

ORIGIN/ACTION

DEPARTMENT OF STATE

FN 9. BRAZ

AIRGRAM

ARA-10

20

FOR RM USE ONLY

M/R	REP	AF
1	1	
ARA	EUR	FE
NEA	CU	INR
E	P	IO
L	FBO	KID
AGR	COM	FRB
NT	LAB	TAR
TR	XMB	AIR
ARMY	CIA	NAVY
OSD	USIA	NSA
FTC		

A-741

UNCLASSIFIED

HANDLING INDICATOR

TO : Department of State

PASS TO : AID/W

FROM : Amembassy RIO DE JANEIRO

SUBJECT : Investment Incentives for Brazil

REF :

RECEIVED
DEPARTMENT OF STATE

FEB 13 8 18 AM 1967

RS FEB 8 1967
ANALYSIS BRANCH

DATE: February 3, 1967

DEPARTMENT OF STATE
BUREAU OF
INTER-AMERICAN AFFAIRS
FEB 15 1967

Attached are 5 copies of a packet on investment incentives for Brazil. Two annexes (fishing and tourism) are still missing and will be forwarded when the law thereon is clarified.

RAINE

*Dear - file
w/anal
2-15-67*

Enclosures: all w. w.
as stated.

UNCLASSIFIED

FOR DEPT. USE ONLY

In Out

Drafted by: ECON/COML; BeverlyMayCarl:od

Contents and Classification Approved by: *[Signature]*

Clearances:

1967 FEB 13 PM 2 17

COPYFLO-PBR

DECLASSIFIED
Authority NND969000

*Env to A # 741
Rio*

INCENTIVES TO INVEST IN BRAZIL

Giant Brazil, larger than the continental United States, contains half the population of South America. Her climate ranges from equatorial in the north to temperate in the south.

Since the well-being of her 85 million people is crucial to the security of the free world, the United States and Brazil have joined together under the Alliance for Progress to achieve economic development. A primary role in this effort has been assigned to private enterprise, with the contribution in capital, management skills and technical knowhow it can bring to the nation. The resources of both foreign and domestic businessmen must be mobilized, if this endeavor is to succeed.

Brazil offers many opportunities for an investor: a potentially immense market, a rapidly expanding economy and a government receptive to private enterprise. Her subsoils are rich in iron, beryllium, limestone, quartz, gypsum, ilmenite, magnesite, manganese, niobium-tantalite, phosphates, precious stones, rare earths, thorium, nickel, bauxite, talc and tungsten.

The degree to which the country is already industrialized can be seen from the following statistics. In 1965, she exported about \$110 million in manufactures and machinery. In addition, Brazil produced 184,000 automobiles in both 1964 and 1965, 5.5 million tons of cement in 1965, 11,500 tractors in 1964, over 3 million tons of steel ingots in 1964 and 36 million barrels of petroleum in 1965. She processed 114 million barrels of crude oil in 1964. That same year, Brazilian factories turned out 356,000 TV receivers, 345,000 refrigerators, 930,000 radios and 22,000 air conditioners.

Brazil's forest land is estimated by the Food and Agriculture Organization of the United Nations to exceed that of any other country except the U.S.S.R., totaling 1,854,000 square miles. Only 115,900 square miles, or six percent of all forest land, is being utilized.

Brazil still has vast areas of land open for agricultural exploitation. Her far west (Mato Grosso and Goiás) offers a frontier challenge for any 20th Century pioneers. While Brazil ranks high among the countries of the world with its cattle population estimated at 80 million, the average net weight per head is very low -- less than 440 pounds per carcass. Even so, she exported 47,000 tons of beef during the first ten months of 1965.

Americans have already invested more than one billion dollars in Brazil. During 1966 alone, more than \$120 million dollars in new U.S. investments in Brazil was approved by the Central Bank of Brazil for guaranty purposes.

Phillips Petroleum is investing \$23 million in a \$60 million dollar fertilizer project; Ford has invested \$33 million to produce the Galaxy in Brazil; Xerox has just put in a two million dollar operation. Hertz car rental, Brink's security systems, Olin Mathieson kraft paper are a few other businesses which have just come to Brazil.

To encourage new investments in Brazil, the federal and state governments of this nation offer a series of extremely attractive incentives. Attached as annexes hereto are summaries of each major incentive.

For those who would like further information on investing in Brazil, two booklets can be well recommended.

1. A Guide to Investing in Brazil, prepared by the Brazilian Government Trade Bureau, available from the Brazilian Embassy in Washington, D.C.
2. Garland, Griffith, A Businessman's Introduction to Brazilian Law and Practice (1966 published by the Chase Manhattan Bank)

DECLASSIFIED

Authority NND969000

INVESTMENT INCENTIVES
FOR BRAZIL

Table of Contents

Annex

I. BRAZILIAN FEDERAL GOVERNMENT INCENTIVES

A. Regional Incentives

- 1. Northeast Incentives A
- 2. North (Amazon Valley) Incentives B

B. Industry Incentives -- Country-wide

- 1. Tourism and Hotels C
- 2. Fishing D
- 3. Forestation and Reforestation Projects E
- 4. Chemicals and Petrochemicals F
- 5. Food Industry G
- 6. Movie Industry H
- 7. Metallurgy I
- 8. Civil Construction J
- 9. Textiles and Leather K
- 10. Agricultural Machinery L
- 11. Other Industries -- Duty Exemption on Capital
Good Imports M

II. BRAZILIAN STATE AND MUNICIPAL INCENTIVES

- A. States in the Northeast of Brazil (Alagoas, Bahia, Ceara,
Maranhão, Paraíba, Pernambuco, Piaui, Rio Grande do Norte,
and Sergipe) N
- B. States in the North (Amazonas) O
- C. Other States (Minas Gerais, São Paulo, Paraná) P

III. INCENTIVES OFFERED BY THE UNITED STATES GOVERNMENT Q

ANNEX A

INVESTMENT INCENTIVES
FOR THE
NORTHEAST OF BRAZIL

Memorandum to Investors: In the Western Hemisphere, one out of every nine persons south of the Rio Grande River lives in the Northeast of Brazil (the hump). So crucial is the economic welfare of these 25 million people to the security of the free world that the Governments of Brazil and of the United States have launched a massive offensive against the area's poverty.

A crucial weapon in this struggle is the contribution of capital and technological knowhow that can be made by private enterprise. To attract private capital to the region, a series of highly unusual incentives for new investment have been created.

For example, in the State of Ceará, it is possible for you to put in only \$6,250 of your own money and yet obtain complete control of a \$100,000 business, if the project is of significant value to the development of the area. Here is how this might work:

\$ 6,250	Your money
6,250	Shares purchased by CODEC (See I-C below)
<u>37,500</u>	Art. 34/18 tax deposit funds (See I-A below)
50,000	Total equity
50,000	BNB loan (I-B)
<u>\$100,000</u>	Total project

To induce you to come down to Brazil and look into an investment possibility, the United States Agency for International Development can offer you an investment survey grant. (See Annex Q).

Any equipment or machinery needed for your investment project could, under certain circumstances, be imported duty free (See II-A below).

And, that is not all. Once your business is operating and earning profits, that income, if reinvested in the firm, can be tax free for up to ten years (--- or even fifteen years in exceptional cases. (See III-A). Moreover, the U.S. Government can sell you an insurance policy which will protect your investment against expropriation, inconvertibility of currency, and war, revolution or insurrection for twenty years. (See Annex Q).

As if all this were not enough, each state and many municipalities have their own incentives for new investments, such as loans, guarantees, and exemptions from local taxes. (See Annex "N")

DECLASSIFIED

Authority NND969000

Ample capital resources are available for investment in this region. In the tax deposit system alone, there presently exists \$150 MILLION IN SEARCH OF INVESTMENTS. The chief lack is enterprising entrepreneurs with the management skills required to develop worthwhile projects. All these benefits are available to both foreign and domestic investors.

Description of the Northeast: The Northeast, which contains one-third of Brazil's population, consists of the States of Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Sergipe, Bahia and part of upper Minas Gerais. Although the people generally have a low per capita income, a fairly large middle class offers a consumer's market of reasonable size.

There is a substantial supply of electrical energy in almost all the states in the Northeast. According to SUDENE (the Agency for the Development of the Northeast), the region has been growing recently at the rate of 7 percent per year. Some of the important industries in the area are sugar refining, chemicals and textiles. Examples of companies which have recently invested there are: Firestone, Crown Cork, Willys (auto assembly) and Phillips Petroleum Co. (carbon black).

Investment Possibilities: FUNDINOR, a dynamic organization created to foster development in the area, lists the following industries as investment possibilities: fishing (especially lobster and shrimp), cotton, sisal, tobacco, fruits, cocoa, vegetable oils and wax, textiles, molasses, bagasse, food processing (fruit juices, soft drinks, beer, breads, biscuits, canned meats and fruits, and cheeses), and cattle. Clothing is still largely trucked in from the south, a distance of 1,000 miles. Socks, neckties, men's and women's ready-made clothing, and shoes are examples of articles being imported from the south.

The chemical industry offer a number of opportunities worth investigation; minerals, such as chromites and gypsum, might be used as raw materials for bromates, sulphur and sulphuric acid. By-products of COPERBO's synthetic rubber plant, e.g. hydrogen and ether, are presently going to waste. Large deposits of gypsum and limestone exist. Very little fertilizer is manufactured in the region. Most of the ammonia and potash is imported from abroad.

Following is a summary of the incentive laws for investments in the Northeast. Applications for these benefits should be made to SUDENE, Palácio da Fazenda 8^a andar, Grupo 611, Rio de Janeiro, GB, Brazil. Further information can be obtained from the Office of the Commercial Attaché, American Embassy, Rio de Janeiro.

I. INCENTIVES TO ASSIST IN FINANCING INVESTMENT PROJECT

A. Access to Article 34/18 Deposit Funds

1. For every one cruzeiro (or its equivalent) which the project organizer invests, up to three more cruzeiros may be obtained from these tax deposit funds. Firms in Brazil have been allowed to deposit up to 50 percent of their Brazilian income tax for investments in the form of either loan or equity in eligible projects in the Northeast. After such investment, the local Brazilian company become the owner of the corresponding shares or the promissory notes of the new firm established in the Northeast. If the tax deposit is not allocated to a specific project by December 13 of the 4th year of its existence, the depositor loses all title to it.
2. \$150 million is now available for investments from these tax deposits.
3. The organizer of a new investment in the Northeast may arrange with one or more of the Brazilian firms in whose names these tax deposits are held to invest in his project. The ratio of new resources (e.g., the organizer's resources) to the tax deposit funds may be as little as one to three if so approved by SUDENE.
4. Should the tax deposit funds be invested in the form of equity, at least, 50 percent of the shares received therefor must be non-voting, preferred shares. By increasing the ratio of non-voting to voting shares, the project organizer can organize his capital structure so as to retain management control. He can also agree with the local company or companies to repurchase these Art. 34/18 shares after five years and become 100% owner.
5. SUDENE may authorize these Art. 34/18 funds to be invested in the form of a loan from the depositor to the new company. The terms of the loan must provide for, at least, a five-year grace period, after which no more than 20 percent of the principal can be repayable in any one year.^{2/}
6. Eligible Investments: The investment may be in industrial, agricultural or telecommunications projects.^{3/}

B. Access to Bank of Northeast Brazil Loans.

1. The Bank of Northeast Brazil (BNB) can finance up to 50 percent of a new project ^{4/} (in practice, its loans generally do not exceed 40 percent).

DECLASSIFIED

Authority NND969000

2. Possible investment ratios:

a. Own Resources	12-1/2%
b. Art. 34/18 funds	37-1/2%
Total Equity	50%
c. BNB loan	50%
Total Project	100%

C. Financing from States. As previously mentioned, each State in the Northeast has its own incentives programs to attract new investment. (See Annex "N" for fuller details). As an example, how the State incentives can help in the financing of a project, the State of Ceara will be used.

1. CODEC, a state organization, will make an interim loan equal to the Art. 34/1 tax deposit funds so that the project can go forward without waiting for final release of the funds by SUDENE and BNB.
2. CODEC will also purchase up to 50 percent of the equity shares the project organizer is required to take. Thus, a theoretical investment possibility would be as follows:

a. Own Resources	6-1/4%
b. CODEC Shares	6-1/4%
	12-1/2%
c. Art. 34/18 shares	37-1/2%
Equity	50%
d. BNB loans	50%
	100%

Although investing only 6-1/2% of the total capital needed, the project organizer could retain full control of the business. CODEC carefully avoids any possibility of control and will sell shares back to the organizer after a certain time period.

D. Access to Investment Funds from Private Individuals.

A project organizer may also induce private individuals to invest in his business by pointing out that any individual who purchases newly issued shares in SUDENE approved investments may deduct the cost of such shares from his Gross Income for the purposes of his personal income tax owed the Brazilian Government, so long as his over-all deductions (including medical, etc.) do not exceed 50 percent of his gross income.^{5/} This is similar to the U.S. charitable deduction in the way it operates.

II. COST REDUCING INCENTIVES.

- A. Import Duty Exemption: Equipment and machinery (other than used and other than that similar to equipment made in Brazil) may be imported duty free for SUDENE approved projects.^{6/}
- B. Licenses for Importing Equipment without Exchange Cover: May be obtained from SUDENE.^{7/}

III. PROFIT MAXIMIZING INCENTIVES: (SUDENE approval necessary)

- A. 100% Credit against Brazilian Federal Income Tax.
1. Up to 10 years if no similar product now made in Northeast.
 2. Up to 15 years if risk considered great and location unfavorable.^{8/}
- B. 50 percent Credit against Brazilian Federal Income Tax
1. Up to 1973 for existing enterprises in Northeast and new ones producing product already made in area.
 2. Additional 50% credit may be taken against the remaining income tax due for reinvestments in the Northeast. Thus, combining (1) and (2) would permit a total tax credit of 75%.^{2/}

-
1. Law No. 4.239 (June 27, 1963), Art. 18 (b); Law No. 4.869 (Dec. 1, 1965), Arts. 17-24; and Decree No. 55.334 (Dec. 31, 1964), Arts. 10-17, 19, and 20. Diario Oficial (Dec. 31, 1964)
 2. Decree No. 55.334 (Dec. 31, 1964), Art. 13, § 13.
 3. Law No. 4.239 (June 27, 1963), Art. 18(b) and see also, Law No. 4.869 (Dec. 1, 1965), Art. 18 (3).
 4. Law No. 3.692 (Dec. 15, 1959), Art. 27; Law No. 4.869 (Dec. 1, 1965), Art. 13.
 5. Law No. 4.357 (July 17, 1964), Art. 14 (d); Law No. 4.506 (Nov. 30, 1964) Art. 9, § 2, Diario Oficial No. 23 (Dec. 1964), p. 1, 242; Decree No. 55.334 (Dec. 31, 1964), Art. 18.
 6. Law No. 3.692 (Dec. 15, 1959), Art. 18; Law No. 3.995 (Dec. 14, 1961), Arts. 22 and 23; Law No. 4.869 (Dec. 1, 1965), Arts. 12, 14 and 15.

- Law No. 3.692 (Dec. 15, 1959), Art. 13 (I) (j); Decree No. 47.890 (March 9, 1960), Art. 53.
8. Law No. 4.239 (June 27, 1963), Arts. 13, 15 and 16; Law No. 4.869 (Dec. 1, 1965), Art. 16; Decree No. 55.334 (Dec. 31, 1964).
9. Law No. 4.239 (June 27, 1963), Arts. 14, 15 and 16; Law No. 4.869 (Dec. 1, 1965), Art. 16

Annex B

INVESTMENT INCENTIVES
FOR THE
NORTH (AMAZON BASIN)

Memorandum to Investors:

The Government of Brazil so wants the Amazon Valley developed it is now offering a series of truly unique incentives for new investments. By investing, for example, only \$10,000 of your own money, you can acquire absolute control over a \$100,000 business, if the project is of significant value to the region.

Here is how this might work:

\$10,000	Your money
5,000	From individual Brazilian partners (See II-B below)
5,000	Shares underwritten by Bank of the Amazon for resale to the public (See II-D below)
<u>45,000</u>	Tax deposit funds (See II-A below)
65,000	Total equity
25,000	Bank of the Amazon loan
<u>10,000</u>	State bank loan (e.g. State of Amazonas)
<u>\$100,000</u>	Total project

To help you get started, both the Brazilian and the American Governments have programs to assist in making feasibility studies or investment surveys. (See I below).

In addition, machinery and equipment needed for your project may, under certain conditions, be imported duty free. (See, III).

And, that is not all. Once, your business is operating and earning profits, that income may be tax free up to 1982. (See, IV-B). Moreover, the United States Government can sell you insurance to protect your investment against expropriation, inconvertibility of currency and war, revolution, or insurrection.

As if this were not enough, many of the states and municipalities also offer their own investment incentives, such as exemption from consumption and turn-over taxes, loans and underwriting of shares.

As you can see, there are ample capital resources available for investors in this region. The chief lack is entrepreneurs with the management skills needed to develop worthwhile projects. All these benefits are available to foreign, as well as domestic, investors. Both Brazil's President Castello Branco and the Governor of the State of Amazonas have said that foreign investment would be well received, if it contributed to the development of the area.

Description of the Region:

The North, or Amazonia, includes the State of Acre, Para, Amazonas, Roraima, Amapa, northern Goias, northern Mato Grosso, western Maranhao and the Territory of Rondonia. It comprises 60 percent of the total territory of Brazil and contains approximately five million inhabitants. In addition to an extensive network of navigable waterways throughout the region, earth roads now link Belem with Brasilia and Brasilia with Acre. From Brasilia, excellent paved roads connect with various points in the industrialized south of the nation. Manaus, one thousand miles up the Amazon River, is a full-fledged seaport with steamer connections to Europe.

Investment Possibilities:

Some of the products for which promising markets for new industries in this region are believed to exist are: foodstuffs (sugar, salt, frozen and preserved meat), clothing of all kinds, building materials, lumber, cement, packing materials, wood crates, jute cord. There is also a need for medium scale agricultural and animal husbandry operations.

The Bank of the Amazon considers the following possibilities as appropriate for investments: oil seed crops (e.g. babaçu, nuts, palm oils, Brazil nuts, dende oil), tropical woods, aromatic oils, wild rubber, latex, resins, fishing (shrimp, pirarucu, "peixe boi"--a species of river dolphin, etc.) fish flour, freezing plants, jute and similar fibers, black pepper, tobacco, rice, beans, corn, buffalo, and zebu cattle. Feasibility studies are available for many of these opportunities from either SUDAM (the Agency for the Development of the Amazon) or the Bank of the Amazon. Tin gold, copper, iron and manganese are reported in the fringes of Rondonia, Amazonas and Amapa; clay and limestone sands, in Pará.

Applications for these benefits should be made to SUDAM. Further information can also be obtained from the Office of the Commercial Attaché, American Embassy, Rio de Janeiro, Brazil.

Following is a summary of these incentive laws. . .

I. INCENTIVES ASSISTING AT THE PRE-INVESTMENT STAGE

A. Loans:

1. FIDAM (the Fund for Private Investment to Develop the Amazon): This Fund may make loans to private firms for surveys directed toward the utilization of natural and agricultural resources of the North.^{1/}
2. Bank of the Amazon: This Bank may either conduct feasibility studies or extend loans to private companies to do such studies.^{2/}

B. Contingent Grants:

Americans may obtain from the U.S. Agency for International Development an investment survey grant which will cover up to 50 percent of the cost of the survey, if the project proves not feasible.^{2/}

C. Access to Funds from Private Sources in Brazil for Investment Surveys:

1. From Companies in Brazil: A potential investor may be able to induce an existing firm in Brazil to finance part or all of the costs of the feasibility study by pointing out that such firm, for Brazilian income tax purposes, may deduct, as an ordinary operating expense, any funds used for surveying natural resources or for mineral prospecting in the North, even though the firm's business has no connection with such resources or investment opportunity being surveyed.^{4/}
2. From Individuals in Brazil: The same approach may be made to individuals since they are allowed to deduct such expenses from their Gross Income for the purpose of personal income tax owed the Brazilian Government.^{5/}

II. INCENTIVES TO ASSIST IN FINANCING INVESTMENT PROJECT

One who organizes a new investment project in the North may use his own resources to finance only a relatively small portion of the total investment. The remainder may come from one or more of the following sources.

A. Access to Tax Deposit Funds:

1. For every one cruzeiro (or its equivalent) which the project organizer invests, up to three more cruzeiros may be obtained from tax deposit funds. Firms in Brazil have been allowed to deposit up to 50 percent of their Brazilian income tax for investments in the form of either loan or equity in eligible projects in the North.^{6/} After such investment, the local Brazilian company becomes the owner of the corresponding shares or the promissory notes of the new firm established in the North.^{7/} If these tax deposit funds are not allocated to a specific investment within three years after the last tax deposit payment is made, they will be transferred to FIDAM by the Bank of the Amazon and the tax depositor will lose all title to them.^{8/}

2. Over \$20 million is now available for investments from these tax deposits, according to the Director of the Rio branch office of the Bank of the Amazon.
3. The organizer of a new investment in the North may arrange with one of the Brazilian firms in whose names these tax deposits are held to invest in his project. The ratio of new resources (e.g. the organizer's resources) to the tax deposit funds may be as little as one to three, if so approved by SUDAM.^{9/}
4. Should the tax deposit funds be invested in the form of equity, at least, 50 percent of the shares received therefor must be non-voting, preferred shares.^{10/} The project organizer can thus organize his capital structure so as to retain management control over the new business. Shares received for tax deposit funds must be registered and cannot be transferred for five years.^{11/}
5. Equity Investment Ratio Possibilities:

Own Resources		25%
Tax Deposit Funds of Co. A		
Voting shares	20%	
Non-voting shares	<u>20%</u>	40%
Tax Deposit Funds of Co. B		
Voting shares	15%	
Non-voting shares	<u>20%</u>	<u>35%</u>
Total Equity		<u>100%</u>

Thus, although holding only one fourth of the equity shares, the organizer could have control over the business.

6. In exceptional circumstances, SUDAM may authorize these tax deposit funds to be invested in the form of a loan from the depositor to the new company. The terms of the loan must provide for, at least, a five year grace period, after which no more than 20 percent of the principal can be repayable in any one year.^{12/}
7. Eligible investments. The investment may be in industrial, livestock--raising, or agricultural projects, or in basic service industries.^{13/} "Basic services" is defined as those related to power, transportation, communications, colonization, tourism, education and public health.^{14/}

DECLASSIFIED

Authority NND969000

B. Access to Investment Funds from Private Individuals:

A project organizer may also induce private individuals to invest in his business by pointing out that any individual who purchases newly issued shares of SUDAM approved investments in industrial or agricultural projects may deduct the cost of such shares from the Gross Income for purposes of his personal income tax owed the Brazilian Government, so long as his over-all deductions (including medical, etc.) do not exceed 50 percent of his gross income (similar to the U.S. charitable deduction for individuals).^{15/}

C. Loans and Guaranties:

Liberal loans, as well as guaranties, may be obtained from the ample resources of the Bank of the Amazon and the various funds it administers, such as FIDAM.^{16/} Financing is also available on the State level, e.g. from the Bank of the State of the Amazonas.

D. Underwriting Capital Subscription:

In addition, the Bank of the Amazon may underwrite a portion of the shares of the new company with a view toward their resale to the public.^{17/}

III. COST REDUCING INCENTIVES

A. Import Duty Exemption:

Equipment and machinery (except that similar to equipment already produced in Brazil and except "obsolete" machinery) for SUDAM approved projects may be imported free of all duties and other taxes, direct or indirect. Permission can be obtained to import such items without exchange cover. (All motors for ships may likewise be imported duty free, whether or not connected with any SUDAM project.)^{18/}

B. Manaus, a Free Port:

Manaus is a free port for foreign goods destined for internal consumption within the Amazon area or countries through which tributaries of the Amazon river flow. Brazilian import duties are imposed once the goods leave the port and enter into Brazilian territory.^{19/}

C. Exemption from Taxes on Capital Increases:

Firms engaged in raising livestock, or in agricultural, industrial or basic service industries, in the North may be exempted from federal taxes and levies related

to monetary correction of their assets and to the corresponding increase in capital. They may also be exempted from taxes on capital increases originating from reserves or retained earnings. To receive this tax benefit, however, such capitalization must take place within one year after publication of the regulations to be issued under this law. The receipt of shares or "quotas" from such capital increases is also not subject to tax.^{20/}

IV. PROFIT MAXIMIZING INCENTIVES (SUDAM approval necessary)

A. 50 Percent Credit Against Brazilian Federal Income Taxes:

1. Up to 1982 for firms already in operation as of October 31, 1966.^{21/}
2. An additional 50 percent credit may be taken against the remaining income tax due for reinvestments in the North--thus combining (1) and (2)^{22/} would permit a total tax credit of 75 percent.

B. 100 Percent Credit Against Brazilian Federal Income Taxes Up to 1982 for:

1. Firms installed before the end of fiscal 1971.
2. Firms installed before October 31, 1966 which had not begun operations as of that date, and
3. Existing firms which install new facilities to expand, modernize, or increase the industrialization of raw materials.^{23/}

1/ Law No. 5.173 (Oct. 27, 1966), Art. 46(b)

2/ Law No. 5.122 (Sept. 22, 1966), Art. 2(a) and Art 11.

3/ U.S. Foreign Assistance Act of 1961, as amended, Sec. 231 (22 USC 2181 ff.).

4/ Law No. 5.174 (Oct. 27, 1966), Art. 9(a), Diario Oficial (Oct. 31, 1966)

5/ Ibid. at Art. 10

6/ A similar deposit may also be made for investments in the northeast of Brazil. The taxpayer may further choose to divide such deposits between the North and the Northeast, so long as the combined amount does not exceed 50 percent of the tax due. Ibid. at Art. 17.

- 7/ Ibid. at Art. 7(b).
- 8/ Ibid. at Art. 11.
- 9/ Ibid. at Art. 7(b), Sec. 3.
- 10/ Ibid. at Art. 7(b), Sec. 14(b).
- 11/ Ibid. at Art. 7(b), Sec. 9.
- 12/ Ibid. at Art. 7(b), Sec. 10.
- 13/ Ibid. at Art. 7(b)
- 14/ Ibid. at Art. 7(b), Sec. 1.
- 15/ Law No. 5.174 (Oct. 27, 1966), Art. 10; Law No. 4.506 (Nov. 30, 1964), Art. 9, Sec. 2, Diario Oficial No. 23 (Dec. 1964), p.1,242; and Law No. 4.357 (July 16, 1964), Oct. 14 (d) and Art. 14, Sec. 2, Diario Oficial, No. 14 (July 1964), p.540.
- 16/ Law No. 5.122 (Sept. 28, 1966), Art. 1 and Art. 4, and see Law No. 5.173 (Oct. 27, 1966), Art. 46(a).
- 17/ Law No. 5.122 (Sept. 28, 1966), Art. 2(b).
- 18/ Law No. 5.174 (Oct. 27, 1966) Art. 4, Sec. 2, Diario Oficial (Oct. 31, 1966).
- 19/ Law No. 3.173 (June 6, 1957), Diario Oficial (June 12, 1957) and Decree No. 47.757 (Feb. 2, 1960).
- 20/ Law No. 5.174 (Oct. 27, 1966), Art. 2, Diario Oficial (Oct. 31, 1966).
- 21/ Ibid. at Art. I, Para. I.
- 22/ Ibid. at Art. 7(b), Sec. 11 and Law No. 4.216 (May 6, 1963), Diario Oficial, No. 10 (1963), p.511.
- 23/ Law No. 5.174 (Oct. 27, 1966), Art. I(II), Diario Oficial (Oct. 31, 1966).

Investment Incentives
Forestation and Reforestation

To encourage the conservation of Brazil's national forests, the Federal Government has established several important incentives to induce investment in forestation and reforestation projects. ^{1/}

I. 50% Income Tax Credit for Firms.

Firms which own tracts of land on which forestation or reforestation projects are carried out, may take a credit for such expenses up to 50% of their Brazilian income tax due for the year in which such project is undertaken, provided that such project was previously approved by the Ministry of Agriculture and provided it included a program for the annual planting of at least 10,000 trees. ^{2/} (N.B. The business of the firm enjoying the benefit of this tax credit may be entirely unrelated to the forest industry).

This credit may be taken cumulatively with those allowed for investments in the Northeast and/or the North (Amazon Valley), ^{3/} so long as the combined credits do not exceed 50% of the income tax due. ^{3/}

II. 100% Tax Deduction for Individuals.

Individuals who own such tracts of land and carry out such approved forestation or reforestation projects, may deduct 100% of such expenditures from their gross income for individual income tax purposes for the year in which the project is undertaken. ^{4/} However, the total of this deduction, plus others, e.g. medical expenses, cannot exceed 50% of the taxpayer's gross income. ^{5/}

-
- ^{1/} Law No. 5.106 (Sept. 2, 1966), Diario Oficial (Sept. 5, 1966)
^{2/} Art. 1, Paragraph 3.
^{3/} Art. 1, Paragraph 4.
^{4/} Art. 1, Paragraph 1.
^{5/} Law No. 4.506 (Nov. 30, 1964), Art. 9

Annex F

INVESTMENT INCENTIVES
FOR THE
CHEMICAL AND PETROCHEMICAL INDUSTRIES

Basic to building a developed economy is the chemical and petrochemical industry. To foster investments in this sector, the Brazilian Government has established the following incentives, which may be obtained through applying to GEIQUIN (Executive Group for the Chemical Industry).

"Chemical" industry is defined to include the production of organic and inorganic chemicals, fertilizers, soil treatment products, insecticides, rodenticides, herbicides, petrochemicals and raw materials for pharmaceuticals.^{1/}

I. INCENTIVES TO ASSIST IN FINANCING PROJECT

A. Access to Loans and Guaranties:

Loans, underwriting guaranties may be obtained from official credit institutions for approved projects in this field.^{2/}

B. Equipment Financing:

Assistance may be given to facilitate the importation of equipment (other than national similars) either in the form of a direct investment or through foreign financing.^{2/}

II. COST REDUCING INCENTIVES

A. Exemption from Duties and Consumption Taxes on Imported Machinery:

If no similar national product exists, machinery, equipment, accessories, and spare parts may be imported free of duty and consumption taxes for four years.^{4/}

B. Waiver of Exchange Burdens:

The surtax and compulsory deposits for exchange transactions may be waived for:

1. imports of machinery;
2. repayment of foreign financing; and
3. importation of essential raw materials.^{5/}

C. Reduction of Duties on Raw Material Imports Where Justified.^{6/}

D. Accelerated Depreciation Write-Offs.^{7/}

III. INCENTIVES AFFECTING PROFITABILITY

A. Protective Tariff:

If considered warranted, a protective tariff may be established for the product in question.^{8/}

B. Exclusivity of Benefits:

Once an investment project is approved for the manufacture of a particular product, these incentives or benefits will not be granted to any other investment which contemplates the production of the same product, if such production would exceed the absorptive capacity of the national market, unless such product is to be produced solely for export.^{9/} One barred from obtaining these benefits, however, might still apply to the Custom's Policy Council for a reduction up to 50% in the duties on machinery to be imported for his project.^{10/}

-
- 1/ Decree-Law No. 46 (Nov. 18, 1966), Art. I, Para. III, Diario Oficial (Nov. 21, 1966).
 - 2/ Decree No. 55.759 (Feb. 15, 1965), Art. 2(6), Diario Oficial No. 4 (1965) p.214.
 - 3/ Ibid. at Art. 2(1).
 - 4/ Decree-Law No. 46 (Nov. 18, 1966), Art. I, Para. III, Diario Oficial. (Nov. 21, 1966).
 - 5/ Decree No. 55.759 (Feb. 15, 1965), Art. 2(3), Diario Oficial No. 4 (1965), p.214.
 - 6/ Ibid. at Art. 2(3).
 - 7/ Ibid. at Art. 2(7).
 - 8/ Ibid. at Art. 2(5).
 - 9/ Ibid. at Art. 2.
 - 10/ Decree-Law No. 63 (Nov. 18, 1966), Art. 8, Diario Oficial (Nov. 21, 1966).

Annex G

Investment Incentives
for the
Food Products Industries

One of the industrial sectors considered most crucial for investments by the Government of Brazil is food products.

Potential investors in this industry may apply to GEIPAL (Executive Group for the Alimentary Products Industry) for the following benefits.

I. INCENTIVES TO ASSIST IN FINANCING PROJECT

A. Access to Loans and Guaranties:

Loans, underwriting, or guaranties may be obtained from the official credit institutions for such projects. 1/

B. Equipment Financing: Assistance may be given to facilitate the importation of equipment (other than national similars) either in the form of a direct investment or through foreign financing. 2/

C. Loans to Raw Material Producers: Official banks may make loans to the project or to rural producers of raw materials needed for the project. 3/

II. COST REDUCING INCENTIVES

A. Exemption from Duties and Consumption Taxes on Imported Machinery:

If no similar national product exists, machinery, equipment, accessories and spare parts may be imported free of duty and consumption taxes for four years. 4/

B. Waiving of Exchange Burdens: The surtax on exchange transactions may be waived for:

1. imports of machinery and equipment;
2. repayment of foreign financing; and
3. importation of essential raw materials. 5/

C. Reduction of Duties on Raw Material Imports When Justified. 6/

D. Accelerated Depreciation Write-Off. 7/

1/ Decree No. 56.661 (July 8, 1965), Art. 3 (g), Diario Oficial No. 13 (1965), p.929

2/ Ibid, Art. 3 (f)

3/ Ibid, Art. 3 (h)

4/ Decree No. 46 (Nov. 18, 1966), Art. I, Paragraph I, Diario Oficial (Nov.21,1966)

5/ Decree No. 56.511 (July 8, 1965), Art. 3 (b)

6/ Ibid., Art. 3 (c)

7/ Ibid., Art. 3 (e)

Investment Incentives
for the
Food Products Industries

III. INCENTIVES AIMED AT PROFITABILITY

- A. Minimum Prices: Where necessary, a minimum price on an agricultural product may be guaranteed. ^{8/}
- B. Protective Tariff: If considered justified, a protective tariff may be established for the product in question. ^{9/}

^{8/} Ibid., Art. 3 (i)
^{9/} Ibid., Art. 3 (d)

ANNEX H

INVESTMENT INCENTIVES

FOR THE

MOVIE INDUSTRY

Driven by the desire to develop a national movie industry, Brazil is providing special incentives to encourage local film production. The height to which Brazilian artistry can reach was well demonstrated in the national film, "The Keeper of Promises" ("O Pagador de Promessa"), which won at the Venice film festival several years ago.

An American investor is eligible to take advantage of these incentives to produce Brazilian films. A Brazilian film is defined as one using so many nationals as actors, directors, etc.^{1/} but there is no requirement that all the shareholders, the directors, producers, or actors be Brazilian.

Following is a summary of these incentives. Application for these benefits should be made to GEICINE (the Executive Group for the Cinema Industry).

I. Financing Film Production: Access To Tax Deposit Funds

A producer interested in making a film in Brazil may find a ready source of capital in the tax deposit funds, presently held by many firms in the nation. Earnings from the exhibition of foreign films have been subject to a discount (similar to an income tax) on remitting profits abroad. However, the "taxpayers" have been allowed to deduct 40% of that "tax" due and deposit it in a special account with the Internal Revenue Department for production of films in Brazil, if approved by GEICINE.^{2/}

1/ A Brazilian film is defined as one which has the following characteristics:

- a. it is produced by a firm legally established in Brazil;
- b. it is spoken in Portuguese;
- c. on its list of credits, at least, two thirds of the artists (producer, director, editor, script writers, etc.) and technicians are Brazilians or foreigners resident in Brazil more than two years;
- d. at least, two thirds of the actors in the cast are Brazilians or foreigners resident in Brazil for two years;
- e. all the scenes are made in Brazilian studios;
- f. the sound track is made in Brazil; and
- g. all the negatives and copies for exhibition in Brazil are developed in Brazilian laboratories.

Decree No. 51,106 (Aug. 1, 1961), Arts. 1 and 2, XXV "Diário Oficial" (1961), P 771.

2/ Decree Law No. 4,131 (Sept. 3, 1962), Art. 45, XXVI "Diário Oficial" (1962), P 245.

DECLASSIFIED

Authority NND969000

If so used, the "taxpayer" retains full title to these funds. Projects to utilize all deposits existing as of November 21, 1966 must be submitted to the National Cinema Institute (NCI) by May 21, 1966. ^{3/} If any holder of these deposits (new or old) is unable to come up with a project approved by the NCI within 18 months after the deposit is made, he loses title to the funds. ^{4/}

Thus, there have accumulated these deposits, whose holders are seeking a worthwhile film in which to invest. This offers a potential investor (American or otherwise) the opportunity to seek out one of these deposit holders and suggest a joint venture in film production.

II. Import Duty Exemption On Equipment

If no similar product is made in Brazil, machinery, equipment, accessories and spare parts may be imported duty free up to May 3, 1968, for use in:

- A. Movie studios and laboratories
- B. Film manufacturing. ^{5/}

^{3/} Decree-Law No. 43 (Nov. 18, 1966), Art. 28, paragraph 1, "Diário Oficial" (Nov. 21, 1966).

^{4/} Id.

^{5/} Law No. 4,622 (May 3, 1965), "Diário Oficial" No. 9 (1965), P. 705.

ANNEX H

INVESTMENT INCENTIVES

FOR THE

MOVIE INDUSTRY

Driven by the desire to develop a national movie industry, Brazil is providing special incentives to encourage local film production. The height to which Brazilian artistry can reach was well demonstrated in the national film, "The Keeper of Promises" ("O Pagador de Promessa"), which won at the Venice film festival several years ago.

An American investor is eligible to take advantage of these incentives to produce Brazilian films. A Brazilian film is defined as one using so many nationals as actors, directors, etc.^{1/} but there is no requirement that all the shareholders, the directors, producers, or actors be Brazilian.

Following is a summary of these incentives. Application for these benefits should be made to GEICINE (the Executive Group for the Cinema Industry).

I. Financing Film Production: Access To Tax Deposit Funds

A producer interested in making a film in Brazil may find a ready source of capital in the tax deposit funds, presently held by many firms in the nation. Earnings from the exhibition of foreign films have been subject to a discount (similar to an income tax) on remitting profits abroad. However, the "taxpayers" have been allowed to deduct 40% of that "tax" due and deposit it in a special account with the Internal Revenue Department for production of films in Brazil, if approved by GEICINE.^{2/}

1/ A Brazilian film is defined as one which has the following characteristics:

- a. it is produced by a firm legally established in Brazil;
- b. it is spoken in Portuguese;
- c. on its list of credits, at least, two thirds of the artists (producer, director, editor, script writers, etc.) and technicians are Brazilians or foreigners resident in Brazil more than two years;
- d. at least, two thirds of the actors in the cast are Brazilians or foreigners resident in Brazil for two years;
- e. all the scenes are made in Brazilian studios;
- f. the sound track is made in Brazil; and
- g. all the negatives and copies for exhibition in Brazil are developed in Brazilian laboratories.

Decree No. 51,106 (Aug. 1, 1961), Arts. 1 and 2, XXV "Diário Oficial" (1961), P 771.

2/ Decree Law No. 4,131 (Sept. 3, 1962), Art. 45, XXVI "Diário Oficial" (1962), P 245.

If so used, the "taxpayer" retains full title to these funds. Projects to utilize all deposits existing as of November 21, 1966 must be submitted to the National Cinema Institute (NCI) by May 21, 1966. 3/ If any holder of these deposits (new or old) is unable to come up with a project approved by the NCI within 18 months after the deposit is made, he loses title to the funds. 4/

Thus, there have accumulated these deposits, whose holders are seeking a worthwhile film in which to invest. This offers a potential investor (American or otherwise) the opportunity to seek out one of these deposit holders and suggest a joint venture in film production.

II. Import Duty Exemption On Equipment

If no similar product is made in Brazil, machinery, equipment, accessories and spare parts may be imported duty free up to May 3, 1968, for use in:

- A. Movie studios and laboratories
- B. Film manufacturing. 5/

3/ Decree-Law No. 43 (Nov. 18, 1966), Art. 28, paragraph 1, "Diário Oficial" (Nov. 21, 1966).

4/ Id.

5/ Law No. 4,622 (May 3, 1965), "Diário Oficial" No. 9 (1965), P. 705.

Annex I

INVESTMENT INCENTIVES
FOR THE
METALLURGY INDUSTRIES

- I. Exemption from Duties on Imported Machinery: If no similar, Brazilian product exists, machinery, accessories, tooling and spare parts destined for use in the metallurgy industries may be exempted from all import duties and consumption taxes up to 1970.^{1/} Application for this benefit should be made to GEIMET (The Executive Group for the Metallurgy Industries)
- II. Accelerated Depreciation Write-Offs for Lead, Zinc, and Aluminum Industries.^{2/}
-

^{1/} Law No. 4.622 (May 3, 1965), Diario Oficial No. 9 (1965), p.705.

^{2/} Decree No. 54.293 (Sept. 23, 1964), Art. 2 (1), Diario Oficial No. 18 (Sept. 1964), p.311.

Annex J

INVESTMENT INCENTIVES
FOR THE
CIVIL CONSTRUCTION INDUSTRY

One of Brazil's most pressing needs is housing. The inflation of recent years has caused civil construction to fall far below the nation's needs. In addition to the incentives described below, potential investors will want to inquire at the National Housing Bank of Brazil regarding the possibility of a loan.

- I. Exemption from Duties on Imported Machinery: If no similar Brazilian product exists, machinery, accessories, tooling and spare parts destined for use in the civil construction industry may be exempted from all import duties and consumption taxes up to 1970. ^{1/}
- II. Exemption from Consumption and Excise Taxes: Available for pre-fabricated houses and buildings, including their respective components when designed for assembly, provided they are part of a unit directly furnished by the industry of pre-fabricated components and that the materials employed in the production of such components have paid the tax due. ^{2/}
- III. Accelerated Depreciation Rates for Producers of Cement or Pre-Fabricated Components for Housing. ^{3/}

^{1/} Decree Law No. 46 (Nov. 18, 1966), Diario Oficial (Nov. 21, 1966).

^{2/} Law No. 4.864 (Nov. 29, 1965), Art. 31.

^{3/} Decree No. 54.298 (Sept. 23, 1964), Art. 2 (6), Diario Oficial No. 18 (Sept. 1964), p. 811.

Annex K

INVESTMENT INCENTIVES FOR THE TEXTILE AND LEATHER INDUSTRIES

In order to foster the modernization of the textile, leather and shoe industries, the Brazilian Government offers a number of incentives designed to encourage replacement of obsolete machinery, equipment and techniques. These benefits may be requested from GEITEC (Executive Group for Textiles, Leather and Leather Products). They are available for spinning, weaving, tanning, leather footwear and other leather products.^{1/}

I. INCENTIVES TO ASSIST IN FINANCING PROJECT

A. Access to Loans and Guaranties:

Loans, underwriting or guaranties may be obtained from official credit institutions.^{2/}

B. Equipment Financing:

Assistance may be given to facilitate the importation of equipment (other than national similars) either in the form of a direct investment or through foreign financing.^{3/}

II. COST REDUCING INCENTIVES

A. Exemption from Duties and Consumption Taxes on Imported Machinery:

1. Weaving and spinning industries: if no similar national product exists, machinery, equipment, accessories, and spare parts may be imported duty free for four years.^{4/}
2. Tanning, leather footwear, and leather products: if no similar national product exists, machinery, equipment, accessories and spare parts may be imported duty free until May 5, 1968.^{5/}

B. Waiver of Exchange Burdens:

Financial charges on the acquisition of foreign exchange may be waived for:

1. imports of machinery and equipment; and
2. servicing foreign debt.^{6/}

C. Accelerated Depreciation Write-Offs.^{7/}

-
- 1/ Decree No. 57.028 (Oct. 11, 1965), Art. 2, Diario Oficial No. 19 (1965), p.1475.
 - 2/ Ibid. at Art. 2(f).
 - 3/ Ibid. at Art. 2(e).
 - 4/ Decree-Law No. 46 (Nov. 18, 1966), Art I, Para. 2, Diario Oficial (Nov. 21, 1966).
 - 5/ Decree No. 57.028 (Oct. 11, 1966), Art. 2(b).
 - 6/ Ibid. at Art. 2(c).
 - 7/ Ibid. at Art. 2(d).

Annex L

INVESTMENT INCENTIVES
FOR THE
AGRICULTURAL MACHINERY INDUSTRY

The need for increased agricultural productivity in Brazil is urgent. With this objective in mind, the Brazilian Government have just provided new incentives for producers of agricultural machinery.

Agricultural machinery is defined as those machines designed for clearing land, preparing the soil, planting, sowing and cultivating, soil correction, combating pests and diseases, and harvesting, as well as those for transporting, preventive treatment, drying, and storage of the harvest and tools used in rural establishments. The law excludes from these incentive machines which may be used for the foregoing purposes, but which are intended primarily for other ends.^{1/}

Application for these benefits should be made to GEIMEC (The Executive Group for Machinery). GEIMEC will not approve projects for machinery whose production in Brazil, in terms of quality, quantity, and price, is considered already adequate for the Nation.^{2/} Moreover,^{3/} at least 50% of the machines' weight should be composed of Brazilian-made parts.^{3/}

- I. Exemption from Import Duties on Capital Equipment. If no similar Brazilian product exists, machinery, accessories and tools destined for the agricultural machinery industries may be exempted from import duties and consumption taxes.^{4/}
- II. Access to Loans and Other Facilities of Official Government Credit Institutions. Agricultural machinery is now considered a "priority" industry for the purposes of loans, guaranties, etc. from official government credit institutions.^{5/}

^{1/} Decree No. 60.056 (Jan. 12, 1967), Art. 2, Diario Oficial (Jan 19, 1967)

^{2/} Ibid. Art. 5

^{3/} Ibid. at 8 (b)

^{4/} Ibid. Art. 6 and see Law No. 4.584 (Dec. 11, 1964).

^{5/} Decree No. 60.056 (Jan. 12, 1967), Arts. 2 and 7

Annex M

INVESTMENT INCENTIVES

Exemption from Duties and Consumption Taxes on Imported Machinery and Parts

In order to induce investment in certain key industrial sectors, the Government of Brazil has exempted from all import duties and consumption taxes the importation of machinery, accessories, tooling and spare parts destined for use in the industries listed below, if no similar product is made in Brazil and if the prior approval of the appropriate Executive Group of the Government is obtained.

<u>Industry</u>	<u>Duration of Exemption (Years)</u>	<u>Executive Group to Approve</u>	<u>Legal Authority</u>	<u>Comments</u>
1. Any enterprise of "fundamental interest" for economic development	No time period specified	A federal investment or planning agency	Decree-Law 37 (Nov.18,66) Art.14, <u>Diario Oficial</u> (Nov. 21, 1966)	
2. Diesel engine manufacturing	5	GEIMEC	Decree-Law No.65 (Nov.21,66), <u>Diario Oficial</u> (Nov. 22, 66)	
3. Food processing	4	GEIPAL	Decree-Law No. 46 (Nov.18, 66), <u>Diario Oficial</u> (Nov. 21, 66)	
4. Weaving, spinning, & textiles	4	GEITEC	<u>Ibid.</u>	
5. Chemicals & petrochemicals	4	GEIQUIM	<u>Ibid.</u>	
6. Electric and Electronic	4	GEIMEC	<u>Ibid.</u>	
7. Civil construction	4	GEIMEC	<u>Ibid.</u>	
8. Paper and graphic arts & printing	4	GEIPEC	<u>Ibid.</u>	

<u>Industry</u>	<u>Duration of Exemption (years)</u>	<u>Executive Group to Approve</u>	<u>Legal Authority</u>	<u>Comments</u>
9. Paper production for newsprint, magazines & books	5	Treasury & BNDE	Law No. 4.950 (April 20, 1966), Diario Oficial No. 8 (1966), p.499	Available only for Brazilian firms whose stock is more than 50% owned by Brazilian citizens. Art. 1, § 4.
10. Reequipment or modernization of auto industry	3	GEIMEC	Law No. 4.951 (April 26, 1966) Diario Oficial No. 8 (1966), p.509	Limited to firms established before Oct. 31, 1965. Art. 2
11. Leather & footwear	3	GEITEC	Decree No.57.028 (Oct.11, 65) Diario Oficial No.19 (1965),p.1.475	
12. Agricultural tractor manufacturing	2	GEIMEC	Law No. 4.622 (May 3, 1965) <u>Diario Oficial</u> No.9 (1965),p.705	
13. Road building machinery manufacturing	2	GEIMAR	<u>Ibid.</u>	
14. Manufacturing of agricultural machines or implements	no time period specified	GEIMEC	Decree No. 60.056 (Jan.12,'67) <u>Diario Oficial</u> (Jan. 16, 1967)	
15. Metallurgy	5	GEIMET	Law No. 4,622 (May 3, 1965) <u>Diario Oficial</u> No. 9 (1965),p.705	
16. Movie studios & laboratories	3	GEICINE	<u>Ibid.</u>	
17. Film manufacturing	3	GEICINE	<u>Ibid.</u>	

<u>Industry</u>	<u>Duration of Exemption (years)</u>	<u>Executive Group to Approve</u>	<u>Legal Authority</u>	<u>Comments</u>
18. T.V. stations	no time period specified	GEITEL	<u>Ibid.</u>	T.V. industry is restricted to Brazilians
19. Ship construction	no time period specified	GEIPOT	<u>Ibid.</u>	
20. Heavy machinery industry	4	GEIMEC	Law No. 4.584 (Dec.11, 1964) Diario Oficial No. 24 (1966),p.1.355	

ALSO: Machinery, mechanical instruments or electronic machines imported for any industrial or agricultural processes may be granted up to a 50% reduction in duties, if no national similar exists. Applications for this benefit should be made to the Custom's Policy Council. Decree Law No. 63 (Nov. 18, 1966), Art. 8, Diario Oficial (Nov. 21, 1966).

DECLASSIFIED
Authority NND 969000

Annex M

INVESTMENT INCENTIVES

Exemption from Duties and Consumption Taxes on Imported Machinery and Parts

In order to induce investment in certain key industrial sectors, the Government of Brazil has exempted from all import duties and consumption taxes the importation of machinery, accessories, tooling and spare parts destined for use in the industries listed below, if no similar product is made in Brazil and if the prior approval of the appropriate Executive Group of the Government is obtained.

<u>Industry</u>	<u>Duration of Exemption (Years)</u>	<u>Executive Group to Approve</u>	<u>Legal Authority</u>	<u>Comments</u>
1. Any enterprise of "fundamental interest" for economic development	No time period specified	A federal investment or planning agency	Decree-Law 37 (Nov.18,66) Art.14, <u>Diario Oficial</u> (Nov. 21, 1966)	
2. Diesel engine manufacturing	5	GEIMEC	Decree-Law No.65 (Nov.21,66), <u>Diario Oficial</u> (Nov. 22, 66)	
3. Food processing	4	GEIPAL	Decree-Law No. 46 (Nov.18, 66), <u>Diario Oficial</u> (Nov. 21, 66)	
4. Weaving, spinning, & textiles	4	GEITEC	<u>Ibid.</u>	
5. Chemicals & petrochemicals	4	GEIQUIM	<u>Ibid.</u>	
6. Electric and Electronic	4	GEIMEC	<u>Ibid.</u>	
7. Civil construction	4	GEIMEC	<u>Ibid.</u>	
8. Paper and graphic arts & printing	4	GEIPEG	<u>Ibid.</u>	

<u>Industry</u>	<u>Duration of Exemption (years)</u>	<u>Executive Group to Approve</u>	<u>Legal Authority</u>	<u>Comments</u>
9. Paper production for news-print, magazines & books	5	Treasury & BNDE	Law No. 4.950 (April 20, 1966), Diario Oficial No. 8 (1966), p.499	Available only for Brazilian firms whose stock is more than 50% owned by Brazilian citizens. Art. 1, § 4.
10. Reequipment or modernization of auto industry	3	GEIMEC	Law No. 4.951 (April 26, 1966) Diario Oficial No. 8 (1966), p.509	Limited to firms established before Oct. 31, 1965. Art. 2
11. Leather & footwear	3	GEITEC	Decree No. 57.028 (Oct. 11, 65) Diario Oficial No. 19 (1965), p.1.475	
12. Agricultural tractor manufacturing	2	GEIMEC	Law No. 4.622 (May 3, 1965) <u>Diario Oficial</u> No. 9 (1965), p.705	
13. Road building machinery manufacturing	2	GEIMAR	<u>Ibid.</u>	
14. Manufacturing of agricultural machines or implements	no time period specified	GEIMEC	Decree No. 60.056 (Jan. 12, '67) <u>Diario Oficial</u> (Jan. 16, 1967)	
15. Metallurgy	5	GEIMET	Law No. 4,622 (May 3, 1965) <u>Diario Oficial</u> No. 9 (1965), p.705	
16. Movie studios & laboratories	3	GEICINE	<u>Ibid.</u>	
17. Film manufacturing	3	GEICINE	<u>Ibid.</u>	

<u>Industry</u>	<u>Duration of Exemption (years)</u>	<u>Executive Group to Approve</u>	<u>Legal Authority</u>	<u>Comments</u>
18. T.V. stations	no time period specified	GEITEL	<u>Ibid.</u>	T.V. industry is restricted to Brazilians
19. Ship construction	no time period specified	GEIPOT	<u>Ibid.</u>	
20. Heavy machinery industry	4	GEIMEC	Law No. 4.584 (Dec. 11, 1964) Diario Oficial No. 24 (1966), p. 1.355	

ALSO: Machinery, mechanical instruments or electronic machines imported for any industrial or agricultural processes may be granted up to a 50% reduction in duties, if no national similar exists. Applications for this benefit should be made to the Custom's Policy Council. Decree Law No. 63 (Nov. 18, 1966), Art. 8, Diario Oficial (Nov. 21, 1966).

Annex N

INVESTMENT INCENTIVES OFFERED BY
THE
STATES IN THE NORTHEAST REGION

I. ALAGOAS

- A. Description of State. One of the smallest states in Brazil, it is still larger than New Hampshire and contains 1.2 million people. It is served by two railroad lines and a paved road connects the capital, Maceio, with the major Port of Recife. Maceio itself also has a small port.

The economy of the State is based primarily on sugar. Other crops are rice, cotton, tobacco, coconuts and pineapple. The main industries are sugar refineries, food processing and textiles. Oil has been discovered at Tabuleiro dos Martins and there are reportedly large, unexploited reserves. A large new investment is being made in rock salt.

B. State Investment Incentives

1. Loans: CODEAL (The Company for the Development of Alagoas) offers loans at low interest rates for new industries.
2. Financing for Plant Site. New industries in the Maceio area may rent or buy land in the Governor Luiz Cavalcanti Industrial Center. Located ten miles from the center of the capital, it is served by power, water and telephones. Such land may be obtained under a five year mortgage.
3. Tax Relief. New industries which will manufacture finished products ready for consumption, may obtain the following tax benefits from CODEAL, so long that they will not monopolize the source of raw materials to the detriment of similar firms.
 - a. Total Exemption from State Taxes for Ten Years: Exemption from sales, turnover, export and other state taxes may be granted new industries which will manufacture a product not now being made in the State.^{2/}
 - b. 50% Credit Against State Taxes for Five Years: available for new companies which will manufacture a product already being made in the State, if the following conditions are met:
 - (1) local raw material will be used;
 - (2) the machinery to be installed will represent a technological advance over that now being used in the State;
 - (3) the project is of economic and social value to the State; and
 - (4) the existing production of such product is not sufficient to meet the needs of local consumption, or the production of the new firm to be installed is destined for export.^{3/}
 - c. Benefits Granted Competitors. New firms may request that they be granted any tax benefits presently being enjoyed by companies producing the same product.^{4/}

INVESTMENT INCENTIVES OFFERED BY
THE
STATES IN THE NORTHEAST REGION

II. BAHIA

- A. Description of State. Larger than California and Illinois combined, the State of Bahia contains 6 million people. Its capital, Salvador, is a major port in Brazil. Four railroads serve the state and a paved highway links the capital to the industrialized south of Brazil.

The principal agricultural crops are: cocoa, coffee, tobacco, sugar, beans, coconuts, corn and rice. Bahia is also an important source of fruits: oranges, tangerines, pineapples, lemons, melons, watermelons, figs, peaches and cashew nuts. Ranching (cattle, hogs and sheep) is another major activity.

Mineral resources include: molybdenum, mica, quartz, diamonds, semi-precious stones, salt, magnesite, chrome and carbonates. Large petroleum despoths are being exploited at Ronconcavo.

Chief industries are: chemicals, pharmaceuticals, textiles, processing of non-metallic minerals, timber, furniture and paper. Two large new investments now going into Bahia are: Phillips in carbon black and Leite Gloria (Carnation Milk) in powdered milk.

B. State Investment Incentives.

1. Financing. FUNDAGRO (The Fund for Agro-Industrial Development) may offer the following financial assistance to new investments:
 - a. Purchasing of shares of the enterprise;
 - b. Guaranties to aid in securing credit; and
 - c. Priority in obtaining credit from BANFEB (The Development Bank of Bahia).^{5/}
2. Tax Benefits. The Decree which offered relief from State taxes for a period from six to ten years applied only to firms installed before December 31, 1966. ^{6/} However, it is likely that this time limit has been or will be extended by a new Decree. Interested investors should inquire through the Conselho de Desenvolvimento (CDI) of the State Government of Bahia in Salvador.

III. CEARÁ

- A. Description of State. Containing 3.5 million people, the State of Ceará is larger than Wisconsin. It has a railroad line which runs almost the entire length of the state from north to south and most the width of the state from east to west.

INVESTMENT INCENTIVES OFFERED BY
THE
STATES IN THE NORTHEAST REGION

III. CEARÁ (continued)

- A. Description of State (continued). The important crops are sugar, cotton, beans, sweet potatoes, grapes, pineapples, coconuts, oranges, garlic, onions, peanuts, rice and coffee. Within Brazil, it is an important area for cattle, sheep, and hog raising.

By far the major industry is textiles; others are chemicals, pharmaceuticals and metallurgy. The sea, rich in lobsters and other fish, is almost untouched. Recently, several companies have started freezing and exporting lobsters to the United States.

The Industrial District of Ceará is being established in the southern zone of the capital, Fortaleza. Designed for light and medium sized industry, the District will offer access roads, power, water, sewers and communications facilities.

- B. Investment Opportunities. CODEC (The Company for the Economic Development of Ceará) has prepared feasibility studies for a number of projects which it is willing to assist through financing. These studies are available to potential investors; they cover the following opportunities: tile, leather tanning, men's nylon socks, scales, industrialization of corn, plumbing fixtures, barbed wire, rubber for tire recapping, paper bags, freeze drying, fertilizers, caustic soda, spinning machines, weaving machines, batteries, wrapping paper, automobile chassis, insecticides, plastic bags, cement and aluminum extrusion.

C. State Investment Incentives.

1. Financing Project.

- a. CODEC will make an interim loan equal to the Art. 34/18 federal tax deposit funds authorized so that the project can go forward without waiting for final release of such funds by SUDENE and BMS. (See Annex "A").
- b. CODEC will also purchase up to 50 percent of the equity shares the project organizer is required to take to satisfy the requirements for Art. 34/18 tax funds.

2. Tax Relief.

- a. New Industries Producing Product : not Now Made in State. If such projects will use new equipment and modern technological processes, they may be exempt from all state taxes for up to five years.^{8/} If the project is classified as a "basic" industry by the Technical Council on the Economy, this exemption may be extended beyond five years.^{9/} (Recently newspaper reports indicate these exemptions may have been limited to 40 percent of the tax due. This should be checked out in the State.)

INVESTMENT INCENTIVES OFFERED BY
THE
STATES IN THE NORTHEAST REGION

III. CEARÁ (continued)

- b. New Projects to Produce Products Now Being Made in Ceará. Such firms may be granted the benefits presently being enjoyed by companies already making this product, if there is not an excess production of it in the state, and if new project will not create an excess supply. ^{10/}

IV. MARANHÃO

A. Description of State. Slightly bigger than Arizona, this State has only 2.5 million inhabitants. Since the Amazon forest begins in the western part of Maranhão, it is rich in tropical woods and wild rubber. Mineral resources include gold, and aluminum phosphate. Rice and cotton are the principal crops. The State is an important fish producing region in Brazil. Although paved roads are missing, there is a railway line that runs from its capital, São Luiz, down to the State of Piauí.

B. State Investment Incentives.

1. Financing Project. DEMAR (The Fund for the Economic Development of Maranhão) can offer the following financial assistance:

- a. Purchasing of voting shares in the project;
- b. Taking bonds and notes of the firms;
- c. Financing, through the Bank of the State of Maranhão, at interest rates not in excess of eight percent per year.

2. Tax Relief: Industries installed before December 31, 1963 may receive the following tax benefits:

- a. Exemption from all State Taxes for Five Years, if the firm will manufacture a product not now made in the State and if it will use local or regional raw materials. ^{11/}
- b. 50% Credit Against State Taxes: available for five years to projects which will make a new product, but which will not use a local raw material. ^{12/}

V. PARAIBA

A. Description of State. One of the smaller states in Brazil, Paraíba still has an area of 21,000 square miles and two million inhabitants. Paved roads link the capital, João Pessoa, with Campina Grande, its largest city, and with the Port of Recife. A railroad lines cross the entire state and connects with the whole rail network of the Northeast.

INVESTMENT INCENTIVES OFFERED BY THE
STATES IN THE NORTHEAST REGION

V. PARAIBA (continued)

A. Description of State (continued).

The major agricultural activities are: sugar, pineapple, cotton, corn, rice, cattle, sheep and hogs. Major industries are textiles, processing of non-metallic minerals, lime, clay products, etc.).

The "Industrial Districts" in João Pessoa and Campina Grande offer water, sewers, power, telephone service and paved roads.

B. State Investment Incentives.

1. Financing Project. FAGRIN (The Fund for Agricultural and Industrial Development) offers the following assistance:

- a. Purchasing of voting shares of the enterprise (FAGRIN will not take management control of the firm);
- b. Taking bonds and notes of the firm.
- c. Priority consideration will be given to the following industries:
 - (1) cattle slaughtering, fishing, and food freezing plants;
 - (2) extraction, industrialization or processing of raw materials, local or otherwise;
 - (3) industrialization of regional fruits;
 - (4) industrialization of milk and milk products.

2. Tax Benefits: new investments in this state may be exempted from all state taxes as follows:

- a. Those manufacturing a product new to the state which will use local raw materials: 10 year exemption if the investment capital exceeds Cr\$15 million (approximately \$7,000). ^{13/}
- b. Those manufacturing a product already made in the state, but using local raw materials:
 - (1) 10 years, if the investment capital exceeds Cr\$30 million (\$14,000 approximately);
 - (2) 5 years, if the investment capital is between Cr\$20 million (\$9,000) and Cr\$30 million;
 - (3) 3 years, if between Cr\$3 million and Cr\$20 million. ^{14/}
- c. Industries which will not use local raw materials:
 - (1) investment over Cr\$30 million -- 5 years
 - (2) investment between Cr\$20 million and Cr\$30 million -- 2 year and six months.
 - (3) investment between Cr\$3 million and Cr\$20 million -- 1 year and six months. ^{15/}

INVESTMENT INCENTIVES OFFERED BY THE
STATES IN THE NORTHEAST REGION

V. PARAIBA (continued)

2. Tax Benefits (continued)

d. New industries established in the interior of the State may have these tax benefits increased by 50%. For example, a company whose capital exceeds Cr\$15 million, and who will manufacture a new product using local raw materials would normally be entitled to ten years tax exemption. By locating in the interior of the State, however, it can increase this exemption by 50% and thus obtain 15 years tax exemption. ^{16/}

C. Municipal Incentives: FUMINGRA (The Municipal Fund for the Industrialization of Campina Grande) can offer financial assistance in making feasibility studies, loans and participation in the equity capital. ^{17/}

VI. PERNAMBUCO

A. The size of Wyoming, Pernambuco contains four million people. Its capital, Recife, is the main port for the Northeast. With a population of one million, Recife is an industrial center for textiles, metallurgy, beverages, chemicals, pharmaceutical products and fishing.

The chief crops are: sugar, cotton, coffee, bananas, sweet potatoes, coconuts, onions, tomatoes, pineapples, oranges, mangos and grapes.

The state also has sizeable herds of cattle and sheep.

B. State Investment Incentives

1. Financial Assistance. Available from EANDPE (The Development Bank for the State of Pernambuco).

2. Plant Sites: The State is offering at low prices land in the Industrial District of Pernambuco under ten year mortgages with 8 percent per year interest rates.

This land is situated 20 miles from the Port of Recife and 15 miles from the International Airport; it connects with paved roads to the port of Maceio in Alagoas.

INVESTMENT INCENTIVES OFFERED BY THE
STATES IN THE NORTHEAST REGION

VI. PERNAMBUCO (continued)

3. Tax Benefits: The following benefits are available to firms installed up to 1970.
- a. Industries producing goods new to the State: total exemption from state taxes for six years, followed by a ^{18/}50 percent credit against state taxes for the next three years.
 - b. New industries producing "highly essential" goods: total exemption from state taxes for 8 years followed by a 50 percent credit against state taxes for the next four years. ^{19/}
 - c. Existing "basic industries" which double their capacity: total exemption from state taxes for six years, followed by a 50 percent credit against state taxes for the next three years. This exemption, however, ^{20/} shall apply only to the amount represented by the increased production.
 - d. Industries falling with (a), (b), or (c) above which locate more than 30 miles from the capital: may receive an additional two years total exemption from state taxes. ^{21/}
 - e. New industries which do not fall within (a), (b), or (c) above, but which will use local raw materials or which will have an important social significance.
 - (1) If installed between 30 and 100 miles from the capital, total exemption from state taxes for four years, followed by a 50 percent credit against state taxes for the next two years;
 - (2) If installed more than 100 miles from the capital, total exemption from state taxes for six years, followed by a 50 percent credit against taxes for the next three years. ^{22/}
 - f. New industries manufacturing goods already produced in the State: may obtain the same benefits enjoyed by other producers of such goods. ^{23/}
 - g. Pernambucan firms located near the border of the State: when the firm must compete with firms in neighboring cities in other states, the Pernambucan firm may be conceded the same taxes benefits as its competitor across the state line. ^{24/}

VII. PIAUI

- A. Description of State. Largest than Kansas, Piaui has only 1.2 million people. Twenty five percent of its territory is covered by the dry brushwood "catinga". While there are few paved roads, a railroad line runs through the upper third of the state.

INVESTMENT INCENTIVES OFFERED BY
THE
STATES IN THE NORTHEAST REGION

VII. PIAUI (continued)

A. Description of State (continued)

The chief source of income is "carnauba" wax, used in making candles, lubricants, soaps, insulators, and records. The state is also rich in a variety of fibrous plants. There are a number of cattle. Very little industrialization exists; there are a few factories producing textiles, chemicals and pharmaceutical products.

B. State Tax Incentives: New investments may obtain the following tax benefits.

1. Industries producing products new to the State: 80% credit against state sales and turnover taxes for a period of five years, which may be extended for another five year period. 24 -A/
2. Firms processing raw materials of the State may also obtain a 50% reduction in stamp taxes. 25
3. Firms processing raw materials from other states may be exempted from export taxes and stamp taxes; likewise, raw materials they use may be exempted from these taxes. 26

VIII. RIO GRANDE DO NORTE

A. Description of State. One of the smallest states in Brazil, Rio Grande do Norte is still larger than Vermont and New Hampshire combined. Approximately one million people live there. It has several stretches of paved road running out of the Port of Natal and railroads connecting with the northeast railroad network. Crops produced include pineapples, cotton, rice and beans. It is also an area of cattle, goats and sheep. Mineral resources include tungsten and salt. The chief industries are textiles and processing of non-metallic minerals.

B. State Investment Incentives: The following tax benefits may be obtained.

1. New industries which use raw materials of this state may be exempted from state taxes for ten years, followed by an additional ten years under certain circumstances, if they meet the following requirements:
 - a. The investment in fixed assets amounts to at least Cr\$10 million (\$4,500);

INVESTMENT INCENTIVES OFFERED BY
THE
STATES IN THE NORTHEAST REGION

VIII. RIO GRANDE DO NORTE (continued)

B. State Investment Incentives (continued)

- b. The basic raw material used is either cotton, agave fiber, "carnauba" wax, sodium chloride, or gypsum; and
 - c. The materials are not used to produce alcoholic beverages. ^{27/}
2. Industries which import raw materials from other States or from abroad may have their export taxes reduced by 50% and be exempted from various other state taxes. ^{28/}

IX. SERGIPE

A. Description of State. Sergipe, slightly larger than Massachusetts, has only 1 million people. While it has few paved roads, it does have a railway connecting with the industrialized south of Brazil. Paved roads are being constructed which will connect its capital, Aracaju, with Recife and with southern Brazil.

Oil was recently discovered at Carnopolis and its exploitation is already under way. Mineral resources include, ochre, feldspar, manganese and iron pyrite. Its marble and quartz deposits are considered by some the best in the world.

Main crops are sugar, coconuts, cotton and tobacco. Lumber and textiles are the main industries.

B. State Investment Incentives.

1. Financing Project. The Bank of Economic Development for the State of Sergipe can offer the following financial assistance:

- a. Loans .
- b. Guaranties .
- c. Participation in the equity capital of a new company.

2. Tax Benefits.

- a. Industries producing a product new to the state: may be totally exempted from state taxes for one half the time period specified below and from 50 percent of such taxes from the remaining half of the time period:
 - (1) Investments up to Cr\$25 million (\$11,000) -- 5 years;
 - (2) Investments between Cr\$25 million and \$50 million -- six years;
 - (3) Investments between Cr\$50 million and Cr\$100 million -- eight years;
 - (4) Investments of Cr\$100 million or more -- ten years.

INVESTMENT INCENTIVES OFFERED BY
THE
STATES IN THE NORTHEAST REGION

IX. SERGIPE (continued)

B. State Investment Incentives (continued)

2. Tax Benefits (continued)

- a. Industries producing a product now made in the state:
- (1) Investments up to Cr\$25 million -- three years;
 - (2) Investments between Cr\$25 and Cr\$50 million -- four years;
 - (3) Investments between Cr\$50 million and Cr\$100 million -- 5 years;
 - (4) Investments of Cr\$100 million or more -- 6 years. ^{29/}
- c. If approved by the Council for Economic Development of Sergipe (CONDESE), these exemptions may be extended for one additional year. ^{30/}
- d. The above exemptions may not be granted for mills, refineries, coffee processing, or for industries engaged solely in the primary processing of raw materials, if similar products are already being produced in the state. ^{31/}

- 1/ Alagoas, St. Decree No. 1.295 (Feb. 22, 1965), Art. 16.
- 2/ Ibid. at Art. 1.
- 3/ Ibid. at Art. 2.
- 4/ Ibid. at Art. 10.
- 5/ Bahia St. Law No. 849 (Oct. 19, 1956) and St. Decree No. 18.464 (July 20, 1962).
- 6/ Bahia Law No. 1.573 (Dec. 13, 1961), Decree No. 18,464 (July 1961), Decree No. 18.464, (July 20, 1962).
- 7/ Ceará St. Law No. 7.865 (Sept. 26, 1964), Art. 1.
- 8/ Ibid. at Arts. 1 and 3.
- 9/ Ibid. at Art. 3, § 1.
- 10/ Ibid. at Art. 2
- 11/ Maranhão St. Law No. 2.278 (July 12, 1963); Maranhão St. Decree No. 2.468 (July 18, 1963), Art. 1.
- 12/ Ibid. at Art. 2
- 13/ Paraíba St. Law No. 1.564 (Oct. 25, 1956), Art. 2.
- 14/ Ibid. at Art. 2, § 1.
- 15/ Ibid. at Art. 2, § 2.
- 16/ Paraíba St. Law No. 1.902 (Dec. 10, 1953), Art. 2.
- 17/ Campina Grande Munc. Law No. 88 (Dec. 24, 1963 as amended on Jan. 13, 1964).
- 18/ Pernambuco St. Law No. 5.661 (Oct. 2, 1965), Art. 2 (1) and Art. 3 (1).
- 19/ Ibid. at Art. 2 (2) and Art. 3 (II).
- 20/ Ibid. at Art. 2 (d) and Art. 3 (1)

INVESTMENT INCENTIVES OFFERED BY
THE
STATES IN THE NORTHEAST REGION

- 21/ Ibid. at Art. 5 (1)
- 22/ Ibid. at Art. 5 (II)
- 23/ Ibid. at Art. 7.
- 24/ Ibid. at Art. 6.
- 24-A/ Piaui St. Decree No. 314 (April 13, 1960), Art. 1.
- 25/ Ibid. at Art. 10.
- 26/ Ibid. at Art. 9.
- 27/ Rio Grande do Norte St. Law No. 1.048 (Dec. 12, 1953), Arts. 1 - 5.
- 28/ Rio Grande do Norte St. Law No. 1.321 (Nov. 19, 1955) Art. 4.
- 29/ Sergipe St. Decree No. 378 (Apr. 3, 1964), Art. 20
- 30/ Ibid. at Art. 12.
- 31/ Ibid. at Art. 4.

Annex D

STATE INCENTIVES FOR INVESTMENT
IN THE
NORTH (AMAZON BASIN)

NOTE: This description of State incentives is not all inclusive. The failure to list a State of this region here does not imply it has no such incentives. A potential investor should check further with the local authorities in the area in which he wishes to locate to determine if additional incentives may be available.

While the State of Mato Grosso has no general laws providing incentives for new investments, it is understood to be fairly easy to obtain special legislation from the State Legislature conceding such incentives for a good project.

I. STATE OF AMAZONAS

A. Description of State:

Located in the heart of the Amazon basin, this State is larger than Texas and contains an estimated 700,000 people. Its principle resources are tropical woods, rubber, nuts, and wild animal hides. Recently, it has started exporting black pepper.

B. Incentives:

1. Small and medium sized firms (i.e. capital less than Cr\$200,000,000 or approximately \$90,000 US), established after June 30, 1965, are totally exempt from State and municipal taxes, if they are manufacturing industrialized products. Machinery and equipment destined for installation in such firms is not subject to state taxation upon its entry into the State.^{1/}
2. Exemption from sales, excise, and export taxes for 15 years: available for business installed in this State if their capital exceeds Cr\$200,000,000 in the case of industries or Cr\$50,000 in the case of agro-industries.^{2/}
3. Black pepper exports: all state taxes and duties relating to the export of black pepper produced in this state may be reduced by 50 percent for five years.^{2/}
4. Firms engaged in air transportation are exempt from state taxes until 1980.^{4/}
5. Feed and veterinary medicines for cattle or poultry raising, whether imported or produced locally, are exempt from state taxes.^{2/}

DECLASSIFIED

Authority NND969000

6. Milk and milk products originating in this state are free of State taxes.^{6/}
7. Fresh meat is exempt from state taxes.^{7/}
8. Other minor state tax benefits are available for: wheat flour intended for bread^{8/} or baked goods^{8/}; as well as the export of jute^{9/}, wild animal skins^{10/}, crocodile skins^{11/}, and nuts in bulk^{12/}.

-
- 1/ Amaz. Law No. 228 (June 30, 1965), Diario Oficial No. 20.683 (July 1, 1965).
 - 2/ Amaz. Law No. 110 (Nov. 23, 1964).
 - 3/ Amaz. Law No. 284 (Sept. 4, 1965).
 - 4/ Amaz. Law 251 (July 30, 1965), Diario Oficial 20.712 (Aug. 5, 1965).
 - 5/ Amaz. Law No. 163 (Dec. 15, 1964), Diario Oficial, No. 20.527 (Dec. 16, 1964), as amended by Amaz. Law No. 213 (May 28, 1965), Diario Oficial No. 20.655 (May 28, 1965).
 - 6/ Amaz. Law No. 216 (June 4, 1965), Diario Oficial, No. 20.662 (June 4, 1965).
 - 7/ Amaz. Law No. 255, Diario Oficial, No. 20.716 (Oct. 10, 1965).
 - 8/ Amaz. Law No. 84 (Oct. 29, 1964).
 - 9/ Amaz. Law No. 197 (April 30, 1965).
 - 10/ Amaz. Law No. 316 (Oct. 29, 1965).
 - 11/ Amaz. Law No. 325 (Nov. 17, 1965).
 - 12/ Amaz. Law No. 365 (Dec. 22, 1965).

III. STATE OF PARANA

A. Description of State:

Primarily an agricultural region, Parana, with its four million inhabitants, is known for cattle raising, coffee, wheat, and cotton. Extensive pine forests give rise to its major industries: lumber, furniture manufacturing and paper. (See Annex E, for federal incentives for investments in forestation and reforestation projects.)

B. Incentives:

1. State:

- a. CODEPAR (The Economic Development Company of Parana), for the installation or expansion of industrial projects, may lend up to 60 percent of the total investment (fixed assets plus working capital), so long as such loan does not exceed 70% of the fixed assets. In exceptional cases, up to 90% of the fixed assets may be financed, providing such financing does exceed 60 percent of the total investment.
- b. The amortization period for such loans may be up to five years; the interests and other charges come to 1.8 per month. The loans, payable in cruzeiros, are free of monetary correction.
- c. For small businesses: For loans less than Cr\$50 million (approximation \$22,000) and under five years, the project can be financed up to 90 percent of the value of the fixed assets.

2. Municipal:

The State Development Commission states that various municipalities also offer tax benefits for new investments. A potential investor should look into this further.

Annex P

INVESTMENT INCENTIVES OFFERED
BY OTHER STATES
AND MUNICIPALITIES

NOTE: This list of local incentives is by no means exhaustive; it contains only those which have been publicized recently by the press in Rio de Janeiro. A potential investor should check further with the local authorities in the area where he wishes to locate in order to determine what additional incentives may be available.

I. STATE OF MINAS GERAIS

A. Description of State:

Rich in minerals, this State is a major producer of gold, diamonds, aquamarines and other semi-precious stones; it has the largest iron ore reserves in the world. The capital, Belo Horizonte, forms one corner of the industrialized triangle of southern Brazil. Ten miles from the center of Belo Horizonte is the industrial park where big steel works (e.g. Mannesman, Belgo-Mineira, etc.) and other heavy industries are located.

The largest hydroelectric power stations in Brazil are in Minas and there are plans to increase the capacity of electricity of the State from 1.8 million KW to 5 million KW by 1980. Its railway system is the most extensive in Brazil.

Slightly larger than France, it contains ten million people. Belo Horizonte has three universities; 890 industrial establishments with 25,000 workers, 37 national banks--one with a branch in N.Y.--and two foreign ones.

B. Investment Incentives:

New industries established in the State may obtain an exemption from all state taxes for a period up to ten years. (Minas Gerais State Law no. 2.323 of 1964 and State Decree No. 8.062, (1964)).

Two criteria determine the length of the tax exemption: one based on the amount of invested capital and the other based on technical factors. The standards are as follows:

1. Two years exemption for industries with a capital investment of up to 20 million cruzeiros; three years for capital from 20-30 million; four years for capital from 30-50 million; and five years for capital above 50 million (approximately \$22,000).

2. Points will be allotted on the following basis-- essentiality and priority of the industry (1 or 2 points); use of raw materials produced or existent in Minas Gerais (1 point); size of the industry and market potential (1 point); and technological standard of the industry (1 point). Each point is worth one additional year of tax exemption. Points are granted by the State Secretary of Economic Development.

For an industry to attain the maximum ten year exemption, it would have to invest at least \$22,000 and achieve a perfect score of 5 on the technical factors.

If after securing this exemption, a company does not begin operations within six months or does not attain the production levels set, it may lose the tax exemption.

II. STATE OF SAO PAULO

The metropolitan area of São Paulo is the largest industrial center in Latin America, with 35,000 factories producing over 6,000 items. The State contains thirteen million inhabitants.

Two municipalities within the State which offer investment incentives are Garça and Taubaté.

A. Municipality of Garça:

This city offers total exemption from all municipal taxes to new industries for a period up to 25 years.

Garça is connected by a paved road to the city of São Paulo, approximately 300 miles to the east. Bauru, 20 miles away, is a commercial center for food and other industries.

B. Municipality of Taubaté:

This city offers exemption from municipal taxes for new industries which will produce items not yet being manufactured in the area.

Situated approximately 90 miles from the city of São Paulo, Taubaté, with a population of 80,000 has the following industries: foundry, heavy machinery, textiles and mining. Application for this benefit must be made to the District Tax Collector.

Ames G

PROGRAMS OPERATED BY THE AGENCY FOR INTERNATIONAL
DEVELOPMENT TO ENCOURAGE PRIVATE INVESTMENT IN BRAZIL

1. Catalog of Investment Information and Opportunities.

- a. Index: Available without cost to "any" interested businessman. Contains a listing of numerous industrial feasibility and economic studies of developing countries. Periodically updated. Available in Portuguese.
- b. Abstract Cards: Each study listed is summarized and briefly commented upon on abstract cards. All of the cards for Brazil and for the rest of Latin America are available for examination at the American Embassy* in Rio de Janeiro. Periodically updated. Available in Portuguese.
- c. Reports: original feasibility or economic studies have been reproduced on microfilm or microfiche. They may be obtained from Department of Commerce in Washington by ordering at the cost listed in the Index.

2. Investment Survey Grants: These grants will cover up to fifty percent of the cost of a potential investor's investigating an investment possibility, if he decides the investment is not feasible and turns the study over to A.I.D. The grant must be made prior to making the survey.

3. Specific Risks Guaranties: Basically, an insurance policy, this programs offers protection for new investments against the following political risks: expropriation or confiscation; inconvertibility of currency (not devaluation); and losses caused by war, revolution, or insurrection.

- a. Eligible Investments: The investment must be for a new project or for the expansion or modernization of an existing plant. For public policy reasons, a few kinds of investment are not eligible: e.g. hotels with casinos, facilities to manufacture arms; alcoholic beverages, etc. Otherwise, most productive investment may qualify for these guaranties.
- b. Reinvested Earnings: Reinvested earnings in Brazil may be eligible for these guaranties under certain circumstances.

c. Premium:

(i) Current coverage: 1/4% for inconvertibility; 1/2% each for expropriation and war risks coverage (or 7/8% for combined expropriation-war risks guaranty);

(ii) Standby coverage: 1/10% annually for each coverage.

4. Extended Risks Guaranties: Offers protection for loans against all risks (including commercial) for up to 75 percent of the principal amount as well as 75 percent of the accrued but unpaid interest. Guaranty may also be structured to cover 100 percent of the last 75 percent of the maturities. A.I.D. will look with particular favor on high priority projects and on small business proposals.

ELIGIBILITY: While the entity receiving the guaranties or the grants described in Numbers 2 through 4 above must be either an American citizen, partnership, association, corporation or a wholly-owned subsidiary thereof, the equity investment may be in or the loan to a Brazilian firm (or a mixed firm of any other nationality). Thus, indirectly, these programs can assist non-American businessmen by helping them to secure foreign capital or American partners.

Further information on the above programs may be obtained from:

* Miss Beverly May Carl
American Embassy
USAID/IPEO
Rio de Janeiro, Brazil.