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PERUVIAN IMPORT CHARGES

Statement by the Representative of Peru on 16 November 1961

The Peruvian delegation wishes to present a few additional comments in support of the request contained in its report already being circulated in document L/1602, dated 9 November, regarding the application of import surcharges pursuant to the decisions of the CONTRACTING PARTIES mentioned therein.

As noted in that report, there has been a considerable improvement in the Peruvian economy since 1958, when authorization, to introduce the surcharges, was first requested from the CONTRACTING PARTIES, as an emergency measure of a temporary nature because of balance-of-payments difficulties and the threat to Peru's monetary stability and the exchange position of the Central Bank. Since that time, the negative trade balance and the balance-of-payments deficit have disappeared, due mainly to a sharp increase in exports of a few primary products such as fish meal, iron ore and copper concentrates. The Central Bank's foreign exchange reserves have risen and the deficit balance of \$5 million has become a credit balance of \$70 million. We have also succeeded in stabilizing the principal economic indices and the rate of exchange of the Peruvian sol, which stands at approximately 26.80 soles to the United States dollar.

At first sight, this improvement in the situation should make it possible to terminate the system of import surcharges by 8 June 1962, in accordance with the relevant decisions of the CONTRACTING PARTIES.

Nevertheless, after careful study of the present economic situation and the conditions which may arise in the near future, the Peruvian Government does not consider that it can make any decisive move in that direction; on the contrary, it finds it necessary to request a short extension of the time limit set for the total removal of the surcharges.

Among the various factors which have led the Peruvian Government to this conclusion, I must refer to those in the domestic sphere. The principal effect of the surcharges has been in the fiscal field, where they have made it possible to balance the budget in the last two years, which has contributed in no small degree to the currency stabilization which we have achieved. Revenue from the surcharges represents approximately 280 million Peruvian soles, or 5 per cent of total budget receipts. The removal of the surcharges would, therefore, result

in marked disequilibrium in public finance, and an inflationary process whose harmful effects on our economy cannot be over-estimated. Moreover, the replacement of surcharges by other sources of revenue is a gradual process which began a year ago, and a further period is essential in order to achieve this objective.

In addition, one must take into account the strain on the economy caused by the need for economic diversification, by the growing pressure of population increase and by the desire to improve living conditions, which in turn is reflected in increased State obligations and higher fiscal expenditure. These conditions also threaten to result in inflation which has until now been checked by vigorous financial and monetary measures which require the maintenance of fiscal revenue at a level sufficient to cover essential action by the State.

After a careful assessment of all these factors, and taking into account the effects expected within a short time from international credit measures designed to stimulate the economic development of non-industrialized countries, it is considered that the coming year will be of vital importance for Peru's economy; accordingly the Government is firmly resolved to avoid any basic imbalance in public finances which might jeopardize its fiscal and monetary stabilization programme, the latter being of fundamental importance for the operation of any overall development plan for the national economy.

Moreover, it should be borne in mind that as part of the system of free trade applied by Peru for many years past, the surcharges have had a salutary effect by limiting imports of luxury or non-essential articles, and resulting in a larger proportion of imports of capital goods, intermediate products and essential consumer articles.

In determining its attitude our Government has also taken account of conditions and trends which seem likely to affect the development of its exports in the near future, in other words, the instability which exists in the various markets in regard to the disposal and prices of its principal commodities. I think there is no need for me to refer at length to these aspects which have already been the subject of thorough studies, and the relevant conclusions are recorded in the various reports submitted to the CONTRACTING PARTIES.

For all these reasons the Peruvian Government considers that it is not in a position to remove the surcharges within the six months remaining under the last authorization granted by the CONTRACTING PARTIES, and that it is essential that a short extension should be granted so that the surcharges may be removed in a manner which will not cause incalculable damage to Peru's fiscal and monetary stabilization programme.

We hope that the CONTRACTING PARTIES will appreciate the frank and sincere way in which the Peruvian Government has raised this problem and that, in view of the fact that the surcharges have proved that they have no harmful effects on the normal development of trade between Peru and its traditional trade partners, they will agree to extend the authorization for a short period so that Peru may continue to apply the surcharges until they can be gradually removed.