

GENERAL AGREEMENT ON TARIFFS AND TRADE

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CHILE'S IMPORT POLICY

The following communication has been forwarded to the secretariat by the permanent representative of Chile to GATT. In this connexion attention is drawn to documents BOP/95 and BOP/R/37 which contain information supplied by the Government of Chile to the Committee on Balance-of-Payments Restrictions and the Committee's report on a consultation with Chile in November 1969.

On several occasions my Government has stressed the importance of and the necessity for regular communication between the contracting parties as to the policies which they apply to foreign trade.

Consequently, I venture to submit to you herewith a study made by the Central Bank of Chile on the new import policy of my country.

The measures recently announced which change the import policy of the country constitute part of a far-reaching plan intended to produce a permanent change in the structure of Chilean foreign trade with a view to promoting more effectively the economic and social development of the country.

In the first place, an effort is being made to reduce prices and costs and to improve quality so that Chilean industry will be more fitted to enter the Andean market. From this point of view Chile is engaged in a race against time: so long as there is any delay in the process of improving costs and quality of domestic output, the greater will be the difficulties of entering the Andean market and the less will be the advantages which Chile will obtain from the resulting expansion of its markets. Within this framework a suitably planned foreign trade policy could play a crucial rôle which it has not performed up to the present time.

In the second place, it is necessary to reduce monopolistic powers or the exploitation of the consumer by certain national or foreign undertakings located in the country. In other words, while wishing to provide adequate protection for domestic industry we are anxious to ensure that the Chilean consumer or industrialist can obtain supplies at more reasonable prices and receive products of better quality than is the case at present.

In the third place, foreign trade may be an important factor in ensuring effective control over inflation and prices. It is not a question of temporary reductions in the prices of goods to replace imports at the cost of sacrificing our international reserves. On the contrary, it is a question of controlling, thanks to the competition of foreign goods, the prices charged by national monopolies in certain given fields. In those fields domestic prices are very often higher than the international level. These differences are frequently due to the monopolistic profits and/or to lack of concern for lowering costs in a market in which the consumer or the industrialist is at the mercy of a single producer. In other cases the difficulty is the excessive prices of domestic raw materials or intermediate goods, the levels of which must be reviewed.

Since March 1969 there has been a far-reaching revision of policies in this field. The guiding lines for this revision were explained in a document entitled "Programme of Action for Foreign Trade" which was submitted as a basis for studies to be carried out by the Corfo, Odeplan, the Ministry of Economic Affairs and the Central Bank. The measures announced by the Ministries of Finance and Economic Affairs form part of this revision and are intended to operate within the framework of an effectively planned economy, but an economy in which decisions on micro-economic matters (such as how and how much any given undertaking, whether it be public or private, should produce) will be decentralized.

In addition to the mass of material of a preliminary nature which was prepared on the subject of policy concerning royalties, commissions on foreign trade, foreign investments, etc., the question of import deposits has been almost completely revised on the basis of action begun in September 1968.

I. IMPORT DEPOSITS

1. Import deposits from 5 per cent to 180 per cent

The following are the measures which have been adopted:

(a) On 12 September 1968 permission was granted to importers to use deposits for the payment of import duties and other import charges imposed on the goods to which the deposit relates. This new arrangement frees importers from the need to obtain double cover for a period of several days in order to pay both import duties and the deposit, which could be withdrawn only after the import duties had been paid.

(b) On 23 May 1969 the minimum period of ninety days for deposits was abolished and, with a view to avoiding unnecessary administrative formalities, the deposit requirement for amounts below E° 100 was also abrogated.

In addition, a first revision was carried out of the list of goods negotiated with LAFTA. In the course of this revision it was found that for several products Chile was granting a higher margin of preference than had been agreed. The need for a deposit on imports from third countries was abolished in the case of goods the imports of which from LAFTA amounted to more than \$30 million. This reduced the price margin which the Chilean importer was prepared to pay to exporters from LAFTA countries as compared with suppliers from the rest of the world.

On the same date a list of goods was selected which had been subject to an aggregate amount of customs duties and deposits resulting in a prohibitive cost of importation. Deposits in these cases were abolished and the duties were reduced in part.

Lastly, on the same occasion, goods subject to a 5 per cent deposit were freed. The effect of the deposit had been minimal (1 per cent) but it had constituted an excessive administrative burden for importers, commercial banks and the Central Bank. In this way an effort was made to abolish all controls or obstacles which raise the price of imports and involve unnecessary work for public institutions without on the other hand making any real contribution to the development of Chile.

(c) At the meetings of the Tariff Policy Committee (CPA) on 5 and 23 June the question was discussed of abolishing import deposits and embodying the financial equivalent in the customs tariff. The following criteria were taken into consideration:

- (i) In the case of commodities on which the duty was less than 100 per cent the equivalent of the financial cost of the deposit was incorporated in the duty. Consequently, the deposit was abolished on the date of publication of the decree fixing the new rate of duty.

- (ii) The proposal did not include goods which on the basis of the criterion mentioned in the preceding paragraph would have been subject to a duty which was considered excessive either because high specific duties were charged and/or because the rate of deposit was very high or because of the nature of the product.
- (iii) In general, goods on which the rate of duty was in excess of 100 per cent were not included. By way of exception it was decided to include luxury products on which the rate of duty was not sufficiently high for the type of product.
- (iv) The change in duty resulting from the incorporation of the cost of the deposit gave the following results:

<u>% deposit</u>	<u>% increase in duty</u>
15%	5%
40%	10%
90%	20%
180%	35%

- (v) The rule mentioned in the preceding paragraph was not followed in a few cases in which it was thought desirable to group certain headings referring to very similar products.

The changes in the tariff were published in the Official Gazettes of 12, 19 and 29 August.

The monetary and fiscal effects of those measures were as follows:

- (i) Monetary. They represented a one-time reduction of E° 23 million in the amount of import deposits spread over a period of six months.
- (ii) Fiscal. The annual yield of customs duties was about 16 million escudos of 1970 - an amount which had previously been available for the granting of loans, but which now becomes available to the community through the mechanism of customs duties.

(d) On 29 July the deposit of 90 per cent on a number of sports articles was abolished. At the same time three types of changes in tariff duties were proposed: a reduction to 100 per cent on articles for popular sports (athletics, ping-pong, etc.); an increase to 200 per cent for equipment for sports practised by small wealthy groups (golf and polo) and 140 per cent for others.

(e) Deposits have been abolished for certain products where the percentages were so high as to restrict imports of the goods in question, or where they provided excessive protection for domestic products. In such cases the reduction in the rate of deposit has no direct monetary effect since the goods are no longer imported and no deposit is paid. On the other hand this measure favours a reduction in domestic prices, by limiting the monopoly of the domestic producer or of goods imported duty free.

(f) There has been a gradual reduction in other import deposits. This was carried out in four or five stages. A sudden reduction has the disadvantage of producing a considerable and negative monetary effect at the outset and of causing

a sudden change in import costs. It was for that reason that a gradual suppression was thought preferable. Three gradual reductions have already been carried out:

- (i) On 1 January 1969 the deposit percentage was reduced on the average by about 20 per cent. As a parallel measure there was an increase of 1 per cent in the import registration tax. This maintained approximately the cost of importing commodities subject to a deposit, while at the same time increasing the amounts available for private loans to the exchequer by E° 8 million.
- (ii) At the end of August there was a further gradual reduction in deposit percentages, eliminating in addition the 15 per cent category. This measure represented an average reduction of about one third in the amount of the deposits in force at that time.
- (iii) At the end of December 1969 a third overall reduction in deposits was made. As a result the change in rates between 1968 and 1970 was as follows:

<u>1968</u>	<u>1970</u>	<u>Decline in average costs of imports</u>
200%	50%	30%
100%	30%	14%
50%	15%	7%
20%	0%	4%
10%	0%	2%

As can be seen, the cost of imports subject to deposit has been reduced without any reduction in the general yield to the customs and with an increase in some cases, as has already been shown (E° 24 million).

2. Deposits of 10,000 per cent

The rate of 10,000 per cent is very effective in prohibiting imports of certain commodities which are reserved for public institutions which can thus regulate the market. It is also useful for imports of limited and planned quantities of certain goods which are legally exempt from any customs duty. For those two reasons this type of deposit must be retained. Nevertheless the list of goods subject to the 10,000 per cent deposit is much wider than is necessary for the above purposes. Accordingly, on 23 May 1969 the deposit of 10,000 per cent was abolished for thirty-eight groups or commodities. In addition, the Tariff Policy Committee approved the abolition of the deposit for seventeen commodities or groups on condition that there was an increase in duty. On 17 July 1969 the same Committee approved the abolition of the 10,000 per cent deposit for twenty-six further groups or commodities, and in August and December of the same year it abolished it for forty-four commodities or headings subject to a revision of the customs tariff to bring it to a level which, while not granting absolute protection for monopolies, would nevertheless guarantee reasonable protection for the industry of a developing country.

All those changes have meant a reduction of two thirds in the list of goods subject to the 10,000 per cent deposit. There is, however, still room for a considerable further reduction. In the revisions which will still be made, as in the case of those mentioned above, proposals will be made, not only for abolition of the 10,000 per cent deposit, but also for the introduction of levels of duty which will avoid undesirable disturbances in domestic production while at the same time avoiding undue protection for monopolies.

II. LIST OF PERMITTED IMPORTS

So far very few products had been proposed for inclusion in the List of Permitted Imports (LPI). The reason is the large amount of time and effort required to prepare decrees on the subject. It is very easy to decree a general liberalization of imports, such as this country has known in the past, but the result tends to be ruin, unnecessary disturbances in production and, what is more serious, unemployment.

On the other hand, rationalization of the import policy by means of the List of Permitted Imports and the customs tariff calls for a very far-reaching and careful study. This has already led to certain measures which were referred to above. At the same time, it was necessary to make changes in the system in force in Arica in order to harmonize the interests of that area with those of the rest of the country without on the other hand changing any of the advantages previously granted. The legal regulations on this subject have been in force only since the end of December 1969.

The basic criteria which are being used are the following:

1. The incorporation into the List of Permitted Imports of all products which had been the subject of negotiations in LAFTA (thus reducing the absolute advantage which suppliers from LAFTA to the Chilean market had previously enjoyed) and in general of products included in the first section of the joint list. In terms of the Andean Agreement the prohibitions existing for those products have to be abolished in respect of trade within the sub-region within 180 days from the coming into effect of the Agreement, that is to say, in April 1970. Those products will remain included in the List of Permitted Imports so as to avoid giving an additional margin of preference to the Andean countries. On the other hand, as regards products which were negotiated within the GATT at very low rates of duty, the import prohibition remains in force until the level of duty can be revised.
2. As regards products which were not negotiated within the framework of LAFTA, most have been included in the List of Permitted Imports except those which are considered to be of a luxury nature, by which is meant such items as jewellery, furs, caviar, whisky, champagne, perfumes and other similar products.

The incorporation of non-luxury goods which are also produced domestically will be made subject to a high duty at the initial stage. The criterion adopted has been to make those changes at the outset by applying a sufficiently high tariff to avoid serious disturbances in domestic production.

In the case of products which are not deemed to be luxuries and which are not produced domestically the rates of duty have been fixed at a level sufficient to prevent the development of excessive imports. However, it is possible that the rate of duty, although high, may make it difficult for any new domestic industry to attempt to produce this article. If it is thought the new development of production is in the interest of the country the problem will be solved by giving a higher rate of protection for a certain period of perhaps one to two years until the domestic industry is beginning to be firmly established.

3. In the case of prohibited imports there are many instances in which imports of foreign goods have been prohibited so that the same foreign undertaking can begin to produce those goods in Chile. Consequently, the manufacturing firm is considered as a "domestic producer" in virtue of the complete protection which it receives can therefore sell its product at a price three, four or more times higher than it could obtain as a foreign supplier. As a result, the domestic consumer is paying an excessive price, the foreign undertaking exports its profits and the Exchequer loses the customs duty. These cases will have to be analyzed in detail, and there will have to be a review of duty-free treatment and of the serious shortcomings in the treatment of foreign investments in the country.
4. As regards luxury products one must bear in mind certain problems and measures will have to be taken to deal with them:

(a) Domestic production. When goods are listed as luxuries and it is desired to restrict consumption there must be some control over domestic production by applying heavy basic taxation or sales taxes. In addition, there must be a high rate of duty on imported components such as extracts, parts, etc.

(b) In the case of luxury products which fetch excessively high domestic prices because of an out-of-date system of protection, it must be borne in mind that a decrease in tariff rates would mean an incentive to consumption that is undesirable from the social aspect. In those cases, in order to harmonize in practice the reduction of protection with a desirable consumption pattern, the duty has to be replaced by a high indirect tax. In effect this will be a tax on the production of a luxury article and as such will obviously be of a progressive nature.

III. TARIFF STRUCTURE

One of the characteristics of the Chilean industrial sector is its low level of efficiency, which is reflected in prices much higher than the international level, even in comparison with countries at a similar stage of industrial development. The use of customs tariffs as one of the means of increasing the efficiency of domestic industry is justified by the fact that the main reason for the present situation has been an excessive degree of protection.

The reduction of the high levels of protection will be carried out progressively and as a rule will not aim at short-term objectives since the problem is essentially a structural one. An ambitious programme of tariff reductions calls for a thorough knowledge of the existing situation at the level of each product. To take action without having that knowledge could lead to a paralysis of certain activities without necessarily ensuring any increase in efficiency. It is therefore proposed to carry out the task in two stages.

1. The first stage will include the following actions:

(a) When goods are placed on the List of Permitted Imports the tariff structure will be revised so as to place them at a sufficiently high level so as not to produce unexpected difficulties for domestic production. In general, if

no exhaustive study has been made of the product in question, a very prudent and cautious approach is recommended during this first stage. This will be the first important step in the direction of establishing a precedent to the effect that as a general rule no activity shall be granted absolute protection to an extent which would make it a monopoly. At the same time and for the same reasons, a first general revision should be carried out of the tariff levels in force for the goods already on the List of Permitted Imports.

(b) For key products, such as those which are widely consumed and/or on which monopolistic profits are made, the first stage will include a stricter revision of the tariff applied so that monopolistic activities will be forced to fix a more equitable price for national consumption. The most effective manner of approaching this problem will be to deal in the first instance with a few important products. Once those headings have been selected it should be possible to gain a knowledge of the cost situation and the possibilities of increasing productivity in those particular sectors. Finally, it should be possible to fix a tariff schedule that would decrease over a period of time; and sufficiently realistic to produce the increases in efficiency which can already be foreseen or the readjustment to other types of production. The kind of products proposed for analysis by specialized public institutions and subject to a programme of tariff reductions would include, for example, stoves, refrigerators, sewing machines, sheet-iron, bicycles and textiles. The available information suggests that domestic prices for those articles are from three to six times the international level. The first step, which is already being taken by decrees which have been announced, should be to indicate to domestic producers that side by side with the reduction in the absolute protection which they at present enjoy, a process of readjustment of domestic industrial production is being initiated. As a second and more far-reaching step, an estimate will be made of the protection effectively being granted at present for those types of products and a programme for its phased reduction will be prepared. The duration of the period of adjustment should be closely co-ordinated with the periods laid down in the Andean Sub-Regional Agreement.¹ Consequently, the sooner the process of tariff reform is introduced, the longer could be the period of adjustment. This programme should be based on the actual tariff rates and not on the nominal ones; that means that account should be taken of the interaction between different stages of the processing and manufacture of industrial products, making due allowance for the degree of protection or degree of inefficiency in the production and import of components. It must be borne in mind that part of the problem lies in the process of marketing, in which excessive margins are charged. These aspects affect equally domestic and imported products and call for far-reaching revision.

The policy must be clearly aimed at industrial development on a selective basis. In other words, Chile cannot continue to try to produce everything on a reduced scale. On the contrary, it must choose what it wants to produce and can

¹The prescribed periods are summarily indicated in "Acuerdo Subregional: Principales Compromisos", Monthly Bulletin No. 503, January 1970, of the Central Bank of Chile.

suitably produce. Sustained, planned and solid backing must then be given to those activities to the detriment of others. This process of industrial reorganization will include the merging of undertakings with a view to securing economies of scale. Any trend towards a monopoly must be checked by exposing it to the possibility of duly planned foreign trade.

(c) All excessive margins at present in force within LAFTA are being substantially reduced. This should lead to a saving in foreign exchange at no cost to the country, and to permanent reductions in domestic prices. From this point of view a first step was taken on 6 September 1969 when the excessive margins on many goods were reduced; the level of annual imports of those commodities from LAFTA countries amounts to US\$14 million. These include such important products as coffee and cocoa.

2. In a second stage tasks of two types will have to be undertaken:

(a) To estimate the protection actually granted to the bulk of Chilean industrial production. This task should be carried out by public technical bodies but they might call for help from university or other research institutes with experience in this field.

(b) To outline tariff systems by sectors or groups of products. These systems should include at least the range within which duties should be situated, according to the degree of added value or complexity, and also programmes for approximating the actual tariff level towards the target level. Those tariff schemes will be of special importance for directing a detailed medium-term policy and preventing tariff policy from being determined by somewhat haphazard decisions.

IV. IMPORTS BY THE PUBLIC SECTOR

Imports by the public sector are exempt from charges of all kinds. The result is that public institutions purchase goods abroad which the country is perfectly capable of producing in satisfactory conditions; thus the public sector discourages the development of domestic industry, even though the Import Committee for the Public Sector has succeeded in reducing appreciably the extent of this problem. Imports by the public sector must gradually be subjected to a tariff system which is appropriate for ensuring the harmonious and balanced development of the Chilean economy.

The conditions which must be fulfilled are the following:

(a) The tariff must be such as to influence the decision where to buy. Consequently, it cannot be expressed in the budget as an item which may be exceeded or as an item which may not be exceeded. At any given moment the institution concerned should be able to purchase wherever the conditions are

most favourable in the light of the customs tariff. The tariff to be applied to imports by the public sector must be the optimum level (or objective tariff) rather than that at present in force in the general system. The distorting influence of foreign credit should continue to be checked by the Advisory Committee on Foreign Credit (CACE).

(b) One aspect of vital importance is the level of the charges to be applied. These should be, not the tariff generally in force but an optimum tariff which would be the one to which charges applied to the private sector would gradually be adjusted. Otherwise, the present excessive freedom of imports for the public sector would be replaced by excessive restriction in the case of many products.