

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/147/Add.1

19 February 1975

Limited Distribution

Original: Spanish

## 1975 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH CHILE

### Statement submitted by Chile under the Simplified Procedures for Consultations

Substitute the following for the corresponding sections:

1. Evolution of the balance of payments

The favourable balance-of-payments situation achieved during the years 1965-1970 became extremely unfavourable as from 1971, with annual deficits of nearly US\$300 million between 1971 and 1973, a figure which does not take account of arrangements prior to the cessation of servicing of the external debt in 1971 and its subsequent renegotiation.

The trade balance, which is of particular interest in this statement, showed a considerable deterioration between 1970 and 1973, falling from a surplus of US\$95 million in 1970 to a deficit of US\$295 million in 1973.

<u>Trade balance</u>	
(in \$ million)	
1970	95
1971	-88
1972	-495
1973	-295

The forecasts for 1974 indicate an improvement in relation to recent years, despite the negative effects of the energy crisis, with tremendous increases in prices of fuels, lubricants, many raw materials and various agricultural products in addition to a pronounced impact on freight costs.

Looking in closer detail at the forecasts for 1974, it is estimated that the trade deficit will reach US\$230 million, on the assumption that the average price of copper for the year is 93 cents per lb.

Exports of goods are expected to be at least 50 per cent above the 1973 level, as a result of increased exports of copper, together with a considerable increase in shipments of industrial products and a definite recovery in agricultural exports.

As regards copper exports, while world prices of this metal have reached all-time record levels, mention must also be made of the internal effort which has resulted in a nearly 20 per cent increase in copper output and a 33 per cent increase in sales of copper.

Exports of nitrate and iodine will increase by almost 120 per cent, adding another US\$30 million to the credit side of the balance of payments.

The increase in exports of industrial products will be about 130 per cent above 1973, with shipments of cellulose and allulose products, in particular, increasing by 300 per cent and accounting for US\$90 million additional earnings. Exports of fish flour will increase by US\$15 million.

On the import side, examination of the situation is most complex because of the very substantial increases in international prices of agricultural products, fuels and lubricants. In any case, and in order to have a better indicator of the domestic production effort, one can consider separately the evolution of current imports. Whereas, in 1970, these reached US\$680 million, they are expected to reach US\$1,890 million in 1974; which represents an increase of about 40 per cent above 1973.

This increase is not only considerable but also encouraging when one considers that the imports of oil products alone increased by over 200 per cent and that the international prices of major agricultural products have increased by at least 40 per cent. Efforts made to re-establish a realistic price system stimulated internal production of foodstuffs, which considerably relieved the strain on the balance of payments and, at the same time, left a larger surplus available for importing raw materials needed in the production process and for bringing stocks up to normal levels. Thus the share of foodstuffs in total imports decreased from 45 per cent in 1973 to 25 per cent in 1974.

At the same time, the share of raw materials and shares in current imports increased from 40 per cent in 1973 to 50 per cent in 1974, while the share of fuel and lubricants rose from 9 to 20 per cent over the same period.

## 2. Other instruments to regulate imports

### Prior deposits

On the occasion of the last consultation, in 1969, Chile stated that in view of the minor importance of prior deposits on imports at that time and because of the outward-looking policy pursued in respect of foreign trade, this type of restriction would be eliminated. Indeed these restrictions were abolished in January 1970 and only a small number of items remain subject to the prior deposit system.

Subsequently, in 1971, because of the change in economic policy, the balance-of-payments difficulties mentioned above and the decision of the Government to centralize foreign trade to a greater extent, a prior deposit of 10,000 per cent was established for most items in the list of permitted imports. This treatment affected approximately 70 per cent of all the items in the list. Because of the prohibitive amount of the deposits, they were not made in practice, but importers had to request an exemption whenever applying for registration of an import transaction by the Central Bank; this system was therefore very restrictive and particularly discriminatory for the users.

In October 1973 the Government established systems of exemption from the 10,000 per cent deposit which were more automatic and more general, thus avoiding any discrimination between importers.

In April 1974 the Central Bank decided to abolish the 10,000 per cent prior deposits, leaving them in force, on a provisional basis, only in respect of "approximately 30 tariff headings"; this implied a more rapid process of relaxing restrictions and more than 2,500 tariff headings which had previously been subject to this obligation and this control system were released therefrom. In addition, this measure allows import formalities to be carried out more rapidly.

In any case, prior to the elimination of prior deposits, various imports had been exempted, including in particular imports covered by special legislation, raw materials and various pharmaceutical products as well as products originating in countries of LAFTA and the Andean Pact. Nevertheless this latter category of imports has been covered since October 1972 by safeguard clauses which allow the Central Bank to make them subject to the same prior deposit régime as imports from other countries.

3. Prospects concerning tariff policy and other instruments to regulate imports

To define the principles already mentioned, in January 1974, the Minister of Finance formulated the rules the country would follow in respect of tariffs. The most important points are described below.

The tariff system which will finally be established will be determined essentially by the degree of protection it is considered advisable to give to national sectors. This means that customs duties will not be used to achieve aims other than those mentioned above, such as, for instance, the restriction of non-essential imports, the securing of larger fiscal receipts or the solution of temporary balance-of-payments problems. It also means that, in future, recourse to other instruments to regulate imports (quotas, deposits, licences, etc.), which have been extensively used in the country's foreign trade, will be avoided. Lastly, in order that the tariff may fully achieve its basic objective, it will have to be applicable to all imports. Thus the policy will be that the relevant customs duty will have to be paid on all imports, regardless of whether they are effected by the public or the private sector. Moreover, a detailed analysis will be undertaken of all existing special systems and, as a general rule, discriminations resulting from customs duty exemptions will tend to be eliminated.

Likewise, in the context of the general criteria that will determine tariff policy, it must be remembered that Chile is a member of the Latin American Free Trade Association (LAFTA) and the Andean Group. This means that it has taken on certain international obligations which will naturally influence the final structure of its tariff. Indeed, in the near future, a single tariff is to be established in several Latin American countries, including Chile.

Lastly, it is expected that the tariff reform and the revision of the other instruments regulating imports should be fully achieved within a period of not more than three years (as from January 1974).

In pursuance of the above-mentioned aims, the following corrective measures have been taken with immediate effect:

- (a) All ad valorem duties exceeding 220 per cent have been reduced to 200 per cent.
- (b) Ad valorem duties of between 50 per cent and 220 per cent have, as a general rule, been reduced by 10 per cent of the actual rate, subject to the following limitations:
  - (1) The scale of ad valorem duties was made up solely of tariffs which are multiples of 5 per cent, so that any ad valorem duty which is not a multiple of 5 per cent has been approximated to the nearest corresponding rate.

- (2) Where the resulting ad valorem duty is lower than the Minimum Common External Tariff, the latter has been adopted.
- (c) Existing prohibitions on the import of certain types of goods will continue in force for the time being. As a general rule, however, where the purpose is to limit internal consumption of the products concerned, the prohibitions will be lifted and replaced by suitable consumption tax mechanisms without discriminating between the domestic or imported products.
- (d) In respect of customs duties, State or mixed enterprises will be treated in the same way as private enterprises. In addition, as a general rule, no further applications for duty exemptions on specific import transactions are to be granted.
- (e) The specific duties which still remain will very shortly be transformed into ad valorem duties and adapted to the new levels. Only in cases of absolute necessity will a few specific duties be maintained.
- (f) Revision of values in accordance with the rules laid down by the Brussels Valuation Committee will be urged and encouraged.

After the adoption of these measures by Decree No. 453, the maximum duty rate of 200 per cent was reduced to 160 per cent, and a simultaneous reduction was made in the other rates.

The maximum duty rate of 160 per cent has since been lowered to 140 per cent and reductions have consequently been made in the other rates.