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PERUVIAN IMPORT CHARGES

Communication from the Peruvian Government

In view of the difficulties confronting its economy, the Peruvian Government submitted to the Intersessional Committee of the CONTRACTING PARTIES to the General Agreement the emergency measures it has adopted to preserve the stability of its currency, by reducing its adverse balance of payments, and to safeguard the foreign exchange reserves of the Central Bank. The communication in question was examined by the Intersessional Committee last June (documents L/828, L/828/Add.1, L/879 and L/886 Section III), when it was decided to postpone discussion and the approval of these measures until the Thirteenth Session of the CONTRACTING PARTIES, as the measures had the effect of generally introducing additional import charges. In justification of the measures adopted the Peruvian Government invoked the provisions of Article XII of the General Agreement, holding that the existing state of affairs fully warranted the new charges introduced, which are mainly of a restrictive nature.

The International Monetary Fund took occasion to submit to the contracting parties represented at the meeting of the Intersessional Committee two documents, dated 27 May and 3 June 1958, containing an analysis of the grave difficulties confronting the Peruvian economy and seriously threatening the foreign exchange reserves of the Central Bank. Moreover, on 4 June 1958 the representative of the Fund made the following statement:

> "The Fund directs the attention of the CONTRACTING PARTIES to the decision of the Fund in its latest consultation with Peru under Article XIV of the Fund Agreement, and particularly to paragraph 2, which points out that Peru was experiencing serious exchange difficulties, and that the Central Bank's disposable foreign exchange reserves had been reduced to a very low level. The Fund noted that inflationary pressures must be contained promptly.
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> "Subsequent to this consultation, Peru approached the Fund with a stabilization program on the basis of which a stand-by credit of $25 million was extended by the Fund.

"The Peruvian Government informed the Fund that, as part of its stabilization program, it was taking action to reduce Government expenditure and substantially to increase revenues; that one way in which it hoped to increase revenues was by increasing tariff rates and that it proposed negotiating with the other contracting parties to the GATT concerning such increases.

"The Fund is of the opinion that substantially increased revenues were and are essential to the success of Peru's stabilization program and to the protection of the country's reserves and exchange rate. Furthermore, the Fund is satisfied that the increase in revenue likely to result from the various measures proposed to the Fund by Peru is not more than is consistent with the success of that program. In the discussions at the Fund it was made clear, however, that the question of obtaining approval to increase tariffs in order to raise revenues was a matter for Peru to take up with the CONTRACTING PARTIES."

In order to achieve its purpose and to be able to maintain the free trade and exchange policy it has been pursuing for several years - one that has been on the whole propitious for the country's economy, since it has permitted considerable investment of foreign capital - the Peruvian Government considered various solutions and concluded that it would be inexpedient to apply qualitative or quantitative restrictions on imports. On the other hand, it decided to introduce, as a temporary measure, additional import charges on the products included in its Tariff, for general application to all goods, including those in Schedule XXXV of the concessions granted by Peru on its accession to GATT, since otherwise, considering the wide area of international trade covered by these concessions, the additional charges would not serve the purpose in view. The Legislature was accordingly asked to enact legislation (Act No. 12995), copies of which were circulated at the above-mentioned meeting of the Intersessional Committee.

The matter having been laid before the Intersessional Committee and the latter having made its recommendation of 4 June 1958, the additional import charges came into force; but, as too short a time has elapsed since then, it is impossible as yet to determine conclusively the extent of their repercussions.

Peru's latest trade balance figures for imports during the period from January to August 1958, compared with those for the same period of the previous three years, are as follows:

Imports in 1956	(January-August)	.....	US $ 227,405,836
" " 1957	"	.....	" 270,077,274
" " 1958	"	.....	" 235,307,096

These figures show a reduction in the value of imports. At the same time, there is a reduction in the value of exports over the same period, compared with previous years:

Exports in 1956	(January-August)	.....	US $ 199,501,990
" " 1957	"	.....	" 206,455,367
" " 1958	"	.....	" 185,216,745

The adverse balance of trade continues to be still more marked in relation to the country's economic situation, the figures for recent years being as follows:

Deficit in		
1955	.....	US $ 29,431,682
1956	.....	" 49,607,105
1957	.....	" 70,130,933
1958 (January-August)	.....	" 50,090,351

The earlier figures show the gravity and cumulative effect of the adverse balance-of-payments problem with which Peru has been confronted for some years past. The situation is deteriorating on account of the decline in the value and volume of exports of our main products, especially metals and ores, and has grown worse this year because of the imposition of lead and zinc import quotas, representing a considerable restriction on access to our main market. The result has been a shrinkage in the volume of foreign currency coming into the country, a drop in the Central Bank's reserves to a figure of less than $2 million, and a rise in the US dollar exchange rate from 23 soles in May to 25 soles at the present time.

The country's internal financial position has not improved since May 1958, when Peru submitted its case to the Intersessional Committee, since the rise in the cost of living in Peru has forced the Government to undertake a general re-adjustment of wages and salaries, including those of civil servants. The Government has also had to abolish all import charges and duties on basic foodstuffs, such as wheat and meat. These factors have had considerable repercussions on the Exchequer.

In accordance with the first part of the Intersessional Committee's recommendation, the Peruvian Government has carefully considered the possibility of introducing measures other than additional import charges. For instance, this year the following measures have been adopted: further restrictions on bank loans; higher domestic taxes on alcoholic beverages,

tobacco and other consumer goods; increases in certain direct taxation rates; consolidation of the debts due to budgetary deficits in recent years by means of an internal loan of 1,300 million soles (about US$50,000,000). However, the Peruvian Government feels that it can go no further in the direction of higher internal taxes, the latter having reached a ceiling above which the yield would be trifling. It must also take account of the pattern and distribution of the import trade, and of other features of the economy. It is therefore of the opinion that the proposed conversion of additional import charges into domestic consumption taxes would have no marked effect on the present situation in Peru, and might aggravate industrial conditions, which have become difficult enough already owing to the accumulation of stocks, resulting in the reduction of working hours and even the threat of unemployment. Lastly, the promulgation of a new law which would be required to introduce the changes proposed would give rise to serious legal and administrative difficulties and involve delays incompatible with the urgency of the present situation. On these various grounds the Peruvian Government accordingly considers that for the time being the solution it has chosen, i.e. the imposition of additional import charges, is the most suitable means of carrying out the stabilization programme it has adopted to prevent any worsening of the present economic situation.

The Peruvian Government accordingly trusts that the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade, aware of the temporary difficulties confronting the country's economy, will find a favourable solution that will enable Peru to apply measures to improve its economy, on the understanding that these measures will be modified as and when the economic situation and the terms of trade show some definite change for the better.