the two countries goes through the SML. In December 2014, the Central Banks of Brazil and Uruguay established an SML which permits settlements of trade and service operations and of unilateral transfers. In April 2016, the Central Banks of Brazil and Paraguay signed an Agreement for an SML and negotiations for effective implementation are at an advanced stage.

2.2.7 Export insurance

2.50. The main official mechanism to promote Brazilian exports is the Export Guarantee Fund (FGE), established in 1997. The Fund guarantees exports of domestic goods and services in operations longer than two years. For micro, small and medium enterprises, the FGE also provides export guarantees for operations shorter than two years. Other operations for periods below two years are served by the private insurance market. Between 2013 and 2016, 107 operations of export credit insurance were approved under the FGE, totalling US$23.30 billion.

2.51. Although not a member of the OECD, Brazil follows the pricing model approved in the Arrangement on Officially Supported Export Credits. Besides, Brazil is a participant in the Sector Understanding on Export Credits for Civil Aircraft, applying the premia and other conditions established in that sector understanding.

2.52. In 2012, Law 12.712 created the Brazilian Guarantees and Fund Managements Agency (ABGF). The Agency started its operations in 2014 and since then has been hired by the Ministry of Finance to provide the necessary services for the issuing of insurance policies (e.g. risk assessment, legal opinions and project analysis). Although Law 12.712 has also created the Guarantee Fund for Foreign Trade Operations (FGCE) – which would be managed by ABGF – this fund is not yet running due to lack of capitalization.

2.2.8 Long run production and export finance

2.53. The National Bank of Social and Economic Development (BNDES), a state-owned bank created in 1952, is the main source of long-term credit in Brazil. Since its foundation, BNDES has played a fundamental role in stimulating the expansion of industry and infrastructure in the country. Over the course of the Bank's history, its operations have evolved in accordance with the country's social and economic challenges, and now they include support for technological innovation, sustainable socio-environmental development and the modernization of public administration. Currently, the long-term financing needed for investment in fixed assets, both direct – through capital markets – and indirect – through the banking system – is still scarce, and the activities of BNDES have complemented those of commercial banks, with a clear segmentation between short-and long-term credit. Brazil's financial market continues to be mainly focused on the short term, with liquidity concentrated in few assets.

2.54. Credit lines offered by BNDES encompass long-term financing for the development of investment projects and for the commercialization of new machines and equipment, as well as the financing of Brazilian exports, taking into account ethical, environmental and sustainable development principles. BNDES's credit lines also contribute to strengthen the capital of private companies and to the development of capital markets.

2.55. BNDES disbursed R$88.3 billion and performed 597,565 credit operations in 2016. In comparison with the previous year, there was a 35% drop in disbursements. BNDES had a net profit of R$6.4 billion in 2016. The Bank was able to achieve a financial performance consistent with its activities as a development bank, reaching a loans portfolio, net of provision for credit risk, of R$610.9 billion at the end of 2016. Total assets amounted to R$876.1 billion in 2016, a reduction of 5.9% over 2015.

2.56. In January 2017, BNDES revised its operational policies to prioritize projects, as opposed to sectors. As a result, several sectoral programs were discontinued and a more horizontal perspective on the credit concession was adopted, focusing on projects that will generate positive externalities to society. These changes are expected to promote employment and productivity growth. In December 2016, BNDES made a debt repayment in the amount of R$100 billion to the National Treasury. The proceeds will be used in full to reduce Brazil's public debt. The amortization does not affect the BNDES's equity structure, full compliance with prudential banking rules and compliance with the disbursement schedule of operations already contracted or prospective.

2.57. Defaults on BNDES's credit portfolio represented 2.43% of the total in 2016, below the national average of 3.71% in the same period. The capital adequacy index (Basel Index) recorded by the BNDES was 21.7%, whereas the index required by the Central Bank is 10.5%. The Bank seeks to harmonize competitive interest rates with the preservation of public equity by continuously monitoring credits and guarantees that cover the debt position over the duration of the contracts.

2.58. BNDES offers two export credit lines: (a) pre-shipment credit, which supplies working capital for Brazilian exporters; and (b) post-shipment credit, which targets the commercialization of exported goods and services through buyer's or supplier's credit, in accordance with international standards. BNDES's export credit disbursements decreased from US$11.3 billion in 2010 to US$4.4 billion by the end of 2016. The amount of disbursements in 2009 and 2010 was a reaction to the global financial crisis, in particular the scarcity of trade finance. Traditional trade finance channels have returned to normal and, as a result, BNDES's disbursements have decreased. Capital goods accounted for 80.5% of the total export finance disbursements in 2016. This includes buses, trucks, light commercial vehicles, industrial machinery and equipment, as well as aircraft. Consumer goods accounted for 18.5% of total disbursements.

2.3 Social Policies

2.59. During the period under review, Brazil continued to prioritize social development by combining the strengthening of universal policies in health, education and social security with income distribution and policies focused on promoting the social inclusion of low-income and vulnerable segments of the population.

2.60. To fight poverty and other forms of social exclusion, the internationally recognized *Bolsa Família* Program has strongly supported families with lower incomes. The *Bolsa Família* assists 13.6 million families today. The program allows for the monitoring of the school attendance of 14 million children and teenagers, and contributes to the decline of both the general child mortality rate and the child mortality rate related to poverty issues, such as malnutrition and diarrhea.

2.61. In June 2016, the Brazilian Government announced a 12.5% raise in the value of the benefits of the *Bolsa Família* Program. The increase in the financial benefit will be accompanied by the improvement of public policies aimed at breaking the cycle of intergenerational poverty, such as actions to promote the full development of children in early childhood and the creation of work and citizenship opportunities, which can promote the emancipation of beneficiaries.

2.62. The policies regarding income distribution significantly benefited the population with lower income. Between 2001 and 2015, the poorest 10% of the population registered an increase of 258% in the real average family income per capita. In the same period, the overall income of population increased by 112%, while the richest 10% had their income increased by 90%.

2.63. Between 2013 and 2016, focalized programs and actions were established and expanded in order to promote social inclusion for the most vulnerable. An example of this commitment was the Brazil Without Extreme Poverty Plan, which promoted the integration and articulation of public policies and programs with the purpose of reducing extreme poverty in the country. The Plan included initiatives in several areas, such as housing and technical and college education, as well as access to clean water, among others. The Plan helped to lift 22 million people out of extreme poverty.

2.64. During the active period of the Brazil Without Extreme Poverty Plan, between 2011 and 2014, 1.8 million teenagers and adults who were registered in the Unified Registry were also enrolled in the National Program for Access to Vocational Education and Employment (Pronatec), with a completion rate of 79%.

2.65. Social progress in rural areas was also significant. The Government increased access to basic services, such as clean water, sanitation, electric power and education, as well as expanded the policies of income guarantee and inclusion of the rural population in agricultural and non-agricultural productive activities. In 2011 the rate of the population living in poverty in the rural area was of 6.7%, while extreme poverty in the rural area was 2.9%. In 2014, those percentages were reduced to 4.5% and 1%, respectively.

2.66. About 3.2 million families so far have been provided with a home by the *Minha Casa, Minha Vida* program. Some 1.2 million will still benefit from it shortly, and possibly a few million more in the future. Brazil understands that social housing plays a central role in promoting sustainable urban development and economic development, in accordance with the principles emanating from the New Urban Agenda recently approved in Quito. The Brazilian Government is focusing its efforts on improving quality and expanding the number of homes offered, as well as increasing the efficiency of the system. In addition to the program's direct social gains, investments of US$100 billion since the beginning of *Minha Casa, Minha Vida* have had a significant impact on income generation and employment, acting as an important economic policy tool. Another recent Government initiative in the area of housing is the so-called *Cartão Reforma*, a program targeting the low-income population aimed at improving the quality of substandard housing.

3 TRADE POLICY DEVELOPMENTS (2013-16)

3.1 Latest Developments in Brazilian Foreign Trade

3.1. Brazilian foreign trade has decreased since 2013, both in nominal terms and as a percentage of the GDP. The country's foreign trade volume decreased 33 % between 2013 and 2016, from US$481 billion to US$322 billion. Relative to GDP, foreign trade declined from 19.6% in 2013 to 18.2% (estimate) in 2016. The share of Brazilian exports in global trade decreased from 1.33% in 2013 to 1.21% in 2015. However, the number of exporting firms expanded 18.1% in this period, reaching 22,205 companies in 2016. From 2013 to 2015, 27.7% of the exporters were micro enterprises, 23.7% small, 27.5% medium and 18.9% large enterprises.

3.2. The period 2015-2016 was characterized by significant surpluses in goods trade: US$19.7 billion and US$47.7 billion, respectively. In addition, in 2013 there was a surplus of US$2.3 billion and in 2014 there was a deficit of US$4.1 billion. Regarding the destination of goods, exports to Asia decreased 20.6%; to South America, 26.9%; to North America, 7.1%; to Europe, 28.7%; to Africa, 29.4%; and to the Middle East, 7.4%.

3.3. Manufactured goods accounted for 37.9% of exports, semi-manufactured goods for 13.5%, agricultural and mineral commodities for 46.1%. The remaining 2.5% are related to special operations. The main industrial exports were aircrafts, automobiles, auto parts, sugar, cellulose and semi-manufactured steel. The main commodities exported were iron, oil, soy, beef, coffee, corn and tobacco.

3.4. Raw materials and intermediate products had a share of 57% of total imports in the 2013-2016 period. These were followed by consumer goods (15%), oil and gasoline (14.7%) and capital goods (13.3%). Pharmaceutical goods, auto-parts, oil, fertilizers, automobiles and electronic goods were the main products imported by Brazil.

3.2 Participation in the WTO

3.2.1 Negotiations

3.5. Brazil remains firmly committed to preserving and strengthening the rules-based Multilateral Trading System and reaffirming the relevance of the WTO as one of the central pillars of the global economic governance.

3.6. In the current scenario of mounting anti-trade sentiment in several key players of the globalized economy, reinforcing the negotiating arm of the WTO with positive and tangible outcomes at the MC-11, in Buenos Aires, will be crucial. Achieving balanced, development-oriented results shall be at the core of all efforts. Although the DDA and its mandates must continue to be the main reference for negotiations, Brazil is actively engaged in the discussion of all other topics on the table, including the so-called new issues, on their own merits.

3.7. Agriculture remains Brazil's top priority. Having reached an agreement in Nairobi on the elimination of export subsidies, new meaningful results shall be achieved if Members want the WTO to correct distortions that have been harming developing countries for decades. Within the agricultural agenda, domestic support is a promising area for incremental deliverables at the next Ministerial Conference. Brazil has been working with other Members to improve disciplines in this field. Beyond Buenos Aires, no agricultural reform would be complete without the expansion of market access for agricultural products, including with respect to the negative trade impacts of non-tariff barriers.

3.2.2 Dispute settlement

3.8. Brazil attaches high priority to strengthening the WTO dispute settlement system and has actively participated in the mechanism since its very first dispute (US – Gasoline). To date, of 524 WTO disputes, Brazil participated in 158 – 31 as complainant, 16 as respondent and 111 as a third party. Most of the cases dealt with issues that are at the core of the Multilateral Trading System, such as: granting of subsidies both to industrial (Canada – Aircraft) and agricultural goods (EU – Sugar and US Upland Cotton) and the application of trade restrictive measures by developed countries (US - Orange Juice), the protection of the environment (Brazil – Tyres) and public health (EU – Medicines in Transit).

3.9. Currently, Brazil has five active disputes as a complainant, two as a respondent and 26 as a third party. Brazil is challenging the restrictions imposed by Indonesia on the importation of poultry (Indonesia – Chicken) and beef (Indonesia – Beef), the subsidies accorded by Thailand to its sugar industry (Thailand – Sugar) and by Canada to Bombardier (Canada – Aircraft II), as well as the countervailing measures imposed by the United States on Brazilian steel products (US - Steel Products). Brazil is a respondent in Brazil – Tax measures, a case brought by the European Union and Japan.

3.2.3 Special and differential treatment

3.10. Brazil continues attaching great importance to the WTO principle of special and differential treatment (SDT) to developing and least developed countries (LDCs). Effective S&DT provisions are important steps towards levelling the playing field among members. Brazil attaches great value to the role of the Committee on Trade and Development as the reviewer of regional trade agreements (RTAs) among developing countries and preference schemes favouring developing countries authorized under the Enabling Clause. Brazil appreciates the work carried out by the Committee since 2007 in implementing the RTA Transparency Mechanism for RTAs falling under paragraph 2(c) of the Enabling Clause.

3.3 Preferential Agreements

3.11. Notwithstanding the priority it attributes to the multilateral trading system, Brazil believes that preferential trade agreements can play a supplementary role in the efforts to harness the benefits of international trade towards the goal of economic and social development of all Members.

3.12. Alongside its MERCOSUR associates, Brazil is looking for new partners to increase, diversify and improve its trade relations, in order to ensure the growth and stability of the Brazilian economy and a competitive insertion of the country in the global scenario.

3.13. Within the Latin-American region, Brazil participates in regional agreements under the provisions of the Latin American Integration Association (LAIA). Brazil's trade policy is structured around the MERCOSUR customs union. As detailed below, MERCOSUR has trade agreements with a number of Latin American countries and free trade agreements with all South American countries. MERCOSUR also acted as one party at the Third Round of Negotiations under the GSTP.

3.14. Since the last review, there has been substantial progress with regard to the MERCOSUR-EU Association Agreement. In May 2016, offers in goods, services, investment and public procurement were exchanged and, ever since, progress has been made in all areas under negotiation. In October 2016, MERCOSUR and EFTA concluded negotiations on the basic parameters of a possible FTA. MERCOSUR and EFTA intend to launch a formal negotiating exercise in the near future. In the period under review, MERCOSUR has also explored the possibility of negotiating FTAs with other countries. These initiatives reflect the growing openness and support of both the Brazilian Government and the private sector regarding free trade negotiations.

3.3.1 MERCOSUR

3.15. MERCOSUR was established in 1991 by the Treaty of Asuncion[1], and its institutional structure was defined in 1994 by the Protocol of Ouro Preto. MERCOSUR is Brazil's main preferential agreement in terms of value of trade, accounting for more than 10% of its merchandise trade; it is also the backbone for further regional integration and negotiation of extra-regional agreements. The MERCOSUR market is particularly important to Brazil as its main destination for manufactured goods with higher added value.

3.16. The Common Market Group (GMC) and the Council for the Common Market (CMC) are the main decision-making bodies of MERCOSUR respectively. The Council is composed of the Ministers of External Relations and Economy of member states; its mission is to formulate policy and promote actions to develop the Common Market., and it. The GMC oversees the application of the Treaty of Asuncion, its protocols and agreements, and can make recommendations to the Council. It is entitled to issue mandatory Resolutions that apply to all member states. It is also in charge of negotiations with other countries, groups of countries and international organizations. The MERCOSUR Trade Commission (CCM) is responsible for the application of common trade policy instruments.

3.17. Dispute Settlement in MERCOSUR is regulated by the Protocol of Olivos, signed in February 2002 and in force since January 2004. Under the Protocol of Olivos, member states can choose to file disputes either within MERCOSUR or at the WTO. Upon agreement by the parties, the Common Market Group can provide mediation. Cases are handled by a Court of Ad Hoc Arbitration (TAHM) and/or by the Permanent Review Court (PRC), which is composed of five judges.

3.18. Created in December 2005, the Parliament of MERCOSUR is a symbol of the political decision to strengthen and deepen the integration process and to develop common interests and values in the region.

3.19. During the period under review, MERCOSUR has taken important steps towards the consolidation of the Customs Union. MERCOSUR member states share a Common External Tariff (CET), which entered into force on 1 January 1995. Different exceptions have been admitted through Decisions by the CMC. All MERCOSUR member states are currently authorized to have an exception list of products on which higher or lower tariffs *vis-à-vis* the CET will be applied. There are different provisions for each country. Brazil can include up to 100 tariff lines and modify as many as 20% of them every six months, until the end of 2021.[2] Brazil is also allowed to establish special tariffs for Capital Goods (BK) and for Informatics and Telecommunications Goods (BIT) until the end of 2021.[3]

3.20. The sugar and automotive sectors are the only ones excluded from free trade within MERCOSUR. There is no schedule for the inclusion of sugar in the free trade regime, although talks on the issue resumed in January 2017. Since the creation of MERCOSUR, there were plans to bring sugar into the Customs Union and an *Ad Hoc* Group was created to that purpose. Brazil believes it is time to make progress towards a gradual liberalization of trade for sugar in MERCOSUR. Trade in the automotive sector between Brazil and MERCOSUR members is still largely regulated by

[1] MERCOSUR is incorporated in the LAIA legal regime as Economic Complementarity Agreement (ECA) No. 18. LAIA economic complementarity agreements must be open for accession by any LAIA country.

[2] Provisions are identical for Argentina. Paraguay was authorized to maintain a list of up to 649 tariff headings until the end of 2023, and Uruguay can include up to 225 tariff headings until the end of 2022 (Decision CMC 26/15).

[3] Decision CMC 25/15.

bilateral agreements, which have been negotiated or renegotiated – within the framework of LAIA – in the period under review.[4] Trade flows are duty-free in the sector under specific conditions. Currently, for the first time, an automotive agreement is under negotiation between Brazil and Paraguay. The regional agreement on automotive policy ratified by member states in 2000 and 2001 did not enter fully in force as originally planned. It is Brazil's intention to pursue the establishment of a MERCOSUR common automotive regime once bilateral sectoral agreements have been concluded with all MERCOSUR partners.

3.21. Established in 2006, the Fund for Structural Convergence of MERCOSUR (FOCEM) (Decisions CMC 45/04 and 18/05) epitomizes MERCOSUR's commitment to bridging the development gap between the countries in the region. It funds infrastructure development and social cohesion initiatives in MERCOSUR. The Fund receives contributions from all member states. Paraguay and Uruguay are the main beneficiaries of FOCEM and Brazil is the main contributor. Decision CMC No. 22/15 renewed FOCEM for ten years from the date all member states incorporate the decision into their domestic legal orders.

3.22. The Protocol of Montevideo on Trade of Services entered in force on 7 December 2005 between Argentina, Brazil and Uruguay. It establishes a schedule for services liberalization (covering both market access and national treatment measures) within MERCOSUR. Under the Protocol of Montevideo, the Parties have scheduled commitments in virtually all sectors and sub-sectors covered by the WTO Services Sectoral Classification List (MTN.GNS/W/120). The Protocol on Government Procurement, negotiated in 2006, is not in force and member states are currently committed to its revision.

3.23. The Protocol on Cooperation and Facilitation of Investments (Decision CMC 03/17), signed in April 2017, represents a milestone in the regulation of investments in the region. The Protocol addresses the business community's interest in minimizing risks and preventing disputes related to investments. It also seeks to encourage mutual investments within the region through intergovernmental dialogue mechanisms, which support companies in the process of internationalization. The Protocol will provide for greater disclosure of business opportunities, exchange of information on regulatory frameworks and appropriate mechanisms to prevent and, eventually, settle disputes. It establishes a solid framework for investment in all Member States and will be applicable to Foreign Direct Investments made before or after its entry into force.

3.24. In 2015, the CMC approved the Action Plan for the Strengthening of MERCOSUR's Trade and Economic Mechanisms. An *ad hoc* group was created to identify measures deemed detrimental to free trade in the areas of technical regulations, sanitary and phytosanitary measures, domestic taxes and bureaucratic procedures. Specifically concerning Technical Regulations, Brazil strongly supports improvements to the approval and revision mechanisms of MERCOSUR's technical regulations.

3.25. Member states have agreed on a number of instruments with a view to facilitating the movement of citizens between Member States. Active participation of civil society and social movements in discussing public policies in areas as diverse as education, health, labour, human rights and others is also contributing to social responsibility and political accountability. This is as much an institutional breakthrough as it is a commitment to advancing the social agenda of MERCOSUR integration.

3.3.2 MERCOSUR and regional agreements

3.26. MERCOSUR has a broad range of trade agreements within the framework of LAIA. These trade agreements are known as Economic Complementation Agreements (ACEs). They have been signed with the Plurinational State of Bolivia (ACE-36), Chile (ACE-35), Mexico (ACE-54, ACE-55), Peru (ACE-58), Colombia (ACE-59), Ecuador (ACE-59), the Bolivarian Republic of Venezuela (ACE-59) and Cuba (ACE-62). Besides the aforementioned agreements in the framework of MERCOSUR, Brazil has celebrated a bilateral fixed tariff preferences agreements with Mexico (ACE-53) and other agreements with Guyana (AAP-38), Saint Kitts and Nevis (AAP-38), and Suriname (AAP-41). As a result of the schedule of tariff commitments in these agreements, there will be a virtual free trade area within South America by 2019.

[4] 41st Additional Protocol to ECA No. 14 (Brazil-Argentina), ECA No. 2 (Brazil-Uruguay) and ECA No. 69 (Brazil-Bolivarian Republic of Venezuela).

3.27. Brazil has also engaged in the negotiation of non-tariff issues. In April 2016, Brazil signed an Agreement on Economic and Trade Expansion with Peru, with chapters on investments, services and government procurement. It also has ongoing negotiations with Mexico to widen the scope of ACE-53, among other initiatives.

3.3.3 MERCOSUR and extra-regional agreements

3.28. Negotiations for a Bi-regional Association Agreement between MERCOSUR and the European Union, originally launched in 1999 and suspended in 2004, were re-launched at the MERCOSUR-EU Summit in May 2010. Since then, negotiating rounds have taken place, leading to progress in the normative framework of the agreement. In May 2016, offers were exchanged in market access in goods, services and establishment, and public procurement. The last negotiating round took place in March 2017, in Buenos Aires, allowing for significant progress, including the conclusion of the Competition Chapter. An intense schedule of meetings has already been agreed until the end of the year. Both sides have announced the intention to conclude the Agreement in the near future.

3.29. In 2016, MERCOSUR and the European Free Trade Association (EFTA) concluded an exploratory exercise for an FTA. The first round of negotiations was held in June 2017, in Buenos Aires, and the next round is due to take place late August 2017 in Geneva. The intention is to negotiate a comprehensive free-trade agreement. Since the last TPR, MERCOSUR has also held trade dialogues with several countries, including Canada, the Republic of Korea, and Japan, with a view to exploring the possibility of negotiating trade agreements.

3.30. In 2016, MERCOSUR and India started working on the expansion of the Preferential Trade Agreement signed in 2004 and in force since 1 June 2009. The FTA signed by MERCOSUR and Egypt will entry into force thirty days after the date of the notification to the Depository of the instrument of ratification of the last Signatory Party. In October 2015, the Brazilian Congress approved the FTA and Brazil's instrument of ratification was deposited in February 2016. Egypt, Paraguay and Uruguay have also completed their ratification procedures.

3.31. The Preferential Trade Agreement (PTA) between MERCOSUR and the Southern Africa Customs Union (SACU), signed by the State Parties to MERCOSUR on 15 December 2008 and by SACU Member States on 3 April 2009, entered into force on 1 April 2016. The first meeting of the Joint Administrative Committee (JAC) of the PTA is scheduled to take place in May 2017.

3.32. The FTA signed by MERCOSUR and Palestine on 20 December 2011 provides for its entry into force, bilaterally, after Palestine and one of the MERCOSUR States ratify it. The text of the FTA is currently under analysis in the Brazilian Congress.

3.33. In December 2014, MERCOSUR signed Framework Agreements on Trade and Economic Cooperation with Lebanon and Tunisia, aiming at strengthening economic dialogue and promoting the negotiation of FTAs. The first negotiating rounds for the respective Free Trade Agreements took place in May 2015, respectively in Beirut and in Tunis. The parties are currently working on the negotiating text for the FTAs. The second negotiating rounds are foreseen to take place in 2017.

3.3.4 Global system of trade preferences

3.34. Brazil, along with other 42 developing countries, is a member of the GSTP (Global System of Trade Preferences among Developing Countries). In view of the large increase in South-South trade in recent years, GSTP has gained 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.

3.35. The round was completed on 15 December 2010, at a Ministerial Meeting in Foz do Iguaçu, among Brazil and 10 other signatories: Cuba, the Republic of Korea, Egypt, India, Indonesia, Malaysia, Morocco and the MERCOSUR member countries Argentina, Paraguay and Uruguay. Signatories account for a population of over 2 billion people and over 9% of world trade.

3.36. The general conditions established in the agreement are a preference margin of at least 20%, for at least 70% or each participants tariff lines. In practice, margins of preference will be accorded to more than 47,000 products.

3.37. The ratification process of the Agreement is under way and Brazil looks forward to its entry into force as soon as possible.

3.4 Investment Agreements

3.38. During the 1990's Brazil signed 14 traditional Bilateral Investments Agreements (BITs) but the Brazilian National Congress decided not to ratify any of them. Brazil follows closely the global discussions concerning these agreements and seeks actively to build an alternative approach to the traditional models.

3.39. Following the rejection of BITs by the National Congress, the Brazilian Government intensified work to define new guidelines for further negotiations on investment agreements. Brazil has focused on designing a new model of investment agreement based on thorough review of studies by international organizations (UNCTAD and OECD Guidelines), extensive consultations with the Brazilian private sector, and international benchmarking. This process led to the drafting of the Cooperation and Facilitation Investment Agreement (CFIA), which seeks a balanced outcome combining the promotion of an attractive environment for investors while preserving space for public policies. The new Brazilian model sidelines the limitations identified in traditional BITs in favour of a positive approach comprising institutional cooperation and facilitation of investment flows. This model has been used since 2013; Brazil has already signed CFIAs with Mozambique (March 2015), Angola (April 2015), Mexico (May 2015), Malawi (June 2015), Colombia (October 2015), Chile (November 2015), Peru (April 2016) and India (September 2016, concluded, but pending of signature). An agreement with Jordan has already been negotiated, but is still pending signature. The firsts CFIAs (Angola, Mozambique and Malawi) have already been approved by the House of Representatives and are currently being analysed by the Senate. The Cooperation and Facilitation of Investments Protocol of MERCOSUR (PCFI) has recently been concluded. Brazil is also engaged in exploratory dialogues with South Africa, Tunisia, Morocco, Thailand, Ethiopia and the former Yugoslav Republic of Macedonia.

4 TRADE INSTITUTIONAL AND REGULATORY FRAMEWORK

4.1 Cross-Cutting Issues

4.1.1 Implementation of good regulatory practices

4.1. Regulatory agencies in Brazil have striven to implement Good Regulatory Practices (GRPs) and other tools in order to promote regulations that are more evidence-based, flexible, effective, clear and transparent, relying on social participation and seeking convergence with international practices and standards. Initiatives for Regulatory Impact Analysis (RIA) are already in place and aim at improving regulatory quality by the collection and evaluation of information about the likely benefits, costs and effects of regulations, with a view to enhancing decision-making processes and ensuring that the action to be taken is justified and appropriate. Also, agencies have been establishing standards and procedures that are to be followed in the development of their measures.

4.2. These good practices complement the RIA process and include mechanisms to enable agencies to assess the best measure to be taken in order to achieve an intended regulatory goal. These processes involve broad public consultation and social participation, a continuing effort by the Brazilian competent agencies to promote greater transparency of their conduct and responsibilities. For instance, the Brazilian Health Regulatory Authority (ANVISA), apart from promoting public consultations and public meetings, using RIA and establishing a regulatory agenda, has updated its GRPs practices, introducing alternative tools and enhancing monitoring and evaluation, as well as the management of its regulatory stock. The latter activity was partially conducted with the support of the Brazilian National Confederation of Industry (CNI), through a formal collaborative project that has resulted in the rationalization of the Agency's stock, with positive impact for national and international companies that sell in Brazil products regulated by ANVISA. It is also worth noting that the new tools have greatly impacted social participation in public consultations promoted by ANVISA – data from 2014 indicate that in 30 public consultations 5,873 contributions were received from different participants, while in 2015 this number increased to 18,037 contributions in 44 public consultations.

4.1.2 Technical regulations and standards

4.3. The Brazilian institutional framework for technical regulations has remained broadly unchanged during the period under review. The National Institute of Metrology, Quality and Technology (INMETRO) was given new attributions by Law 12.545/11, which include taking part in SISCOMEX's consenting body for non-automatic licensing of goods, regulating measures to prevent deceptive trade practices and working together with the Federal Police to improve the conformity assessment of goods, before they enter the country.

4.4. In accordance with the Agreement on Technical Barriers to Trade (TBT), Brazil has notified to the WTO, from 1 July 2013 to 30 March 2017, 403 Technical Regulations and Procedures for Conformity Assessment, including new regulations, addenda, revisions, corrigenda and supplements. As a general rule, international standards are the basis for the elaboration of technical regulations. INMETRO is the national enquiry point for technical regulations and conformity assessment procedures in Brazil. INMETRO also promotes bilateral, regional and multilateral cooperation with other WTO TBT enquiry points, aiming at improving transparency and fostering the exchange of information.

4.5. From 2013 to 2016, Brazil has continued intensifying its participation in international organizations dedicated to the creation and implementation of standards, such as the Codex Alimentarius; ISO; IEC; ITU; and the United Nations Committees on the Transportation of Dangerous Goods (SCETDG) and on the Classification and Labeling of Chemical Products (SCEGHS), among others, in order to keep its regulations aligned with international standards in the related sectors. Brazil has also intensified its participation in international harmonization and regulatory convergence initiatives in the area of medicines, medical devices and cosmetics.

4.6. Brazil has also signed mutual recognition agreements with multilateral bodies such as the "*Bureau International des Poids et Mesures*" (BIPM), the International Laboratory Accreditation Cooperation (ILAC), the Inter American Accreditation Cooperation (IAAC), the International Accreditation Forum (IAF), the American Aerospace Quality Group (AAQG), the Program for the Endorsement of Forest Certification Schemes (PEFC) and the Global Partnership for Good Agricultural Practice (Globalgap), and became a full party to the OECD decisions on the mutual acceptance of data (MAD) – Good Laboratory Practice (GLP) on pesticides, their components and related products as well as on industrial chemical products.

4.7. Under the framework of MERCOSUR, Brazil has worked with other members to develop a system of harmonization of technical regulations. Technical regulations are notified to the WTO after each MERCOSUR member has carried out domestic consultations, and before they are adopted by the bloc in the form of Resolutions. Brazil also has bilateral cooperation initiatives on technical regulations with Argentina, the Plurinational State of Bolivia, China, Chile, Cuba, Costa Rica, the Dominican Republic, Ecuador, Germany, Guatemala, France, India, Italy, Japan, Lebanon, Mexico, Mozambique, Panama, Paraguay, Peru, Portugal, the Republic of Korea, Singapore, South Africa, the Russian Federation, Trinidad and Tobago, Turkey, Ukraine, the United Kingdom, the United States, Uruguay and the Bolivarian Republic of Venezuela.

4.1.3 Trade facilitation

4.8. During the period under review, Brazil took some important measures in order to implement the WTO Trade Facilitation Agreement (TFA) and to improve the efficiency and transparency of governmental agencies responsible for dealing with international trade.

4.9. The "*Programa Portal Único de Comércio Exterior*" (Foreign Trade Single Window Program) is at the centre of Brazilian trade facilitation policies. It is an ongoing initiative aimed at updating and streamlining all import, export and transit routines. Once fully operational, the Portal will support more efficient, harmonized and integrated procedures between public and private stakeholders in foreign trade. Following this reformulation, next steps involve the development and integration of information flows corresponding to each process, as well as the computerized systems assigned to manage them.

4.10. The *Portal Único* Program encompasses a series of solutions to be gradually implemented between 2014 and 2018. It is based on the single window provisions of the TFA. These provisions were internalized in the Brazilian legislation through the Presidential Decree No. 8.229 of 2014, which amended Decree No. 660 of 1992. According to this new regulation, the Integrated Foreign Trade System (SISCOMEX) should incorporate a new single window solution.

4.11. In this context, the *Portal Único* system will be able to (i) receive, through the Internet, all data and documents required by governmental agencies; (ii) distribute this information to all requiring competent agencies, preserving confidentiality; (iii) allow all requirements and notifications regarding trade-related formalities to be presented to traders; (iv) avoid repetitive submission of data to governmental agencies; and (v) allow the submission of digital copies of trade documents instead of paper-based originals.

4.12. The first solution already made available to traders is the *Portal Único* website (www.siscomex.gov.br), which provides easier access to information regarding trade-related legislation, requirements, documents, forms and systems. It also houses the national foreign trade enquiry point, available in Portuguese, Spanish and English (http://comexresponde.comexbrasil.gov.br/). The website also makes it possible for operators to consult on a single screen and in real time all export and import ongoing procedures regarding a particular trader. In the past, operators needed to consult at least four different systems for such an enquiry.

4.13. The *Portal Único* system aims at reducing bureaucracy. It will allow companies to present information only once, reducing time and expenses to both exporters and importers. The website will also enable companies to monitor the progress of their operations in detail, increasing the transparency of the process.

4.14. The tool for the submission of digital documents was implemented in 2015, under the *Portal Único* system. Through this instrument, importers and exporters can submit documents electronically. It is being used in almost all licensing and customs release procedures, reducing time and costs, particularly to traders located away from the country's borders. However, there are limits to the use of this solution, because some international agreements require paper documents to be retained by agencies.

4.15. A new general procedure for exports was developed in 2014 in cooperation with the private sector. In December 2016, the new electronic procedures for export declaration and export cargo registration were made available for tests by the private sector. In March 2017, the new export process was implemented for the air transportation modal, and it is expected that the full implementation of the new procedures will occur by the end of 2017.

4.16. Regarding transparency, a national foreign trade enquiry point was established by CAMEX Resolution No. 78 of 2 October 2013: the "*Comex Responde*" tool (http://comexresponde.comexbrasil.gov.br/). It centralizes the information requirements regarding: import and export regulations, documents and formalities; international trade agreements; trade logistics; tariffs, fees, charges and other taxes related to imports and exports; and goods classification. Users are able to request information electronically, in Portuguese, English or Spanish.

4.17. Another important provision of the TFA implemented by Brazil in 2016 was the National Committee on Trade Facilitation (CONFAC). The CONFAC was created by Presidential Decree No. 8.807 of 2016. The Committee is responsible for guiding, coordinating, harmonizing and supervising the activities of federal agencies related to foreign trade operations, bearing in mind, among others, the implementation of Brazil's commitments under the TFA. CAMEX Resolution No. 122 of 2016 approved the CONFAC's terms of reference. The importance of the private sector participation has been highlighted by the creation of a Cooperation Subcommittee in which public and private stakeholders can work together to improve trade facilitation in Brazil. This subcommittee provides for the participation of representatives from importers and exporters; the industrial and agricultural sectors; trade-related services providers (logistic operators, brokers, insurers, etc.); and medium and small businesses.

4.18. Brazil ratified the TFA in February 2016, contributing to the entry into force of the Agreement earlier this year. The country structured and launched an inclusive and effective national trade facilitation committee and completed its notification duties, including an update on its category A commitments (immediate implementation) and the publication of its category B commitments (deferred implementation). Brazil is currently committed to implement all but three provisions of the agreement. Moreover, at both the WTO and the WCO, Brazil has offered to share its experience with other developing countries in the implementation of the TFA agreement and, particularly, in structuring its national trade facilitation committee.

4.1.4 Sanitary and phytosanitary issues

4.19. Brazil is committed to animal and plant health and food safety in accordance with the WTO SPS agreement. All measures aiming at protecting human or animal health from food-borne risks, human health from animal or plant carried diseases and animals and plants from pests or diseases are regularly notified to the Committee on Sanitary and Phytosanitary Measures – SPS Committee/WTO and made available on the internet. The relevant sanitary or phytosanitary events are also immediately reported to the competent international organizations and authorities of trade partners. Brazilian Enquiry Points work in a coordinated manner. Sanitary and phytosanitary measures are normally based on standards, guidelines or recommendations produced by Codex Alimentarius, OIE, and IPPC.

4.20. Since the creation of the WTO, Brazil has signed more than thirty bilateral agreements on sanitary and phytosanitary matters, based on SPS Agreement principles. The main purpose of these agreements is to identify common rules, simplify import controls, harmonize certification requirements, and facilitate bilateral trade and the entry of selected products. The importance of such agreements for Brazilian exporters and their trade partners can be measured by the increase in the bilateral volume of trade exports with more than one hundred countries and the integration of medium and small-sized agricultural producers into the international market in sectors as honeybee, organic products, fresh fruits and flowers. However, the full potential of Brazil's agribusiness has yet to be fully developed, mainly due to the lack of recognition of equivalence agreements by some countries, as recommended by the SPS Agreement.

4.1.5 Competition policy

4.21. Since May 2012, with the entry into force of the Brazilian competition law – Law No. 12,529/11 –, the Brazilian Competition Policy System – SBDC – went through significant changes. These changes resulted in a unified approach to competition policy, bringing together the investigatory and decision-making powers of competition enforcement and leading to increasing efficiencies. They also allowed the Brazilian antitrust authority, the Administrative Council for Economic Defense – CADE, to focus more on relevant precedent, predictability and legal certainty, and granted it the tools and framework to reflect carefully on competition cases and provide coherent consistent and robust legal precedent in Brazil.

4.22. Between 2013 and 2016, the pre-merger review system was consolidated, engendering remarkable improvements in CADE's assessment of mergers. Since then, fast-track cases, which correspond to approximately 80% of all merger cases reviewed by CADE, are decided in up to 30 days, whereas ordinary cases are reviewed in an average of 60 days, and mergers, which are challenged or considered as complex, are analysed in an average of 200 days. Furthermore, the decision-making process regarding mergers created important institutional efficiencies. As the majority of merger cases are concentrated in the General Superintendence, CADE's Administrative Tribunal is able to focus on the challenged and complex merger cases, in cartels and other anticompetitive conducts cases and in its decision-making and normative competences. In other words, this institutional configuration allows the Tribunal to focus its resources on those cases that would affect most significantly the Brazilian market and the Brazilian consumers.

4.23. The efficiencies resulted from the changes in the merger evaluation regime and CADE's organizational set-up have benefitted developments and achievements in the investigation and assessment of anti-competitive conducts. The internal organization of the General

Superintendence and, in particular, the implementation of a Screening Unit responsible for receiving and assessing complaints and leniency applications have contributed to the detection and effective evaluation of anticompetitive cases, identifying and prioritizing the most harmful ones. Regarding cartel detection, the General Superintendence activities have been made even more efficient with the implementation of an Intelligence Unit, in 2013, in charge of ex officio cartel detection, particularly on public procurement. It acts through partnerships with public institutions that can provide data on public procurements in Brazil and through the development of procedures, based on international best practices, oriented to apply screens and data-mining in order to identify conducts potentially harmful to the economic order.

4.24. CADE has also sought to strengthen the robustness of the Brazilian competition policy and maintain its efficiency through its normative guidance and by ensuring the predictability of the system. In 2016, CADE published Resolution No. 17/20, regulating cases concerning the notification of associative contracts. In the same year, CADE published the Resolution No. 16/2016, establishing a deadline of 30 days to complete the analysis of fast-track mergers. In 2015, CADE published Resolution No. 11, which implemented the Electronic Information System as the authority's official system for information management. This initiative aims at reducing the duration of competition cases, contributing to public transparency and decreasing public expenses. Moreover, all citizens have online access to the public versions of CADE's files and documents. This feature is particularly appreciated by companies that have to notify or negotiate cases with the authority.

4.25. In order to promote transparency and legal certainty and to provide guidance for stakeholders, companies and the competition community, CADE has also published, in the past few years, guidelines on its Leniency Program, its cease and desist agreement policy, competition compliance programs and the assessment of previously consummated merger transactions.

4.26. The permanent improvement of settlements programs has been one of CADE's priorities in the last years. CADE's Leniency Program and the cease and desist agreement policy has been an important mechanism for a quicker and more efficient detection of anticompetitive conducts and enforcement of anticompetitive practices. The continuous collaboration with other enforcers, as with Prosecution Services, has resulted in the increasing number of leniency agreements and consent settlements signed over the past years. CADE has also been collaborating with the Office of the Comptroller General and other institutions from the public administration, engendering efforts to integrate and improve its investigations, especially those which comprehend both anticompetitive and antitrust matters.

4.27. International cooperation is also an important feature of competition law and policy in Brazil. CADE has cooperated with several foreign jurisdictions in the resolution of anticompetitive cases, assessment of mergers and a close dialogue in order to make their work converge for the purpose of more effective competition enforcement. In addition, the Brazilian competition authority is part of relevant international competition fora, such as the ICN, OECD and UNCTAD, with an actively and fruitful participation, which contributes for the development of the best practices within the international competition community.

4.28. Regarding the financial system, according to Law 4.595/64, art. 18, §2º, the competence to control the competition aspects, including mergers and unilateral and coordinated anticompetitive conducts, is attributed to the Central Bank, which considers in this process, besides the effects in market concentration and competition, stability and efficiency aspects intrinsically related to the financial sector.

4.1.6 Trade remedies

4.29. During the period under review, Brazil made use of trade remedy mechanisms, such as anti-dumping and countervailing measures, in conformity with the relevant WTO rules. Although the number of measures in force has increased since 2012, the number of measures applied each year constantly and significantly decreased during the period under review.

4.30. Also during the aforementioned period, Brazil continued to modernize its legal framework, in order to clarify existing rules, as well as to give more transparency and predictability to the conduct of AD investigations. Such modernization process encompassed the release of a new decree that regulates administrative procedures related to AD investigations (Decree No. 8.058, of 2013), as well as the enactment of ordinances that regulate some of the procedures provided for in such decree (e.g. proposals for price undertakings and scope assessments) and that determine the information that must be submitted by the petitioner in each case (e.g. original investigations, sunset reviews and scope assessments). The renewal of the Brazilian legislation related to trade remedies also comprised the drafting of a new decree that will regulate administrative procedures related to CVD investigations and a legal act that will regulate the participation of fragmented industries in trade remedy investigations.

4.31. The main changes introduced by Decree No. 8.058, of 2013, are related to the establishment of more detailed procedures and shortened deadlines for investigations, the introduction of new disciplines such as assessment of scope and re-determination, the refinement of rules regarding the revision of existing measures and issues relating to the effectiveness of antidumping duties. The renewal of the decree related to CVD investigations will also serve the same purpose.

4.32. In 2013, the Brazilian investigating authority hired 47 additional trade defence investigators, bringing to 65 the total number of staff. The objective of these changes in regulations and personnel was (i) to reduce the length of AD investigations from 15 to 10 months and (ii) to allow for preliminary determinations within 120 days from the date of commencement of an investigation. Despite the fact that the number of Brazilian investigators has decreased since then, Brazil was still able to achieve the aforementioned goals, without prejudice ro the technical rigor of the investigating authority's work.

4.33. It must also be noted that several efforts were made in order to facilitate the participation of interested parties in trade remedy investigations conducted by Brazil. For instance, Law No. 12.995, of 2014, made possible the submission of documents in any official language of the WTO. No sworn translation to Portuguese is required in such cases. In 2016, Brazil ratified the Convention Abolishing the Requirement of Legalization for Foreign Public Documents, which also simplified the procedure for the submission of documents.

4.34. In order to make investigations more transparent and to facilitate the submission and the access to the case files of an investigation by all interested parties, Brazil implemented the DECOM Digital System (DDS), through SECEX Ordinance No. 58, of 2015. As a result, all procedures related to AD investigations with applications filed as of 31 July 2015, have been carried out electronically, through the DDS, allowing for authorized legal representatives to access virtually case files from wherever, and whenever needed, thus reducing the costs of participation in such procedures.

4.35. In 2012, CAMEX established a Technical Group for Public Interest Assessment (GTIP) pursuant to Resolution No. 13 of 29 February 2012. The GTIP is tasked with examining the suspension or modification of definitive AD and CV measures as well as waivers on the application of provisional AD and CV measures for reasons of public interest. Resolution No. 13 was modified by Resolution No. 27 of 29 April 2015 and by Resolution nº 30 of 31 March 2016. Resolution No. 27 sets out procedures for the operation of the GTIP. It provides that requests to suspend or modify measures are to be submitted to the Secretariat for Foreign Affairs of the Ministry of Finance, which serves as the GTIP secretariat according to Resolution No. 30, and must be substantiated by factual and legal evidence. In addition, any GTIP member or other federal Government body may request assessment by the GTIP of any definitive measure or on-going investigation. The GTIP has six months, renewable just once for equal period of time, to submit its conclusion to CAMEX; however, in the case of an on-going investigation, it shall not submit its conclusions to CAMEX until a final recommendation on the application of provisional or definitive measures has been submitted to that body. The GTIP is to include in its acts the grounds and the reasons for its decision. Since the creation of GTIP, 15 cases were initiated, and the outcomes are as showed below:

	Measures suspended for reasons of public interest	**Measures applied in an amount departing from DECOM recommendations for reasons of public interest**
2013	6	0
2014	1	1
2015	3	3
2016	0	1

4.1.7 Intellectual property

4.36. The Brazilian Government continues to invest in the improvement of services delivered by its patent and trademark office, the National Institute of Industrial Property (INPI), underscoring the relevance it attributes to the protection and enforcement of intellectual property rights, given that Brazil as a country where further social and economic development is pursued, respecting, at the same time, the balance between rights and duties among producers and users of technology.

4.37. The most important effort carried out in recent years is the constant improvement of the quality of INPI's services. Following reasonable timeframes is a high priority, and the goal is to enable INPI to reach the performance standards of the best ranked IP offices of the world. Nonetheless, patent offices, both in developed and in developing countries, continue facing the challenge of coping with a continuous rise in IP applications. To deal with such challenge, the Brazilian Government hired 210 new patent and trademark examiners between May 2016 and April 2017. In the trademark field, INPI has increased the number of examiners from 51 to 151, including newly hired examiners in January and April 2017, almost reaching a threefold growth in comparison with 2013 figures.

4.38. Additionally, the INPI has developed a number of systems in order to streamline its internal processes, eliminate unnecessary bureaucracy and increase the productivity of examiners. For instance, it was possible to implement the Industrial Property Automation System (IPAS), administered by the World Intellectual Property Organization (WIPO), which since 2013 has brought more consistency to management and has proved to be an important tool for examination purposes. For the past years, a consistent downsize in the backlog of trademarks has been observed, in spite of the growing demand for trademark applications. A related point to be considered is the constant revision of the normative framework, with procedures and administrative processes under review in both patent and trademark fields. These measures will certainly contribute to increase the scale of exams and to reduce the backlog of trademarks and patent applications.

4.39. INPI has also promoted several actions to mitigate the impact of its growing patent backlog, such as, for example, the creation of a simplified electronic filing, covering 93% of the documentation delivered in digital form, and the implementation of pilot programs of priority examination. A pilot project between INPI and the United States Patent and Trademark Office (USPTO) for a Patent Prosecution Highway (PPH) between both offices is in full operation since January 2016.

4.40. New PPH pilot programs are being negotiated. Together with PPH pilot programs, actions on patent priority exams were in place in 2016. The first one consists of transforming the Green Patents pilot program into a definitive service offered by INPI, making it possible to prioritize patent requirements regarding the environment and green technologies. The second action is a pilot project that allows small businesses, the financial resources of which are generally reduced, to have their patent requirements prioritized.

4.41. In conformity with other IP Offices around the world, the INPI has also implemented a Home Office pilot program which makes it possible to carry out patent examinations in different regional offices other than the Headquarters in Rio de Janeiro.

4.42. Several actions aimed at streamlining the submission and examination of applications in the patent field are also worth mentioning. Since 2014, INPI publishes letter patents with the Cooperative Patent Classification (CPC) symbol for several technological fields, following the patterns of this project administered by the EPO and the USPTO. Another example is the work done through PROSUR, a cooperation project on industrial property among the Offices of nine South American countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Paraguay, Peru and Uruguay). It is now advancing into the operationalization of a PPH PROSUR which will be an important tool to allow Offices to reduce their backlogs and strengthen the quality of their examination.

4.43. As for other intellectual property assets, INPI has carried out relevant initiatives towards improving its services, such as the implementation of a registry of software by electronic means in an automatic and real-time manner, which is currently in progress; the development of electronic means for recording the topography of integrated circuits; the development of a system for the automatic generation of leaflet of published and letter-patent applications in an automatic manner. In the industrial design field, a workforce has been put together to streamline the examination of pending applications.

4.2 Sectoral Issues

4.2.1 Industry

4.44. The global economic crisis that started in 2008 affected significantly the performance of the industrial sector in Brazil. From 2004 to 2008, the industrial sector showed positive growth rates. After an abrupt slowdown in 2009 (-4.7%), the industrial sector recovered in 2010 (10.2%), led by capital goods (21.3% in 2010, physical production) and intermediary goods (10.4% in 2010, physical production). In 2011, Industry and GDP showed similar growth rates: 4.1% and 4.0% respectively. However, since 2012, the sector has been retreating lagging behind GDP rates. In 2013, growth rates remained positive (2.2%). In 2014 and mainly in 2015 the industrial sector was strongly affected by severe contraction in economic activity, dropping 1.5% and 6.3%, respectively, with manufacturing industry rates leading the negative results in both years: 2014 (-4.7%) and 2015 (-10.4%). In 2016, the sector showed signs of recovery as the pace of decline rates slowed in the four quarters results (-6.9 1Q to -3.8 4Q annualized). Indicators of industrial production show slight expansion in 2017, compared with the same period in the previous year, where the cumulative index of output industry increased 0.3% for the January-February 2017 period. Among the major economic categories, the profile of the results of the first two months of 2017 was more dynamic for durable consumer goods (11.6%) and capital goods (3.7%).

4.45. Taking into consideration the challenging moment and the need for restructuring the industrial sector, the Brazilian Government created a program of prompt and low-cost interventions to boost the productivity of industries: the More Productive Brazil Program ("Programa Brasil Mais Produtivo"). It was launched in 2016, aiming at meeting the needs of 3,000 companies in all the Brazilian states by 2017. The program's objective is to increase productivity by at least 20% in the production line by complying with principles of lean manufacturing.

4.46. This Program has national coverage and provides the possibility of integrating the expertise of different institutions in a common strategy of increasing productivity, aiming to improve the production process in sectors with good perspective. In this respect, the initiative will foster the development of companies, the industrial sector and the region. With the productivity gain, an 'overflow' effect is expected with positive impacts on the productivity and competitiveness of the cluster where companies served by the Program are located. This strengthening of local and regional economies is connected to a regional development policy. Competitiveness gains and direct impact on the sectors and clusters might stimulate a better environment for new productivity-enhancing programs that enable the competitive integration of Brazilian products into the Global Value Chains.

4.47. It is also important to underline the possibility of evaluating and monitoring online the performance indicators and targets of the program. The results obtained with the first 153 companies, until November 2016, show a 56.5% increase in the productivity. These positive results have consolidated the program and granted its expansion.

4.2.2 Agriculture

4.48. Brazil's long-standing agribusiness competitiveness and the trend of its production and exports have been supported by sustained investments in agricultural research, consolidating the country's leadership as a major agricultural producer and exporter. In 2016, agribusiness was responsible for US$84.9 billion in exports that represented 45.9% of Brazil's total exports. Brazilian participation in world trade in the sector is of 6.9%. Brazil is the world´s main exporter of soybeans, frozen poultry, sugar and coffee, the second main exporter of corn and the third in terms of frozen bovine meat.

4.49. Brazilian grain production in 2016-17 will probably reach the record amount of more than 211 million tons, 27% higher than in 2011-12, in spite of adverse weather conditions in some important agricultural states.

4.50. Brazilian agricultural policy follows a market-oriented approach, privileging rural credit and risk management based on private rural insurance. Market price support is limited to the payment of premiums determined in a limited number of public auctions.

4.51. According to the OECD Producer Support Estimates (PSE), Brazil is one of the countries that provide the least subsidies to agricultural producers, well below the OECD average.

4.52. The main sources of agricultural financing have continued to be resources from demand deposits and rural savings compulsorily destined for rural credit, resources from Agribusiness Credit Bills (LCA) directed to rural credit and credit lines managed by the National Economic and Social Development Bank (BNDES), as well as the "Constitutional Funds" aimed at reducing regional inequalities and promoting social and economic development through the financing of agriculture, agro-industry and other sectors, in addition to infrastructure, innovation and technology. These funds are targeted to the North, Northeast and Centre-West regions (FNO, FNE and FCO).

4.53. The share of mandatory resources devoted to rural credit increased from 28% to 34% of demand deposits since June 2012, and from 72% to 74% of rural savings since June 2015. In addition, since June 2015, a fraction of the balance of Agribusiness Credit Bills (LCA), which are fixed income securities backed credit transactions linked to agribusiness, are directed to rural credit. As of June 2016, 35% of the balance of the funds raised by this financial instrument must be allocated to rural credit at no cost for the National Treasury.

4.54. The Government adopts national policies designed to facilitate the access of family farmers' products to the domestic market. Through the Food Purchase Program (PAA), the Government buys food produced by family farmers and distributes it to individuals and families in situation of food and nutrition insecurity. The PAA also contributes to the creation of stocks of food produced by family farmers that will eventually be used in the National School Meal Program, and reinforces local and regional commercial networks. In 2016, US$ 169.2 million were invested in public purchases from family farmers through PAA.

4.2.3 Services

4.55. In 2016, Brazil's exports of goods and services reached a total of US$217.8 billion. Exports of goods decreased 2.7% in comparison with 2015, in parallel with exports of services, which decreased 1.4%, totalling US$33.3 billion in 2016. In 2016, imports of goods and services decreased sharply by 16.4% in comparison with 2015, reaching US$203.2 billion. Imports of goods fell by 19.1%, whilst imports of services declined 9.8%, totalling US$63.7 billion in 2016.

4.56. From 2010 to 2016, exports of services increased 8.6%, expanding the share of services in Brazilian exports from 13.2% to 15.3%. Imports of services expanded 4.8%, increasing participation in the composition of Brazilian imports, from 25.0% to 31.4%. The deficit in the Services Account has declined in 2016 (reaching US$30.4 billion), contrary to the trend observed in recent years (specifically in 2014, the deficit had reached US$48.1 billion). The deficit reduction resulted from economic contraction in 2015-16 that weighed heavily on imports of services. In 2016, the deficit decreased by 17.5%, compared to the previous year.

4.57. Over the past years, Brazil increased its participation in world trade in services, but with a performance inferior to the average of other countries, ranking 32nd among world exporters in 2015. In the same year, Brazil ranked 19th among services importing countries.

4.58. The participation of Brazil's services sector in the Brazilian Gross Domestic Product (GDP) has increased in the past years from 67.8% (2010) to 73.3% (2016), while the share of the industrial sector declined from 27.4% (2010) to 21,2% (2016). In 2016, the services sector had a share of 69.4% of all formal jobs in the country, according to data from the Ministry of Labour (CAGED/MTE).

4.59. After the implementation of the Brazilian Integrated System of Foreign Trade in Services and Intangibles (Siscoserv) in 2012, Brazil has been able to release annually the statistics of foreign trade in services and intangibles between residents and non-residents. This data has been consolidated and released in Portuguese and in English, in an effort to give transparency and to expand dissemination of important information that can be used by companies, other government bodies, and public in general interested in foreign trade.

4.60. Siscoserv is jointly managed by the Federal Revenue Secretariat of the Ministry of Finance (RFB/MF) and the Secretariat of Commerce and Services of the Ministry of Industry, Foreign Trade and Service (SCS/MDIC). The system contributes to the stimulation, conception, supervision and measurement of public policies for services and intangibles. The information obtained by Siscoserv can also be used to guide foreign trade business strategies. All services and intangibles are classified using the Brazilian Classification of Services and Intangibles (NBS), and the Explanatory Notes of the Brazilian Nomenclature of Services and Intangibles (NEBS).

4.61. In 2015, the top markets for Brazilian services and intangibles were the United States (US$6.16 billion), the Netherlands (US$1.78 billion), Germany (US$1.09 billion), the Unite Kingdom (US$899 million) and Switzerland (US$876 million). Brazil's five major export markets represented 57% of all the transactions registered at Siscoserv that year. Regarding imports, the main supplier markets were the United States (US$13.05 billion), the Netherlands (US$11.9 billion), the United Kingdom (US$2.63 billion), Germany (US$2.6 billion) and Norway (US$1.73 billion). This group of countries represented 70% of Brazilian imports, with the first two countries accounting for 54.7% of the total.

4.62. In 2015, the five top export services were: "management and management consulting services" (US$2.18 billion); "other professional, technical and management services" (US$1.88 billion); "services auxiliary to financial services" (US$1.5 billion); "water transport services of freight" (US$1.45 billion) and "maintenance and repair services of fabricated metal products, machinery and equipment" (US$1.19 billion). These represented 43.3% of all export transactions.

4.63. In 2015, the five main imported services were "operational leasing" (US$19.62 billion); "water transport services of freight" (US$5.20 billion); "licensing on copyright and related rights" (US$3.41 billion); "other professional, technical and management services" (US$1.57 billion) and "financial services except investment banking, insurance services and supplementary pension plans" (US$1.14 billion). These represent 67.94% of total Brazilian imports of services and intangibles.

4.64. Brazilian foreign trade in services shows a high regional concentration. The South and Southeast regions of Brazil, when put together, account for 96.9% of all export transactions (the states that compose these regions are among the 7 leading exporters of Brazilian services and intangibles) and 96% of all imports registered at Siscoserv in the year 2015.

4.65. Based on data from Siscoserv, the Brazilian Government has published "Bilateral Profiles" on the 10 main export and import products of important trading partners in services, with analyses of bilateral trade between Brazil and those partners in services. The Brazilian Government also has published on a yearly-basis the "Overview of International Trade – Services". The publication aims to expand the dissemination of information on foreign trade in services, allowing transparency and greater visibility to this economic sector.

4.2.4 Renewable energy

4.66. Brazil has one of the world's cleanest energy mixes. 43.8% (2016) of primary energy sources are renewable, compared to a world average of 14.3% and 9.5% in OECD (2015) countries. Renewable sources will continue to account for a large share of supply, mostly due to the use of hydropower and bioenergy, including biofuels. Only 30% of Brazil's hydroelectric potential has been exploited. The potential for increased production of this renewable and affordable energy source is an integral part of the country's long-term strategy for the sector. Widespread access to affordable energy is crucial to achieve the goals of sustainable development, to promote social inclusion and poverty reduction; to advance national integration and the reduction of greenhouse gas emissions; and to improve competitiveness. Brazil is, therefore, investing significant amounts in research and in new technologies to improve the generation and distribution of energy.

4.67. Brazil also considers bioenergy, including biofuels, an indispensable tool for the expansion and diversification of the energy matrix. Nowadays, biomass electricity – generated mostly from sugarcane processing plants – accounts for about 8.8% of Brazil's total electricity energy supply. By 2024, biomass, wind and solar generation are expected to supply 20.7% of the country's electricity energy needs. In the transportation sector, the use of ethanol and biodiesel plays a key role in the pursuit of sustainable development, climate change mitigation and energy security. The Brazilian case shows that the long term and large scale sustainable production and use of biofuels are possible, and Brazil continues to work towards the creation of an international market for biofuels.

4.2.5 Land transport

4.68. In recent years, railway concessionaires have shown greater interest in investing to increase available transport capacity. Investment proposals are being analysed by the competent areas of the Government in the context of previous extensions of the railway concession contracts.

New Concessions

4.69. In 2016, the Investment Partnerships Program (PPI) was created (Law No. 13,334, dated September 13, 2016), under the coordination of the Secretariat of the Program of Investment Partnerships (SPPI). Its main objective is to generate jobs and growth, through new investments in infrastructure and privatization projects. PPI projects are considered a national priority.

4.70. With the publication of Decree No. 8,916 of November 25, 2016, federal public enterprises were qualified under the PPI, including three new railroad concessions:

i. Ferrovia Norte Sul - FNS (EF-151): sub-concession of 1537 km stretch between Porto Nacional / TO and Estrela D'Oeste / SP;

ii. Ferrogrão (EF-170): concession of 965 km stretch between Sinop / MT and Miritituba (in the municipality of Itaituba / PA); and

iii. West - East Integration Railway - FIOL (EF 334): sub-concession of 537 km stretch between Ilhéus / BA and Caetité / BA.

4.71. Brazil expects the auction of all three projects to take place during the second half of 2017.

4.72. New Concessions under the Investment Partnerships Program (PPI):

i. EF-151 – FNS: designed to promote national integration, the 1,537km stretch will expand the railway connection from the central region of Brazil to the São Paulo grid of ALL (Port of Santos) and the Ports of the North / Northeast regions (Itaqui and, in the future, to the Port of Vila do Conde). The 855 km stretch between Porto Nacional / TO and Anápolis / GO is already completed, while the 682 km stretch between Ouro Verde de Goiás / GO and Estrela D'Oeste / SP is under construction and works are expected to be over by the beginning of 2018. The possibility of future construction, by the winning bidder, of connections with new optional greenfield segments will also be considered.

ii. EF-170 – Ferrogrão: the 965 km stretch between Sinop / MT and Miritituba / PA already studied by PMI (study approved in 2016), will improve the flow of agricultural production in the Midwest, reaching the Tapajós waterway and contributing to a better balance in the transport matrix. This is a greenfield project.

iii. EF-334 – FIOL: studies on the sub-concession are underway by the Government of Bahia. The 537 km between Ilhéus / BA and Caetité / BA are under construction, and 71% has been concluded (June 2016). Among the expected loads, iron ore transportation from Caetité region to the future South Port in Ilhéus stands out. The operation of the railroad depends on the completion of this port, by the Government of Bahia. In the future, it is planned to interconnect EF-334 with EF-151 in Figueirópolis / TO, which will increase the options of transport with port access.

Other Initiatives

Bi-oceanic

4.73. This is a railway connection project between Brazil and a port in Peru, which has been subject to a pre-feasibility analysis under a Memorandum of Understanding signed in May 2015 between Brazil, China and Peru. The route of the Bi-oceanic railway in the Brazilian territory is about 3,300 km long, from Campinorte/GO to the border with Peru, in the state of Acre. The route corresponds to part of the railroad EF-354. The study of the Bi-oceanic railroad faced until the end of 2016 technical questions still unresolved, so that the project was not considered in the PPI.

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4.74. Project under development by the states of Rio de Janeiro and Espírito Santo, to implement a new rail link with 578 km between Nova Iguaçu / RJ and Cariacica / ES. The project will strengthen rail interconnection between several ports on the northern coast of the state of Rio de Janeiro and on the southern coast of the state of Espírito Santo, with two major port anchor projects: the Açu terminal (São João da Barra / RJ) And the Central Port terminal (Presidente Kennedy/ES). By the end of 2016, the project still required further development of concession modeling and was not yet covered by the PPI.

4.2.6 Air transport

4.75. Brazil is the world's third largest domestic aviation market. Air transport regulation in Brazil follows a free competition regime based on unrestricted pricing and routes determination, according to commercial considerations in the market place.

4.76. Both domestic and international air transport markets registered a decline in the number of operated flights reflecting the slowdown of the country's economy since 2013. Concerning the domestic and international passenger markets, the Load Factor stood at 79.9% in 2015, 0.9% less than in 2014, registering a first reduction after 5 consecutive years of growth. Between 2013 and 2014, the international price of a barrel of oil reached US$100. In 2015, the oil price dropped significantly reaching US$50.76 a barrel. The oil price drop should have had a significant impact on the aviation costs in Brazil, considering that more than 30% of the sector's costs come from fuel. The expected cost reduction did not take place completely due to the strong rise of the exchange rate between the Real and the Dollar, which went from R$2.66, in 2013, to R$3.90, in 2015. The average price paid for domestic flights did not fluctuate much though. It was estimated at R$334.5 in 2015, corresponding to a direct average distance of 1,105 km between the origin and the destination of the passenger, regardless of stopovers or connections. This fare represented a reduction of 9% compared to 2014 and an average direct distance of 1,072 km.

4.77. Between January and November, 2016, 21.32% of Brazil's imports (by value) and 5.94% of its exports were transported via air cargo, compared to 17% and 4.3% in 2011, respectively. Brazilian companies accounted for 24% of total international air cargo transported in the country in 2015, compared to 22% in 2014. Domestic market remains concentrated, but no merger or take-over occurred between 2013 and 2016. There is no Brazilian air carrier with state participation. Thirteen Brazilian companies provided regular and non-scheduled public air transport services, except air taxi, of which three were mainly ensuring cargo operations in 2015. In the same year, foreign companies totaled 79 of which 23 operated only in the cargo transportation market. Among Brazilian companies, only four airlines (Gol, Tam, Azul and Avianca) had more than 1% of the domestic market share each (in terms of revenue passenger kilometres (RPK)) and together they represented 98.4% of the passengers transported on domestic flights in the country. Among the main cargo companies Absa carried 12.6% of the total cargo freight in the domestic market. Brazilian companies accounted for 32.8% of international flights to and from Brazil in 2015, compared to 28.4% in 2014. While the number of international flights by Brazilian companies grew by 49% from 2006 to 2015, those of foreign companies grew faster at 64%. Tam, Gol and Azul accounted for 94.8% of international flights operated by Brazilian companies.

Considering both domestic and foreign carriers, these three Brazilian companies had 18.3%, 11.5% and 1.3% share in flights in 2015 respectively, whereas foreign companies such as American Airlines, Copa Airlines, Tap, and Austral retained shares of 7.2%, 5.7%, 5.0% and 3% respectively.

4.78. The institutional framework governing the aviation sector was reviewed in 2016. The Civil Aviation Secretariat (SAC/PR), responsible for, inter alia, formulating policies and strategic plans for the development of the civil aviation sector, overseeing plans to open up airport investment to private companies, approving concessions to build new airports and terminals, and delegating to the States, Federal District, and municipalities the management, operation, and maintenance of public airfields was merged into the structure of the Ministry of Transportation, Ports and Civil Aviation. The National Agency for Civil Aviation (ANAC) is in charge of the regulation and supervision of civil aviation; its responsibilities include, *inter alia*, regulating safety and security matters related to civil aircraft, certifying aircraft and granting airline operation permits, conducting biddings for airport concessions, regulating the allocation of slots in congested airports, and licensing civil aviation personnel. The Department of Air Space Control (DECEA), under the Aeronautics Command (COMAER) and the Ministry of Defence, provides most navigation and air traffic control services. The National Airport Authorities Commission (CONAERO), remains responsible for coordinating and organizing the activities of all government bodies and agencies that operate in airports (e.g. Customs, migration, health, etc.), and is headed by the SAC/MT.

Regulatory and operational framework

4.79. The main legal instrument remains the Brazilian Aeronautical Code (CBA) of 1986, last amended in 2016 by Law 13,319. In addition to minor changes to the CBA, Law 13,319 extinguished the ATAERO surcharge applied on airport fees. Concessions for the provision of Brazilian-based regular air transport services are granted only to Brazilian legal persons with headquarters in Brazil, managed exclusively by Brazilians, and in which four fifths of shareholder voting rights are held by Brazilian nationals. The increase of the ceiling for foreign investments in Brazilian air carriers remains under discussion within the Brazilian Government. Domestic public air transport services (cabotage) is limited to Brazilian legal persons. The lease of foreign aircraft requires prior authorization. Domestic air fares are determined freely by airline companies, with no prior approval being necessary. Companies must inform their sold fares on a monthly basis to ANAC for statistical purposes.

4.80. Civil aviation policy pursues greater integration of Brazilian aviation into international markets, through the conclusion of air services agreements (ASAs). Since 2013, Brazil has celebrated ASAs with the 36 partners. Brazil maintains 102 bilateral understandings, with open skies agreements representing more than half of those. Renegotiations of existing ASAs or negotiations for new ASAs are under way with several countries. Most ASAs grant at least 5th freedom traffic rights, and in most cases include clauses on cooperation and code-sharing, multiple designation, and free pricing; most of the renegotiated agreements also contain free determination of capacity clauses.

4.81. The Brazilian Government is negotiating open skies agreements with the purpose of improving the country's international connectivity. Brazil is among the most progressive countries on the liberalization of the international air transport. In this context, the Brazilian Government is trying to replace "substantial ownership and effective control" by criteria for air carriers designation based on the principal place of business and regulatory control. Brazil supports free pricing, free capacity determination and traffic rights up to 6th freedom. Cabotage is prohibited by national law.

4.2.7 Ports and maritime transport

4.82. In 2015, the merchant fleet registered under the Brazilian flag (long-haul and cabotage) consisted of 184 vessels (156 in 2012), operated by 35 shipping companies and with a total capacity of 3.4 million deadweight tons (DWT) (2.5 dwt in 2012). Oil tankers represent 39.8% of total DWT capacity, followed by bulk carriers (19.5%) and container ships (17.6%). The predominance of oil tankers and bulk carriers reflects the overall structure of Brazilian exports of goods, comprising mainly oil, iron ore, soybeans, sugar and other commodities.

4.83. With a coastline of 8,500 km, transportation of goods and passengers by coastal shipping (cabotage) in Brazil has increased in recent years, and growth potential is still significant. Economic growth in the country's North and Northeast region, as well as the rising purchasing power of the emerging middle-class have created opportunities for the development of costal shipping in Brazil.

4.84. Brazil's port infrastructure handled 1 billion tons of goods in 2015 (904 million tons in 2012). This is equivalent to 77.6% of the total value (US$ f.o.b.) of the country's foreign trade in the same year (81.7% of exports and 73.2% of imports) and to 94.8% of total foreign trade by tonnage (95.9% of exports and 89.9% of imports). Between 2005 and 2015, the total movement of cargo in ports and terminals in Brazil grew, in average, 4.5% annually (from 649 million to 1 billion tonnes). During this period, the movement of containers grew, on average, 6.2% per year in tonnes.

4.85. Since the entry into force of the new Law of Ports (Federal Law 12.815/2013), investment in the sector has been limited to the new Grant contracts, as well as the new term extensions in ongoing contracts. Nonetheless, the amount established in these cases is just an estimation. Its attainment is part of either the Basic Plan of Investments or the Execution Projects presented by the tenants and it could be satisfied in different moments of the contracts' validity.

4.86. Two new Grant contracts were signed in the past three years representing a total investment of R$4.25 billion, and 11 contract term extensions were confirmed, which sums R$9.2 billion.

4.87. The total investment in private terminals between 2013 and 2016 was R$3.75 billion.

4.2.8 Telecommunications

4.88. The Brazilian telecommunications market, during the period 2012-15 had its growth particularly driven by the expansion of mobile data services broadband Internet access, pay-TV and broadcasting. Investment in the telecommunication sector increased from R$25.8 billion in 2012 to R$29.7 billion, in 2015.

4.89. In 2015, the sector began the migration of analogue to digital terrestrial TV signal from open television in Brazil, which is scheduled for completion in 2018. This switch off is releasing the 700 Mhz band so that the 4G mobile broadband offer can be expanded nationwide.

4.90. The mobile telephony market suffered a decrease during the years under review: the number of mobile telephone subscriptions reached 261.8 million in December 2012, 280.7 million in 2014, but finished 2015 with 257.8 million with a teledensity of about 125.7 mobile lines per 100 inhabitants against 132.8 in 2012. The reduction of mobile SIMCards in operation can be partially explained by the implementation of a phased mobile termination rates (the so-called VU-M) which has brought price reductions in both the wholesale and retail markets, but mainly rationalized retail offers from mobile operators. Some 71.5% (81% in 2012) of mobile lines are pre-paid versus 28.5% of postpaid. The increase of postpaid lines occurred probably due to service plans with Internet access as well as Plans with programmed recharge (Control Plans).

4.91. Internet usage continues to report impressive growth, spurred by increased broadband access across the country, following initiatives by the Government to expand access and make broadband connections more affordable under the National Broadband Plan. The deployment of 3G networks in Brazil with 150 million access in 2015 (50 million in 2012), followed by 4G with 25.4 million in 2015, significantly expanded mobile broadband access in recent years. Also the number of fixed broadband subscriptions reached 25.4 fixed access in 2015 against 19.8 in 2012.

4.92. In contrast, the number of fixed telephone lines decreased slowly during the period under review. In 2012, there were 44.3 million fixed accesses in service and 43.7 million in 2015.

4.93. In December 2012, there were 16.2 million pay TV subscriptions. This was another area which experienced growth, reaching 19.1 million in 2015.

4.94. Today, Brazil's telecommunication sector is fully open to competition though limited to a handful of large operators from abroad, including Telefónica (Spain), Telecom Italia (Italy) and Teléfonos de México (Telmex)/América Móvil (Mexico), as well as a domestic company, Oi, in which the State maintains a strategic stake through BNDES and the pension funds of state-owned enterprises. Concentration in the mobile and broadband services segments has risen. Following a May 2015 regulatory approval setting certain conditions, a US$10 billion takeover of Global Village Telecom (GVT), the Brazilian broadband business of Vivendi (France), gave Telefónica control of one of the country's fastest-growing operators, leading to the creation of the largest telecoms operator in Latin America. As of 2015 the fixed line market, consisting of 65 operators (32 in 2012), was dominated by Telefónica (34.26%), Oi (formerly Telemar) (34.21%) and Embratel (owned by Telmex, 26.61%); As of 2015 the mobile telephony market, consisting of 20 operators, including the MVNO operators, (18 in 2012), continued to be mainly operated by Vivo (28.42%), Tim (25.69%), Claro (25.59%) and Oi (18.65%). Between 2014 and 2015 the number of companies authorized to supply fixed broadband service grew by 19.5. As of 2015, the fixed broadband market consisted of 3223 operators (1725 in 2012) and was dominated by Claro (Embratel/Net) (31.84%), Oi (25.02%), and Telefonica (including GVT) (28.63%).

4.95. The National Broad Band Plan (PNBL) was instituted by Decree 7.175 of 13 May 2010, with a view to boosting access to broadband services across the country and bridging the digital divide, in collaboration with private operators. The plan consists of a series of actions in several dimensions, including spectrum auctions to increase mobile broadband coverage (4G and telecommunications services for voice and data in rural and remote regions), the implementation of a national transmission network (backhaul and backbone), Agreements for the expansion of commercial broadband offers at low prices and regulatory measures aimed at promoting greater competition and network expansion.

4.96. Regarding technological convergence measures, Law 12.485, of 12 September 2011, changed and unified the regulatory framework for pay TV services. It removed the limit on foreign investment in cable TV (which did not apply to pay TV services provided through MMDS or DTH technologies). Law 12.485 also eliminated previous limitations on fixed-line telephony concessionaires to provide cable-TV services and removed regional restrictions on telecom operators, allowing them to provide pay TV services anywhere in Brazil.

4.97. New infrastructure legislation, the "Antenna Law", was signed into law in April 20th 2015 (http://www.anatel.gov.br/legislacao/leis/807-lei-13116). The law seeks to reduce instances of duplication of mobile-network base station in urban areas by making a requirement for operators to share infrastructure and excess capacity.

4.98. In 2012, Anatel Resolution 600 approved the General Plan of competition Goals (PGMC), defining that Groups with Significant Market Power (SMP) in Relevant Wholesale Markets should contract a Supervisory Entity Of Wholesale Supplies (SNOA) to implement and operate the Wholesale Supply Negotiation System with the aim of mediating, in an equitable and non-discriminatory way, the process related to the procurement of wholesale goods supplied by Groups with SMP. In 2015, the regulation was amended to include new conditions for operators with significant market power. In 2016 a new proposal was submitted to public consultation for changes including ex-post regulation in which the relevant markets will continue to be pointed out, but the agency only intends to act in the cities where it identifies the real need to stimulate competition, not to act *ex ante*.

4.99. With regard to Internet-related measures, Brazil introduced Law 12.965, of 23 April 2014, on network management in the context of network neutrality, as well as on the protection and keeping of records (logs) and personal data of Internet users, which apply both to Internet connection (service) providers and to Internet application/content providers.

5 FUTURE DEVELOPMENTS

5.1. After an unprecedented economic recession in 2015-2016, a consistent recovery is now underway in Brazil. GDP will return to growth in 2017, albeit at a still modest rate. In 2018 growth is expected to pick up pace. A number of additional economic indicators give reasons for a positive assessment about the perspectives for a sustainable economic recovery. Inflation rates are converging to the center of the target range. The current account deficit has dropped dramatically in recent years, and is now slightly above 1% of the GDP. FDI flows continue to be robust and Brazil remains one of the main recipients in the world. High levels of foreign exchange reserves are a solid buffer against any possible global uncertainties. In this more favourable outlook, the Government of Brazil will continue to attach highest political priority to reforms and fiscal measures that promote a sustainable path for public accounts. The Government will undertake efforts to put in practice a real agenda for productivity; professionalization of state-owned enterprises; autonomy of regulatory agencies; improvement of labour rules; regulatory frameworks that observe economic rationality; improvement of infrastructure; and focus on legal security. High rates of unemployment, a result of the 2015-2016 economic recession, remain a core challenge.

5.2. The Brazilian economy still presents a high level of economic slack, highlighted by reduced indices of industrial capacity utilization and, mainly, by the trajectory of unemployment rate, indicating that its recovery will be slower and more gradual than previously anticipated. The credit market is on a downturn, especially in the corporate sector, with delinquency rates on relatively high levels reflecting the slower-than-expected recovery in economic activity. In the face of this scenario, with consistent signs of the disinflation process and anchored inflation expectations, the Central Bank started a monetary easing cycle in October, 2016.

5.3. The Government is committed to bring public deficit and debt to a more sustainable trend. A 20-year constitutional limit for the increase of total federal primary spending according to the previous year's inflation rate has been approved and a social security reform is being discussed at the National Congress. In its Fiscal Monitor of October 2016, the IMF projects an improvement in primary results, including a primary surplus from 2020 onwards, as a result of the measures that are being implemented and proposed.

5.4. The financial system is anticipated to remain solid, given the sound economic fundamentals and continued operations in strict accordance with the Basel principles of banking supervision. Given the importance of improvement of the institutional environment to ensure financial stability and the essential functions of the real economy, the *Banco Central do Brasil* (Central Bank of Brazil) is enhancing several of its mechanisms to mitigate the eventuality of a financial crisis, including its banking resolution framework in accordance to the best international practices – the new framework will include mechanisms preventing the usage of taxpayer resources before all private sources of available funds are exhausted. In addition, it has been improving the regulation of payment systems in order to align it to the Principles for Financial Market Infrastructures (PFMIs). Accordingly, in order not only to foster greater competitiveness in the payment services market in Brazil, but also to promote the efficiency of the financial system, it has encouraged the sharing of infrastructure among the financial institutions with a view to generating scale economies. The possible impacts of technological innovations for financial institutions are also being monitored by the Regulator. Furthermore, in order to enhance credit allocation, to reduce the level of credit default and, consequently, decrease the cost of credit, it is stimulating a structuring agenda to reduce bank spread. Additionally, measures to review the accounting rules for financial instruments to support its convergence to the best international standards have been taken. Moreover, measures to improve the institutional environment, through a proposal of integrated governance among the national financial system supervisors (*Banco Central do Brasil*, *Comissão de Valores Mobiliários*, *Superintendência de Seguros Privados* and *Previdência Complementar*) have been adopted. Finally, to expand the financial inclusion of the population, the Central Bank has induced good practices of financial institutions related to the promotion of offers of financial services to their clients.

5.5. With regard to the Brazilian Payments Systems, it is worth mentioning, among other developments, the impacts of Provisional Measure 764/2016 that allowed merchants to differentiate prices according to the type of payment instrument, and their related costs, as chosen by buyers. The Brazilian System Oversight Report 2015 signalled that the possibility of price differentiation, according to the cost of each payment instrument, should lead to a more cost-efficient utilization of the set of payment instruments.

5.6. Efforts to spread financial education to the population will be increased. The subject has been incorporated in the National Curriculum for High Schools, and National Strategy for Financial Education's programs from elementary to high schools will be taken to more and more schools. Additionally, recent pilot programs aimed at low-income adults (women and retirees) will be implemented in larger scale. The *Banco Central do Brasil* has just made financial citizenship one of the pillars of its agenda for the next few years.

5.7. With regard to social policies, the Government will continue to implement income guarantee policies, which seek to relieve poverty in the short term and contribute to the reduction of social inequality and inclusion of the poorest share of the population. Meanwhile, the Government will invest in public policies capable of breaking the intergenerational cycle of poverty and will promote the social inclusion of the most vulnerable sectors of the population, allowing for the emancipation of beneficiaries.

5.8. In this context, the National Strategy for Social and Productive Inclusion will be launched in 2017. The objective of the Strategy is to include families in poverty situation registered in the Unified Registry, especially the beneficiaries of the Bolsa Família Program (PBF), in initiatives that can extend and strengthen their insertion and permanence in the labour market. This National Strategy aims to develop capacities and stimulate the engagement of people in job and income-generating activities, while stimulating territorial development. The capacity building of beneficiaries and the promotion of access to microcredit are two important strategic tools.

5.9. The Government will also continue to invest in family farming through public purchase, with an expected investment of US$806.6 million until 2019. For this purpose, the Government is working on strengthening the institutional purchase modalities of PAA, which allows institutions from the public administration to purchase food from family farmers through the program.

5.10. Strengthening and supporting the multilateral trading system will remain a priority. Brazil will continue to play an active role in the WTO and will contribute to counter anti-trade movements and protectionist pressures. In light of the diversified nature of its trade and production structures, Brazil has a major stake in a multilateral trading system that is able to provide the basis for the expansion of international trade on a non-discriminatory basis. Achieving balanced, development-oriented results will be at the core of all efforts. The DDA and its mandates will continue to be the main reference for negotiations, however Brazil will be actively engaged in the discussion of all other topics on the table, including the so-called new issues, on their own merits.

5.11. Brazil will also continue to be committed to MERCOSUR, regional integration – as mandated by its Constitution – and to strengthening and fostering new bilateral and regional trade agreements, with a view to promoting cooperation, sustainable development and mutually beneficial results.

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