

BRAZIL - EXPORT FINANCING PROGRAMME FOR AIRCRAFT

Request for Consultations by Canada

The following communication, dated 18 June 1996, from the Permanent Mission of Canada to the Permanent Mission of Brazil is circulated in accordance with Article 4.4 of the DSU.

The Government of Canada requests consultations with the Government of Brazil pursuant to Article 4 of the Agreement on Subsidies and Countervailing Measures and in accordance with Article 4 of the Understanding on Rules and Procedures Governing the Settlement of Disputes, regarding certain export subsidies granted under the Brazilian Programa de Financiamento às Exportações (PROEX) to foreign purchasers of Brazil's Embraer aircraft.

PROEX is described by Brazilian Government documentation as an interest rate equalization programme that equalizes the cost of financing on exports of covered Brazilian products to international levels. PROEX provides foreign purchasers of Embraer aircraft with interest rate subsidies valued at between 3.5 and 3.8 percentage points per annum over ten-year periods. The effect of the subsidies is to provide financial terms that are more advantageous than purchasers would obtain from commercial lenders or by export credit agencies were they to purchase from countries other than Brazil.

Article 3 of the Agreement on Subsidies and Countervailing Measures prohibits subsidies contingent, in law or fact, upon export performance. However, Article 27 provides developing countries with an exception to this obligation, subject to certain criteria, before they must eliminate all export subsidies.

The Government of Canada is of the view that the PROEX programme may be inconsistent with Brazil's obligations under the Agreement on Subsidies and Countervailing Measures. The provisions of this Agreement with which PROEX may be inconsistent include the following:

- (i) Agreement on Subsidies and Countervailing Measures, Article 3;
- (ii) Agreement on Subsidies and Countervailing Measures, Article 27.4; and
- (iii) Agreement on Subsidies and Countervailing Measures, Article 27.5.

In accordance with Article 4 of the Understanding on Rules and Procedures Governing the Settlement of Disputes and pursuant to Article 4 of the Agreement on Subsidies and Countervailing Measures, the Government of Canada requests consultations with the Government of Brazil to discuss this matter with the intention of reaching a mutually satisfactory result. The Government of Canada welcomes any suggestions the Government of Brazil may wish to make concerning dates on which the consultations could take place within 30 days from the date of receipt of this request.