

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/W/52

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Limited Distribution

Committee on Balance-of-Payments Restrictions

1981 CONSULTATION WITH PERU

(SIMPLIFIED PROCEDURES)

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD, 26th Suppl., pp. 205-309) to assist the Committee on Balance-of-Payments Restrictions in taking the decision referred to in paragraph 8 of this Declaration.

I. Peru's previous consultations

2. The last full consultation with Peru took place on 17 November 1975. At this consultation the Committee noted that the level of import restrictions was high but that - according to the IMF - the restrictions did not exceed those necessary to prevent a further decline in Peru's monetary reserves. The Committee expressed the hope that Peru's development programme would soon place it in a position to start relaxing progressively its restrictions and to move away from reliance on non-tariff measures toward control of imports through tariffs. (BOP/R/84, p.10)

3. The last full consultation was followed by two consultations under the simplified procedures in June 1977 (BOP/R/94) and November 1979 (BOP/R/108).

II. The main changes in Peru's trade policy since the last consultation

a) Import restrictions and licensing

4. As of the end of 1980, import restrictions were eliminated on practically all items. The licensing or "observation" requirement was abolished for all but 137 items, many of which are subject to sanitary controls or state trading. The import of only seven tariff items - certain war-related materials and raw cotton - remains prohibited. A list of the goods subject to prior licensing and import prohibitions is annexed to document COM.IND/W/55/Add.68/Rev.1 - COM.AG/W/72/Add.68/Rev.1, pages 5-13, and - in Spanish only - to document BOP/217.

b) Tariffs

5. As of 13 September 1980 the maximum customs tariff was lowered from 150 to 60 per cent (L/5038). As a result of this measure which affected close to 13 per cent of all customs categories, the average custom tariff declined from 39 to 34 per cent.

c) Surcharges

6. In March 1980 the temporary surcharge of 10 per cent that had been imposed on most items since May 1978 was eliminated. A special surcharge of 10 and 20 per cent on imports of finished textiles, clothing and electrical appliances, which had been introduced in January 1980, was withdrawn in May 1980 for textiles and clothing and in October 1980 for electrical appliances.

III. Major trends in Peru's economy since the last consultation

7. Peru's economy grew by 3 per cent in 1980, a rate somewhat slower than in the previous year. Agricultural production was again sharply reduced, most major crops, except cotton, suffering from prolonged drought and registering strong output declines. Staple food crops (rice and corn) were hit particularly hard. Exports of agricultural products, which in 1979 accounted for over 10 per cent of total exports, contracted by about one-third in value, mostly due to declining volume. In 1980, Peru became a net importer of sugar and had to purchase abroad sizeable quantities of other staple goods. Imports of agricultural origin increased by nearly three-quarters, representing about 12 per cent of the country's total import bill in 1980.

8. Exports of manufactures declined by about 10 per cent in value, to \$500 million. Manufacturing production was, however, growing at an accelerated rate in 1980, but most of the increase in output was destined for the domestic market, where demand was increasing fast, partly fuelled by the profits of the sharp export expansion in 1979. The 11 per cent increase in Peru's total export earnings in 1980, to \$3.9 billion, was mainly due to a further expansion in its exports of mineral products which earned some \$2.6 billion (\$2.1 billion in 1979), owing to higher prices. In 1980, apparent domestic consumption of petroleum increased faster than production and exports of crude oil declined by 4 per cent in volume. Petroleum export earnings reached however \$0.8 billion (\$0.65 billion in 1979), surpassing copper exports.

9. Total imports (f.o.b.) increased to \$3.1 billion, 49 per cent higher than in 1979 (for several years import volume had been stagnant or declining). In addition to increased food imports, substantial gains were also recorded for imports of capital and intermediate goods, reflecting the upward trend of industrial activity. Peru's current account shifted from a surplus of \$700 million in 1979 to a deficit of

about \$80 million in 1980, owing to a near-halving of the surplus on merchandise trade and increased net interest payments. The country's gross international reserves (excluding gold) increased by \$0.5 billion during 1980, to nearly \$2.0 billion by the end of the year.

10. Available information shows that, in the first half of 1981, mainly as a result of increased agricultural output (relative to last year's depressed level), the Peruvian economy was expanding at an accelerated rate. Inflationary pressures strengthened markedly in the opening months of 1981 but eased in the second quarter: in June, consumer prices were about 75 per cent above their level one year before (price increases had slowed down somewhat in 1980, to 59 per cent). Estimates indicate that domestic credit growth was fast in the first half of 1981, partly as a result of a rising budget deficit. Its impact on monetary expansion was however dampened by the effect of the period's balance-of-payments deficit (about \$600 million), due in part to the advance repayment of foreign debts. In January-May 1981, export earnings were about 15 per cent lower than in the same period of 1980, while import demand remained strong: the country's trade balance registered a deficit of some \$100 million in the first five months of 1981, compared with a surplus of \$600 million in the year before.