

GENERAL AGREEMENT ON TARIFFS AND TRADE

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PERUVIAN SCHEDULE MODIFICATIONS

Statement by the Representative of Peru

At a meeting of the Working Party held on 13 June 1968, the representative of Peru, Ambassador Dr. José Encinas del Pando, made the following statement.

At its twenty-fourth session, in June last year, the Council of Representatives, as you were kind enough to recall, saw fit to set up this Working Party to act as a guide and adviser to the Peruvian Government, as we had requested during that session. Its purpose was to straighten out a difficulty that had arisen in the economy and finances of Peru as was explained in detail during the same session.

Unfortunately, the Working Party has not been able to meet until now, because of the heavy workload and numerous other commitments of the international bodies in Geneva and elsewhere over the last twelve months. With all due respect, Mr. Chairman, I must explain that it is the fault neither of the Government of Peru nor of the delegation of Peru in Geneva that this Working Party has not met before. The documentation was presented within a reasonable time limit and my delegation, though not myself, since I had first to go to Algeria and then to New Delhi, has, at all times, been ready to take part in discussions on this question in the Working Party.

I should like, therefore, Mr. Chairman, to express my satisfaction not only because we have you as the Chairman of this Working Party, but also because the work of this small Working Party of GATT is now beginning. In view of this, my Government, as behoves it, unreservedly offers its full co-operation.

On 26 June last year, Mr. Chairman, I submitted a report to the Council of Representatives on the reasons why my Government felt obliged to increase import duties on certain tariff items, which affected some of the items of Schedule XXXV negotiated with GATT. At that time, I pointed out that, after a long period of considerable economic growth and expansion in international trade, the Peruvian economy was on the threshold of a serious economic imbalance. Unfortunately, as I shall explain in due course, we cannot, at this time, claim that this situation has changed. We can, however, for this very reason, claim that the measures taken by the Government of Peru at that time and up to this very moment to re-establish the balance have proved themselves to be fully justified.

In the first place, Peru is suffering from a serious structural problem, which I am sure is quite familiar to most of the delegates here. We must remember that we are dealing with a country which has not yet been able to resolve its fundamental economic and social problems, in spite of its recent high rate of economic growth. Though the national income has considerably increased in recent years, its distribution is still inadequate, by region, by man-power and by sector. At the same time, the consistently high growth rate of our population has put great strain on our social welfare costs and infrastructure. The result has been that less than 30 per cent of the population, that is the economically active sector, has to support the rest of the population of which over 50 per cent are children.

The development of Peruvian industry and secondary activities in general has substantially eased this explosive situation, but has not been able to remedy our structural imbalance.

In spite of its valuable contribution, the export trade factor has not been sufficient or regular enough to meet the financial and economic requirements of the country. Our export prices have fallen considerably, the flow of private capital has not kept up to past levels and, in addition to this, recent pressure has been felt from externally acquired financial commitments. However, the main cause of the inception and continuation of the serious, ever-increasing imbalance in our trade balance and balance of payments is our high level of imports. To give an idea of the spectacular increase in the level of imports into Peru, I need merely say that between 1963 and 1967 our imports increased by 60 per cent. That is not all: between 1960 and 1966, the value of imports into Peru increased by an average of 13.5 per cent per year, while the gross national product, on the other hand, increased by a yearly average of only 6.6 per cent. This is no mean achievement, but equals less than half of the growth rate of imports.

All these factors have produced the following trade deficits: in 1965 - \$63.2 million; in 1966 - \$51.3 million; and in 1967 - \$62.9 million.

Mr. Chairman, it was because of this overwhelming rush of events and to forestall the already foreseeable effects of a further deterioration of the situation, that the Government of Peru was obliged, on 5 June last year, to approve Supreme Decree 136, the purpose of which was to maintain our high level of economic growth, by improving the channelling of domestic savings resulting from the increase in per capita income.

It should be realized that this measure was, in fact, nothing more than a tariff readjustment, implemented in order to maintain and foster Peru's economic growth. At that time, the Government preferred to adopt this expedient as a solution to its problems rather than go against its strict rule of respecting the basic principles of free trade which are the raison d'être of GATT. It should not be forgotten that, since the very beginning, Peru's adherence to this spirit of the work of GATT has never wavered. Thus, in spite of the already incipient imbalance which I have just mentioned, my Government recently committed itself to Schedule XXXV with GATT, which is, without any reservation, among the most extensive and liberal commitments by any contracting party to the GATT. Quite apart from this, Peru has gone beyond Schedule XXXV by adopting a trading system as near to complete freedom as possible for any contracting party, developing or developed. In the present circumstances, the strain on our economy denies us any possibility of relaxing our trade régime; price controls are marginal, apply to very few articles and are systematically used with moderation. In spite of the monetary devaluation which I shall refer to shortly, the Peruvian Government has not interfered with the freedom of exchange, thus, once again demonstrating that it abides by the standards of free convertibility.

But, as I have already explained, circumstances beyond its control forced our Government to impose some sizeable preventive measures. Thus, it had to fall back on what I have called a genuine tariff readjustment as the sole instrument of its trade policy. This tariff readjustment of 5 June 1967 stems from the need to reduce some of our inessential imports and as I have already said from the urgent need to support our economic development as a whole.

The effect of the tariff readjustment which I explained in greater detail in my statement to the Council of Representatives last year, is as follows: firstly, it increases duties on luxury or inessential consumer goods - this is its main objective; secondly, it increases duties on those products which are already being manufactured in our country; thirdly, it warns domestic producers that if they raise their prices in order to take undue advantage of this minimal tariff protection, such protection will be reduced to the level necessary to re-establish effective and normal competition; and fourthly, it does not interfere with the numerous liberalizing import régimes conceded by Peru's promotional laws for capital goods, which in many cases reduce to zero specific duties in wide areas of the machinery sector, such as in agriculture, textiles, machine tools, printing etc.

As will be seen, the concessions and liberalization of these items reflect the promotional criteria that inspired this kind of measure. Apart from the aims of the Supreme Decree that I have just mentioned, I must also state that the Government has, in addition, decided to carry out large-scale cuts in its own expenditure and that for the year 1967 was able to economize over \$56 million. However, the most important fact for our Working Party is that, in spite of the Peruvian Government's efforts, some modification of Schedule XXXV negotiated with GATT became inevitable. Such modifications of the

Schedule were necessary if we were to avoid other more serious modifications of the remaining tariffs, which would in our view have had perhaps even more serious consequences on our relations with the contracting parties. The 1967 readjustment affects items whose import value (I am speaking of 1965 values) were \$19.5 million, whereas overall imports for the whole of Schedule XXXV, as you know, amounted to \$145.6 million. The readjustment, then, affects only 13 per cent of the trade value of Schedule XXXV. As you know, total imports within Schedule XXXV include 386 items and are valued at \$145.6 million. We have increased only 121 items with a trade value of \$19.7 million. I must stress, and this is why I called these measures a tariff readjustment, that, at the same time, 39 items with a trade value of \$21.9 million have been lowered; these items are, as I said, machinery for textiles, agriculture, etc., and are of a higher trade value than those items which were increased and which are mainly luxury goods or consumer goods which we can perfectly well do without. The increase in Peruvian duties resulting from this tariff readjustment is a bare 6.4 per cent. I believe, Mr. Chairman, that this quite incontrovertibly shows what the real objective of this tariff readjustment is and that this readjustment was made to meet overriding demands that Peru could not ignore and that are upsetting its speed of development and vital economic and monetary stability.

Gentlemen, these are the events that led up to Peru's approval of the Supreme Decree that I have been describing. As I said before, it was put in greater detail before the Council of Representatives last year. We did this in order to obtain fulfilment of our request to GATT for advice and consultations. The result was that the Council set up this Working Party.

For the time being, my Government prefers not to delve into the legal situation created within GATT by the provisions of the Supreme Decree of 5 June 1967. The Government of Peru would first rather have the valuable opinions of the contracting parties and then make a specific request for appropriate action within GATT, bearing these in mind.

We are convinced that, in any event, these promotional measures which are intended to remedy imbalances and anomalies arising, in the main, from the structure of a developing economy, follow the spirit if not the letter of Part IV, with which I think I can safely say we are all familiar to some extent or other. Were these measures not supported in the way I have mentioned, I would have proposed that we consider how the spirit of Part IV could be embodied in a straightforward and effective text. This would have met the difficulties encountered by developing countries within the General Agreement. I realize that this is not a task for the Working Party and that, if it were found necessary, it could not be carried out in a short time. Quite the contrary; it would require extensive consultation which, of course, does not detract from its being necessary.

Over the last year, from June 1967 to June 1968, the monetary and trade situation in Peru, far from improving, substantially deteriorated, which proves how necessary, if inadequate, were the preventive measures of the Supreme Decree of June 1967 that I have described above. The deterioration in Peru's commercial and financial situation can easily be demonstrated with a few figures: in 1967, the gross national product increased by only 4 per cent, while in previous years it increased by over 6 per cent. In 1967, production of cotton fell by 26 per cent, coffee by 6 per cent and sugar by 10 per cent; all of these figure significantly in our exports. General production of foodstuffs fell even more, since it was 2.5 per cent less than in 1966. I think it is already well known that production of foodstuffs in Peru is a long way below demand, which entails a very high level of imports and a corresponding exodus of hard currency. Although production in the industrial sector and in fish meal increased in proportion to the previous year, in the building sector the increase was only 4 per cent, a striking contrast with the 21 per cent increase in 1966. Mining, also a very important factor in our exports, accounting for approximately a third of the total volume, increased by a very small amount, well below the yearly average. Our balance of payments, reflecting all these factors, was severely perturbed. In 1966, the balance-of-payments deficit was \$61 million and in 1967 it rose to \$91 million.

All these factors contributed towards the 30.7 per cent devaluation of September 1967. Thanks to an enormous sacrifice by the nation, salaries increased by no more than 12 per cent. The workers of Peru, with great foresight and conscientiousness, faced up to the situation and refused a salary increase of more than 12 per cent. I believe this great effort by millions of Peruvians deserves to be taken into account with the other factors we are considering. It is gratifying to be able to say that by keeping wages in check, we have been able to control a situation which otherwise would have led to a spiralling inflation. Since the situation had not substantially improved by the beginning of 1968, the Government of Peru was forced to impose restrictions on imports of certain luxury consumer goods for a period of three months up to the end of May of this year. These restrictions meet the same criteria as the Supreme Decree of June last year and have been duly considered by the GATT Committee on Balance-of-Payments Restrictions.

On 28 May 1968, the Government of Peru promulgated another Decree which modified the Decree of February of this year and reduced the number of forbidden imports to eighty. In other words, Peru was once again beginning the process of liberalizing its trade on the assumption that the situation would not deteriorate but, on the contrary, would improve. These eighty items cover only non-essential luxury articles and, consequently, do not cover foodstuffs, medicines or industrial imports. This prohibition is envisaged for seven months only and the latest information I have is that the situation has become very fluid and that shortly we will see new provisions which will probably accelerate the reliberalization of trade in our country.

This, gentlemen, is what has been happening in Peru. I think I have shown the intricate pattern of factors that justify and support the preventive, though inadequate, measures that we took in June 1967. Unfortunately, the deterioration of our commercial situation has not only proved the necessity of the June 1967 provisions but has also, as I have described, obliged us to adopt other similar measures.

Bearing in mind these circumstances and our wish to observe all the rules of GATT, Mr. Chairman, I should like, on behalf of my country, to request any advice and guidance that the contracting parties could give us so that we can see how to align our infrastructure with the stipulations of GATT, bearing in mind, among other things, Part IV of the General Agreement. My Government will consider with great care any opinions expressed by the contracting parties and will find them extremely useful in its consideration of the situation I have explained above.