

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

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TRADE POLICY REVIEW MECHANISM
CHILE
MINUTES OF MEETING

Chairman: Mr. David Hawes (Australia)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman introduced the review of Chile's trade policies and practices, pursuant to the CONTRACTING PARTIES' Decision of 12 April 1989 (L/6490). He noted that the discussion would be based on the report by the Government of Chile contained in document C/RM/G/14, and the report by the Secretariat contained in documents C/RM/S/14A and C/RM/S/14B.

2. The report by the Government of Chile departed from the Outline Format for Country Reports agreed by the Council in July 1989 (L/6552). In its format, the report by the Government of Chile paralleled, more closely than most, the Secretariat report. In line with the Decision establishing the Trade Policy Review Mechanism, the Secretariat had sought clarification from Chile on its trade policies and practices, as far as the factual information contained in the six factual chapters of its report was concerned.

3. The procedures for the meeting were set out in document C/RM/7, in which the Chairman had proposed an experimental restructuring of the review. According to the new structure, three main themes were to be developed:

- (1) General objectives in relation to trade policies; questions relating to bilateral, regional or multilateral trade liberalization; Chile's membership of the Cairns Group and its objectives in the Uruguay Round; and problems faced by Chile's exports on world markets.
- (2) Use of major trade policy instruments by Chile.
- (3) Sectoral aspects of Chile's trade policies and practices, and any other comments.

4. The Chairman noted that certain contracting parties (Argentina, Australia, New Zealand and the Nordic countries) had given advance notice in writing of points they wished to raise at the meeting.

5. He invited the representative of Chile to make his introductory remarks, to be followed by the two discussants.

II. INTRODUCTORY REMARKS BY THE REPRESENTATIVE OF CHILE

6. Before making a few remarks I should like to express a special greeting to the United States delegation which is attending this meeting on a day that is so special for it.

7. I should like first to thank you, and through your intermediary the staff of the GATT Secretariat, for the tremendous effort made to carry through this trade policy review. As evidence of the work done we have before us the documents and reports that have been prepared. This documentation is sufficiently explicit for no long introduction to be necessary.

8. I would note that there are a few minor adjustments of a technical character to be made to points that we feel might confuse readers. Accordingly, and for reasons of time, we shall furnish in writing our comments on those particular paragraphs. I hope we can move on rapidly to the process of questions and answers which seems to be the fundamental mechanism of this meeting. I believe that most of the countries currently engaged in trade with Chile are well aware of our unrestricted opening to the rest of the world and of the fluid character of our participation in the world economy.

9. No doubt Chile is a small economy, we have a population of around thirteen million inhabitants with a per-capita income of US\$2,350. Furthermore it is an economy far removed from the major international markets. Nevertheless it is an economy that has been growing without interruption since the debt crisis period in our region and which has shown a surprising capacity for recovery and for overcoming serious difficulties. In the course of this process we have learned important lessons in the economic field and there is now in many areas a broad national consensus between the public and private sectors concerning trade related economic policies.

10. It seems to me appropriate on this occasion to mention the following agreed national objectives: clear and stable rules of the game in a market economy, macroeconomic equilibrium, avoidance of demagogic practices that increase costs and hamper access to benefits, full integration of Chile in the international economy, sustained growth based on the expansion of exports of goods and services, all this within the framework of a forthright social policy aimed at achieving equity. Similarly, we have begun considering certain new subjects such as conservation of our environment and our non-renewable natural resources. In future the Chilean economy will have to redouble its efforts in this area.

11. Since the democratic Government came into office in 1990 concrete policies and instruments have been adopted which tend to enhance the process of opening the Chilean economy to the rest of the world. Allow me

to mention the most recent among these: reduction of the single tariff applicable to imports from 15 per cent of the c.i.f. value to 11 per cent, promulgation of the law establishing a modern system of intellectual property protection, tax reform which eliminates certain exceptions and, for example, integration of certain international mechanisms to protect and guarantee foreign investments. All these bills have been the subject of broad consensus and have been approved by large majorities in our national Congress.

12. In trade policy matters, special emphasis is being laid on the following: to raise the share of exports of goods and services from 40 to 50 per cent of gross domestic product; in view of fluctuations in world prices of our main export items, to diversify markets and products and increase our exports of manufactures and services; to obtain the opening of major world markets through multilateral and bilateral negotiations compatible with GATT and other international agreements that Chile has signed; to continue an active promotion of foreign investment in Chile by various investors. For example, such investment in 1990 was equivalent to 6 per cent of our gross domestic product. We are also encouraging investment abroad by Chilean undertakings as a new way of opening markets and improving our participation in international trade. We also attach importance to training our labour force, as a new way of acquiring competitive advantages, and developing entrepreneurial capacity, particularly in our small and medium-sized undertakings that are farther removed from international integration.

13. However, all this is complex or difficult to achieve because in many instances our exports encounter non-tariff restrictions in certain sectors and markets and are also affected by tariff escalations established according to the degree of processing of products and, for example, also by selective and non-temporary measures adopted for reasons of balance-of-payments disequilibrium, particularly in many developing countries.

14. For a small and outward-looking country like Chile where international trade is a motive force for development, the achievement of a multilateral world trading system is of very great importance. For that reason Chile is participating actively in the Uruguay Round and has a particular interest in market access, agriculture, services, intellectual property and investment.

15. Chile has made opening to foreign trade a development strategy and in recent years has used the best known mechanisms of non-selective tariffs and exchange rates, leaving to the international market the important rôle of determining our resource allocation. In addition my country has established legislation on foreign investment under which this flow receives the same treatment as national capital in Chile. In this way we

have succeeded in consolidating and deepening our integration in the international community.

16. One very significant fact regarding our policy of opening to the rest of the world is that in Chile for example, restrictions on trade may not be applied because they are explicitly prohibited by constitutional laws.

17. As we have said on numerous occasions, Chile is not asking for special guarantees or special treatment, but merely for full implementation of the relevant fundamental principles: free trade on bases that are clear, transparent, predictable and without protectionist practices. We therefore call on each of our trade partners to extend to us reciprocal treatment such as we extend today to products entering our market. We are well aware that much remains to be done to achieve greater internationalization of Chile's foreign trade, in particular in new areas where we lack experience and in matters where humanity is beginning to take priorities today.

18. Allow me to thank you once again, Mr. Chairman, and to invite participants to present any questions they may have. In this connection, may I suggest that in order to make our discussion more dynamic, we might be allowed to answer questions more frequently than has been the case until now.

III. GENERAL OBJECTIVES OF TRADE POLICY

(1) Statement by the first discussant

19. After earlier experiments which were mainly based on an import substitution policy Chile relies on market-oriented policies and is experiencing an export led growth. A market-oriented economic reform programme was implemented over a relatively small period of years in the mid-seventies in which trade barriers were dramatically reduced. The recession following the second oil shock in the beginning of the eighties was overcome by a new structural adjustment programme. In that period, Chile temporarily raised its actual tariffs to the level of its GATT binding (35 per cent), before phasing them down to 15 per cent in 1988. Although remaining somewhat higher than the rate of 10 per cent applying after the economic reform in the seventies, the recent announcement to lower tariffs to 11 per cent will, when implemented, provide a further stimulus to trade liberalization.

20. In a way, Chile serves as a model for market-oriented economic reform. One can only applaud the opening line in Chile's TPRM report:

"The Government of Chile is firmly pursuing the objective of thoroughly integrating the national economy into the various international economic flows and exchanges".

21. The rôle of a discussant in this case is rather a strange one, looking for themes to discuss a trade policy of a country which is basically alright from the point of view of the open and multilateral trading system. One is in fact looking for the few skeletons that remain in the cupboard.

22. Under the heading of general objectives, participants may wish to discuss the relationship between Chile's dedication to the multilateral system, as shown by its actual trade policy and its active involvement in the Uruguay Round, and the recent developments in regional trade liberalization initiatives. Chile was the first Latin American country to engage in formal negotiations following the "Initiative for the Americas" launched by President Bush last year. Also, Chile concluded Presidential agreements with Mexico and Venezuela, aiming at the creation of free-trade zones by 1994. It would be interesting to have the view of the Chilean authorities and other participants on the progress so far in regional trade liberalization initiatives and how they see the relationship with the multilateral system. It would also be interesting to have the view of the Chilean authorities and other participants on other regional initiatives such as MERCOSUR.

23. One rather unique feature of the Chilean trading régime is that its open and non-discriminatory policies have been given a strong domestic

legal basis. Discriminatory treatment of industries by the Government is prohibited in the Constitution, and other laws provide the provisions of the General Agreement and establish the freedom to trade internationally by outlawing import quotas, prohibitions and VER arrangements. It would be interesting to hear more on this aspect, in particular on the rôle it has played in contributing to trade liberalization in Chile. To what extent does the legal system in practice provide checks and balances on the trade formulation process, and how violations to these laws (of which there would appear to be a few) are treated.

24. In the Uruguay Round, Chile attaches great importance to agriculture. It seems that improved market access, especially in agriculture, is of real importance to the export diversification drive of the Chilean authorities. It would be interesting to hear whether any quantitative goals are set in further diversifying away from copper exports, and how such an aim could be realized.

25. Finally, under the general items, I would like to draw attention to the fact that since the second half of the eighties, Chile has achieved an economic growth of over 6 per cent, brought unemployment down to 6 per cent, and achieved real wage levels amongst the highest in Latin America.

26. A major upcoming constraint to continued economic growth seems to be the concentration of the population and economic activity in the area around the capital. The resulting physical planning problems and the effects on the environment - one could recently read in the international press about the acute air pollution problems - could form a major drawback to future development. It would be interesting to have the views of the Chilean authorities, and have an indication what kind of policy instruments they are applying or planning to apply. Do the polluters pay, and how does the Government see the relationship between environmental concerns and international trade?

(2) Statement by the second discussant

27. Allow me at the outset to thank the Government of Chile and the GATT Secretariat for reports of high quality which in my opinion represent an excellent basis for a successful and interesting trade policy review. I would also like to extend my thanks to the representative of Chile for his introductory statement which will greatly facilitate our work. I believe that this review will be useful to Chile and to other contracting parties too, in particular developing countries, which are making immense efforts to find the best way toward successful economic and trade development.

28. Having heard the first discussant, I am aware that I am running the risk of repeating some observations and comments, which I would like to avoid. It is really difficult in the case of Chile to find the weak points

from the GATT prospective on which the discussion might be developed. That is why under the item relating to general objectives of trade policy I would like to express the appreciation for Chile's trade policy and ask some questions mainly in order to learn from Chile's example.

29. The growing economic relations of Chile with other countries and the degree of openness of its economy are reflected not only in merchandise trade but also in rising trade in services, which now amount to more than US\$3 billion. Direct foreign investments that reached US\$1.7 billion in 1989 are also growing. In the case of Chile I note with satisfaction that the market orientation of the economy and an open trade system, very transparent, simple, stable and non-discriminatory trade régime, as well as a structural adjustment programme undertaken in the second half of the eighties, have led to a strong recovery of the economy and a high annual economic growth.

30. After the experience that Chile had with the reforms and programmes of the mid-70s onwards it would be useful to hear from the Chilean delegation how they assess the rôle and importance of the coherency of trade policy with other macroeconomic policies.

31. Besides the policy of the real exchange rate of the peso - which is considered in the Secretariat's report as "a major factor behind Chile's export-led economic growth", which other policies were crucial for the sustained recovery of the economy and trade growth after the 1985/88 implementation of the structural adjustment programme? Furthermore, I would greatly appreciate comment of the Chilean delegation on the external competitive pressure the country faced after the mid-70s trade reforms when, in 5 years, tariffs were cut from very high levels to a uniform rate of 10 per cent and import licensing and quotas phased out within 2 years. My question is provoked by the fact that Chile's Government partly reversed its trade opening policies in 1984 and increased tariffs to 35 per cent. The present tariff level is still higher than in the second half of the seventies.

32. It would be interesting to learn from Chile's example whether they consider now that such a shock therapy in opening the economy was however "too shocking" at the time and what other internal policy measures would have been needed to avoid a reversal in the process of abrupt liberalization. At the same time, I am aware of the external reasons behind this temporary change in the trade policy of Chile. My intention is not to contest the general orientation on liberalization in Chile, but only to provoke the discussion on its pace and on other supportive policies and measures.

33. I would like to highlight that the economic growth and development of Chile relies very much on external economic and trade relations, especially on export diversification and foreign investments. For these reasons,

Chile plays an active rôle in the efforts of enhancing the multilateral trading system. As it was stressed in the Secretariat report, Chile's participation in the GATT reflects the conviction that the multilateral trading system, based on clear and predictable rules and disciplines, is to the best of its interests.

34. Chile supports the MFN clause. Around 90 per cent of its imports comes from MFN sources. The main exception are tariff preferences for imports from member states of the Latin American Integration Association (LAIA), and from developing countries participating in the Global System of Trade Preferences (GSTP). I noted that questions I had on Chile's existing regional arrangements and especially on negotiations engaged in with the United States under the "Initiative for the Americas" have already been posed by the first discussant.

35. Chile is one of the initial signatories of the GATT whose accession dates from 1949. Chile is the example of a country which integrated the General Agreement into the domestic legislation. Could the representative of Chile comment more on that, including whether there were any problems about that from the legal or any other point of view and to what extent this fact contributed to avoid domestic protectionist pressures?

36. Chile is a signatory of three MTN codes - Technical Barriers to Trade, Subsidies and Countervailing Duties, and Import Licensing Procedures. Chile has the observer status in five other agreements and arrangements (Customs Valuation, Anti-Dumping, Government Procurement, Bovine Meat and Dairy Products).

37. In this respect and taking into account what has been said in the reports on measures used in Chile against unfair trade and minimum imports values, the question could be posed on Government's intentions to accede to other Tokyo Round agreements, especially to the Anti-Dumping and Customs Valuation Codes.

38. As we all know, Chile has been active in the Uruguay Round, both independently and collectively with other Latin American countries and as a member of the Cairns Group.

39. I have also noted with interest that Chile regularly uses GATT consultation procedures and that from its accession to the GATT up to 1990, Chile lodged several complaints under Article XXIII. These facts also indicate the confidence Chile has in the GATT and multilateral procedures for the settlement of trade disputes.

40. Finally, Mr. Chairman, under this item I would like to say that although Chile registered a growing share in world exports and imports which reached 0.3 and 0.2 per cent respectively, its influence on the multilateral trading system cannot but be commensurate with these figures.

I think that it would be beneficial to the international trading system if there were more countries with trade related policies like Chile to influence it. I have noted, however, the high and rising rates of exports and imports in Chile's GDP which, in 1989, reached 32 and 26 per cent respectively, the dependence on copper for about 50 per cent of exports, the exporters' concentration to a few groups of products, and the dependence on 3 main markets (the European Community, the United States and Japan) for nearly 70 per cent of exports. The same three partners provide more than 50 per cent of Chile's imports.

41. All those facts represent, in my opinion, a good illustration of much greater effects that copper prices, external demand for Chile's exports as well as trade measures applied by trading partners have on Chile's trade and economy. Both Chile's and the Secretariat report contain information on trade measures faced by Chile on its main export markets, especially for agricultural and natural resource based products. That is why Chile is highly interested in improving the international trading system and the Uruguay Round negotiations, especially in the field of agriculture, access to markets and rules.

(3) Statements and questions by the members of the Council

42. Council members complimented Chile and the GATT Secretariat for the quality and coverage of their reports, which constituted a good basis for the review. They thanked the two discussants for their excellent introductions to the debate.

43. The representative of the United States expressed her admiration for the sustained efforts demonstrated by Chile to maintain open markets and resist short-cut political solutions to severe economic problems. Chile's trade reforms, coupled with stable macro-economic policies, had sustained its economic growth and development. Chile's market-opening efforts were even more remarkable when considering the pressures of external debt. Chile's trade and investment policies could constitute a model for other countries. Chile's liberal trade régime, enshrined in its Constitution, was characterized by transparency, predictability and non-discriminatory treatment among economic activities or sectors.

44. The representative of the United States commended specific aspects of Chile's trade policies, including the established right freely to import and export, the prohibition of quotas or any restrictions on trade, including VERs, the high share of imports from m.f.n. sources, the non-utilization of financial assistance to promote local industries, the termination of the "buy-Chile" campaign, and the non-existence of preferential credit insurance schemes for exporters. Although Chile had introduced a law on countervailing measures, these were not frequent. Investigations were public and legal appeal procedures available.

45. Although copper remained Chile's main export product, diversification was taking place. Exports of agricultural and processed primary products had increased considerably during the past years.

46. The United States welcomed Chile's commitment to an open trade régime. The recent tariff reduction from 15 to 11 per cent and the enactment of a new industrial property law providing product patent protection for pharmaceuticals were highly appreciated by the United States' administration. Finally, she recalled that her country was ready to engage in a free-trade agreement with Chile under the Enterprise for the Americas Initiative.

47. The representative of Mexico noted that Chile had bound its entire tariff schedule. Applied tariffs were below the bound level and, moreover, had recently been further reduced. Chile did not apply minimum import prices and no import licences were required. Quantitative restrictions were outlawed.

48. He noted that Chile was a developing country, open to international competition and fully following GATT principles and practices. In this connection, he expressed concern about the external environment for Chilean exports. Obstacles confronting Chilean exporters included high tariffs, seasonal variations in tariffs, tariff quotas, technical barriers, licensing requirements, and price and quality controls. These affected agricultural, textile and natural resource-based products. Finally, he stressed the importance of improving the external environment for maintaining Chile's open economy.

49. The representative of Canada congratulated Chile for its perseverance in executing a rigorous and well-conceived structural economic adjustment programme. Chile's experience demonstrated that sound fiscal and monetary policies, combined with reforms in trade and investment and privatization of state enterprises, were a winning strategy. He encouraged Chile to maintain its focus on trade- and investment-led growth. He noted that bilateral trade between Canada and Chile increased by almost 30 per cent in 1990.

50. Noting that Chile's foreign investment rules had been significantly liberalized and that foreign investment had grown considerably in the last several years, he encouraged Chile to continue its liberal attitude to foreign investment. In the light of Canadian firms' extensive investments in Chile, he sought elaboration on the mechanisms existing for the protection of foreign private investments.

51. The representative of Canada applauded Chile's implementation of a uniform tariff as the principal measure controlling imports. Its transparency and the neutral effect on the allocation of domestic resources made this policy particularly effective in promoting efficiency and

economic growth. Chile's tariff policy could serve as an example for other countries implementing trade policy reform programmes. He encouraged Chile to continue adopting policies based on its stated objectives of transparency, efficiency and non-discrimination.

52. The representative of Argentina noted that Chile had implemented a successful economic liberalization programme which helped to increase its external trade and further integrate the country into the international trading system. Chile's achievements were more remarkable in a period when most of the Latin American countries had stagnated. Chile was a very important trade partner for Argentina, with bilateral trade flows reaching US\$500 million in 1990. Chile and Argentina shared the same objectives in the Uruguay Round negotiations, especially with regard to the liberalization of trade in agriculture. In this context, the representative of Argentina highlighted Chile's contribution to the Uruguay Round negotiations, in particular as a member of the Cairns Group. He finally noted that Argentina had passed to the Chilean delegation some written questions in advance, covering the price band mechanism applied on certain agricultural products, and the specificities of Chile's anti-dumping practices.

53. The representative of Japan appreciated Chile's open trade policies and its recent outstanding economic performance. Japan was the second largest market for Chilean products and the second exporter to Chile. Chile was Japan's major supplier of copper, iron ores and other important minerals. Bilateral trade and economic relations were close and cooperative. The representative of Japan sought further information on the recent economic package announced by the Chilean Government on 15 June 1991.

54. The representative of India was impressed by the consistent and great efforts made by Chile to move towards a market-oriented economy. This was reflected by the low level of the uniform tariff, the elimination of non-tariff measures, the binding of its entire tariff schedule, and the transparency of its policies. He congratulated Chile on all these positive features in its economic and trade policies.

55. He said that trade should act as a vehicle for growth and development. Products of export interest to Chile, such as agricultural and natural resource-based products, should receive undistorted access to world markets. Noting with appreciation that Chile had consistently refused to engage in VERs, he remarked that, at times, this policy had lead to unilateral imposition of quotas on Chilean exports. Chile's efforts to liberalize its economy and trade policies needed not only to be appreciated but also encouraged. A multilateral system based on the establishment and enforcement of clear and predictable rules was in the best interest of a small dynamic trading nation like Chile. A positive and early conclusion

on the Uruguay Round would give a further impetus to Chile's reform programme.

56. The representative of Australia remarked that Chile could be seen as a successful model of rigorous application of free-trade policies. Chile's trade policies showed a firm commitment to the multilateral trading system. The GATT was fully incorporated into Chile's domestic legislation, and the principle of non-discrimination into the Constitution. Chile relied almost completely on a uniform tariff as the principal instrument for controlling imports. Quantitative import restrictions had been eliminated and exports were not subsidized. Chile participated actively in the Uruguay Round, including as a member of the Cairns Group.

57. The Australian representative sought Chile's opinion on how regional trading arrangements would fit in with its global trade régime. In particular, he was interested to know of any plans for the multilateralization of partial-scope agreements. With regard to bilateral agreements, he asked how bilateral agreements with, for example, zero tariffs would not have an adverse impact on third countries if the parties to the agreement maintained a common external tariff.

58. The representative of Australia asked the Chilean delegation whether membership of the Latin American Integration Association had influenced the export orientation of the Chilean economy. In particular, he sought information on the effectiveness, implicit costs for business, and any greater preference for intra-regional trade resulting from the LAIA's Reciprocal Payments and Credit Agreement.

59. The representative of Peru said that Chile's efforts, economic achievements and trade reforms were praiseworthy, exemplary and should be recognized by the Council. Chile had persevered with the maintenance of a clear, transparent and open trade régime despite the important social and economic costs involved.

60. The trade behaviour of other contracting parties did not match up to Chile's clear free-trade policies. While Chile's contribution to the multilateral system was commendable, access for Chilean exports was still restricted in certain major markets. The lack of balance towards a developing country fulfilling all its obligations under the General Agreement was a matter of deep concern for Peru. Chile had bound its entire tariff schedule and applied lower tariffs, but its exports were still confronted with high tariffs and other import barriers. The Council should recognize Chile's efforts in liberalizing its trade régime and underline that Chile's positive contribution to the Uruguay Round must be accompanied by improved trade treatment for Chile's exports.

61. The representative of the European Communities remarked that Chile was essentially a market-oriented economy, in which comparative advantage

played its full rôle. Foreign investment was increasing and some efforts towards regional integration had been carried out. He generally appreciated the coherence of Chile's macro-economic policies.

62. Although all tariffs were bound and applied duties had recently been reduced, there was considerable scope for tariffs to be varied within bound levels. He asked whether Chile had any plans to review arrangements concerning the price stabilization scheme applied to certain agricultural products. He pointed out that there were no import licences or quantitative restrictions, except on motor vehicles. Similarly, no export controls were applied, except on copper exports.

63. Noting that Chile had signed three MTN Codes, he asked whether Chile was considering accession to other Tokyo Round Codes, notably the Government Procurement, Customs Valuation and Anti-Dumping Codes. He mentioned the existence of certain support measures in the mining, fisheries and forestry sectors. Finally he asked whether the Chilean Government had any intention to reduce the State involvement in certain major enterprises.

64. The representative of Sweden, speaking on behalf of the Nordic countries said that Chile's adherence to free market principles resulted in a very liberal trade policy compared to many other developing countries. Trade liberalization led to a diversification of the economy, creation of a more efficient and competitive export sector as well as a competitive domestic industry. He remarked that the social costs associated with trade liberalization were not thoroughly addressed in the reports, and asked how the Chilean Government intended to deal with this important matter.

65. He noted with interest and admiration that trade related rules were contained in Chile's legislation. The general prohibition of quotas and the adherence to the principle of non-discrimination were cornerstones of Chile's trade policy. Clear rules contributed to transparency, as did the fact that tariffs were used as the main trade policy measure in Chile. Noting that tariffs were low, compared to other developing countries, he welcomed the recent further reduction of the uniform tariff from 15 to 11 per cent.

66. The representative of Switzerland mentioned Chile's excellent performance in the implementation of its obligations under the General Agreement. Economic liberalization in Chile contributed to economic growth, as envisaged by the founders of the GATT. The liberalization of foreign trade and the privatization of the economy helped Chile to register sustained growth. The 1980s could not be considered as "lost years" for Chile.

67. She noted that Chile was a good demonstration that small countries did have good possibilities for growth if they opened their economies.

This policy had helped Chile reduce its dependence on copper by encouraging export diversification. Economic progress could also be seen in foreign investors' confidence. The link between foreign investment and technological transfer was essential to the development of the country.

68. Chile's economic growth had also benefited its trading partners which had seen greater opportunities in this market, in particular concerning capital goods and equipment.

69. Chile's non-discriminatory trade policy used tariffs as the only instrument to regulate imports. Chile's tariff schedule was fully bound.

70. The representative of Switzerland noted with interest Chile's concerns for social aspects of the adjustment programme. She encouraged Chile to continue its efforts to reduce poverty and income distribution inequalities.

71. Noting that the opening of the economy had made Chile more dependant on the multilateral trading system, she encouraged Chile to pursue its active participation in the Uruguay Round.

72. The representative of Venezuela congratulated Chile for its transparent and coherent trade policies, and said that the Council should support them. Noting that Chile had improved its infrastructure, labour qualifications and income levels, as compared to other countries in the region, he recalled that Chile was still a developing country with serious concerns about the present state of the multilateral trade negotiations. Congratulating Chile for its participation in the liberalization process of the multilateral system, he noted the existing imbalance between Chile's commitments and that of other contracting parties. He finally thanked Chile for its support to Venezuela's accession to the GATT.

73. The representative of New Zealand commended Chile's commitment to a market-oriented economy and trade régime. Chile's simple and transparent trade policies observed the basic principles which had guided the drafters of the General Agreement. The Chilean experience constituted a practical answer to those who argued that trade liberalization did not work.

74. Trade liberalization and deregulation provided the main impetus for Chile to diversify beyond copper and become an efficient agricultural exporter. Chile, as other efficient agricultural exporters, urgently needed international agricultural reforms to benefit from its comparative advantages in the sector. In this context, New Zealand welcomed Chile's active participation in the Cairns Group and the Uruguay Round.

75. The high share of m.f.n. imports into Chile showed its support for the multilateral system based on the m.f.n. principle. Finally, he welcomed certain elements of Chile's trade policies, including the reliance

on tariff protection at a uniform rate, the non-use of import prohibitions, quotas and VRAs, and the binding of the entire tariff schedule, as well as the latest announced tariff reduction.

76. The representative of Poland noted that Chile was a remarkable example of liberalism and commitment to the letter and spirit of the GATT. Poland shared some elements of the Chilean experience, especially as regards the initial situation for structural economic and trade reforms. Noting that Chile had for a number of years maintained a uniform tariff, he asked how this tariff uniformity could be reconciled with the requirements of structural adjustment, which appeared to require some differential treatment. He finally asked whether Chile was determined to maintain the same principle of tariff uniformity and trade régime irrespective of the results of the Uruguay Round.

(4) Responses by the representative of Chile

77. The representative of Chile expressed his gratitude for the praise given to his country's trade policies and practices. Concerning the experience of trade liberalization in Chile, he said that it was not possible to give an exhaustive list of all successes and mistakes. Chilean economists, entrepreneurs and workers had learned from the experience of different liberalization programmes. The central problem for the authorities was the concentration of the costs of liberalization at the initial stages of the programme and the extension of the benefits over the medium and long term. It was essential to be able to come through the first stage of costs and to persevere with the policies. Recognizing that it was difficult to meet social needs through external trade policies, he noted that his country had managed to lessen the social costs involved in the adjustment process by using instruments such as tax reform.

78. The timing of the trade policy reforms, in relation to domestic and international economic developments, and their relation to the implementation of macroeconomic adjustment measures were also crucial elements in the process. The evolution of significant prices in the economy, such as the exchange rate, interest rates and wage levels, also played a major rôle.

79. Chile had taken seriously its international commitments in terms of financing and external debt payments. In 5 years, Chile had reduced its external debt from over 100 per cent of GDP to less than one-half of this aggregate. Private external debt had been cut back considerably. Chilean debt paper was now traded at 90 per cent of its face value, compared with less than one-third in the past. This experience showed that export growth could help service external debt. External debt was no longer a major problem for Chile.

80. Chile's natural resources largely determined its comparative advantage. Chile was a mining, forestry, fishing and fruit-producing country. Within these natural resource endowments, it had been possible to diversify the export structure away from basic commodities. He noted the extraordinary growth in manufactured exports during the 1980s. Chile was exporting new items in which it had developed a comparative advantage. Chilean services exports, including those of new technology, were also important.

81. Chile had established stabilization funds to counter fluctuations in certain international prices for products of great export interest. The objective was mainly to minimize the effects of these fluctuations on its balance of payments and foreign reserves.

82. Recent economic measures adopted by the Chilean Government included a tariff reduction from 15 to 11 per cent; measures to discourage short-term capital movements; and an increase in certain taxes, such as on fuels. These measures were intended to diminish inflationary pressures. It was estimated that in 1991, Chile would experience a 5 per cent growth rate, inflation not exceeding 18 per cent, unemployment of below 6 per cent, and investment levels above 20 per cent of GDP.

83. The representative of Chile stressed that when speaking about export and import shares in GDP, it was preferable to consider trade in merchandise and services as well. Taking into account those elements, Chile was expecting to export around US\$12 billion in 1991. Also, bilateral trade between Chile and Argentina would be around US\$1 billion when considering merchandise and services trade.

84. Chile was convinced that bilateral and multilateral agreements were perfectly compatible in the GATT framework, although from a theoretical point of view, the multilateral approach should have priority. Chile considered that free-trade agreements were positive to the extent they covered all products.

85. Chile was observing the progress of MERCOSUR and the Andean Group with great interest. These agreements would be beneficial to the extent that they led to reduced protection. Chile was particularly interested in the implementation of trade liberalizing policies in the region. However, persistent macro-economic imbalances could inhibit the process. Chile participated in some partial or regional agreements within LAIA. These were compatible with the GATT. The Reciprocal Payments and Credit Agreement within LAIA had been of positive use in the regional context at difficult moments.

86. Chile was convinced that generally liberal policies had contributed more to regional trade than had selective integration schemes with high protection levels. The Latin American region was not an important market

for Chile, representing only around 10 per cent of Chile's exports. The reasons for this were that many economies in the region still maintained high levels of protection and were suffering from serious recessions.

87. Foreign investment in Chile was characterized by two important factors. First, the legal nature of the investment contract made it difficult to modify terms therein; secondly, a body of simple rules had eliminated discriminatory treatment between domestic and foreign investors and guaranteed, after a given period of time, capital and profit repatriation. Access to foreign exchange was guaranteed, even during periods of balance-of-payments difficulties. Chile was negotiating with its trading partners a variety of mechanisms with a view to improving the system, in particular in order to attract medium and small scale investors. In Chile, there was still the possibility of increasing investment in natural resource-based products. Outward investment was a new development for Chilean entrepreneurs. Through this it had become possible to fight protectionism and develop comparative advantage in natural resources.

88. The representative of Chile expressed concern about certain restrictions affecting Chile's exports. Chile did not apply restrictions on any sectors, and did not see why its exporters should suffer from restrictions in these same sectors. Chile considered that those countries which had made greatest efforts in the direction of liberalization, should have first access to the benefits of the multilateral system.

89. Environmental problems were taken seriously by the Chilean Government. However, solutions could not be found within a short period of time. Technical and financial problems were involved. Certain links existed with international trade, especially through the protection of natural resources. Chile had been able to avoid the present South American cholera epidemic, thus being able to safeguard market access for foodstuffs thanks to its policies in the areas of health, sanitation and quality controls.

90. With respect to environment policies, the Chilean representative noted that the Chilean Congress had recently approved a new fishery law intended to preserve natural resources in this sector. On forestry, he pointed out that Chile had the highest reforestation rate in the world because of the importance of this natural resource.

IV. USE OF MAJOR TRADE POLICY INSTRUMENTS

(1) Statement by the first discussant

91. Chile is well known for the absence of quantitative restrictions in its import régime. Furthermore, it has not given into requests from certain trading partners such as the EC to apply voluntary export restraints. The major trade policy instrument is the tariff, which has been uniform since the mid-1970s. As well as making good economic sense, a strong commitment to a uniform tariff offers the possible advantage of easing sectoral pressures for protection. Indeed, sectoral plans for preferential treatment appear to be far fewer in Chile than in many other countries. There may be good lessons for other contracting parties if Chile could provide some insights into the advantages it sees of maintaining a uniform tariff and its experience in promoting its acceptance amongst producers and traders.

92. It is also well known that all of Chile's tariffs are bound in the GATT, mainly at 35 per cent. The distance between applied tariffs and bound tariffs, of course, provide the Chilean authorities with a considerable "marge de manoeuvre" and it is not immediately clear how this flexibility is used. For instance, minimum customs values, references prices and surtaxes are applied to a number of products. The Import Distortions Investigation Commission is in charge of investigating countervailing cases as well as other distortions such as alleged dumping. One could ask whether, although from a legalistic GATT point of view nothing is wrong in tariff measures that are kept within the limit of the 35 per cent GATT binding, this flexibility in a way is not circumventing the multilateral disciplines of Articles XIX or XVI and VI. Also, the question arises whether countervailing actions should not be taken on a selective basis, concentrating on the source of the trade distortion, rather than using m.f.n. measures.

93. The flexibility which the Chilean authorities have, due to the gap of 20 percentage points between the applied tariff and the bound tariff, can also be a source of uncertainty both for exporters and importers. The recent decision to reduce the uniform tariff rate to 11 per cent will, of course, raise this margin to 24 per cent. One wonders how the Uruguay Round negotiations could play a rôle in reducing this margin of uncertainty.

94. Chile maintains strict quarantine and phytosanitary controls over imports of many plants and animal products. We are informed by the Chilean authorities that these are considered to be the minimum necessary to prevent importation of disease. On what basis is this assessment made? What process exists internally to continuously review these arrangements to ensure that an appropriate balance is made between justifiably wanting to avoid importation of pests and diseases, and the fundamental objective of

allowing market access. It is interesting to note that many of the concerns expressed by Chilean exporters over restrictions confronted in overseas markets, echo similar complaints by overseas exporters seeking access to the Chilean market.

95. On the export side, the main feature that could be discussed is the rôle of the Government-owned Chilean Copper Commission and the Chilean Copper Corporation. Their statutory powers are wide ranging. Given the importance of copper and copper products in Chile's export package (more than 50 per cent), it seems that a very important part of Chile's export trade is under a State-trading régime. It would be interesting to discuss the relationship of these trade practices with GATT disciplines (Article XVII). But maybe it would be more advisable to take up this matter under the next item, where other features of the copper mining sector are discussed.

96. There is also the question of the apparent generous nature of the simplified drawback scheme for small exporters. It could be argued that this scheme could contain an element of export subsidy for some exporters who receive a refund exceeding the tariffs they pay on imported materials. Contracting parties may wish to explore this issue further, especially in the light of the proposed reduction in the uniform tariff rate which, without changes to the simplified drawback scheme, would tend to raise any subsidy element.

(2) Statement by the second discussant

97. Chile's trade policy is based on tariffs as the main and practically only protective instrument. Therefore, it is very difficult to discuss on the use of major policy instruments and not repeat some of the comments of the first discussant.

98. I would stress, however, that Chile applies uniform ad valorem tariff rates of 15 per cent, providing for the same competitive opportunities to all sectors. There are only a few exceptions to this rule. This issue, I think, could be discussed further under this item. The fact that Chile bounded the entire tariff at a 35 per cent ceiling level, should be taken into account.

99. Minimum customs values, reference prices and surtaxes apply to some products. Discussion of these issues could enable us to assess whether there is a discretionary practice in the tariff treatment.

100. After studying the reports, we have an impression that in some cases minimum customs values and surtaxes are used as a substitute for anti-dumping or countervailing measures. As Chile is party to the Subsidies Code, we would like to hear the assessment of the Chilean delegation of this practice in the context of the operation of the Code.

Because surtaxes and minimum customs values might be used to address some cases of dumping, I would like to ask the Chilean delegation what changes in the Anti-Dumping Code, if achieved in the Uruguay Round, would enable Chile to accede to it?

101. On policies relating to copper, which represents 50 per cent of Chilean total exports (or US\$4 billion in 1989) and is sold directly through the Chilean Copper Commission, which - as the first discussant has already said - has wide statutory powers, I agree with him that it would be interesting to assess the importance of State trading having in mind the GATT rules on such practices.

102. In addition, I have noted that Chilean standards are often stricter than international norms, but applied without discrimination as between domestic and import products. Chile also has stringent quarantine requirements for plants and animals, the reasons for which have been given in the reports. However, it might be interesting to get some more explanations on that.

(3) Statements and questions by the members of the Council

103. The representative of Canada, while applauding Chile's implementation of a uniform tariff, encouraged Chile further to reduce the level of duties. In this connection, he asked whether Chile had a timetable for any further tariff reductions, beyond the ones just announced. Noting the large gap between the applied tariff rate and Chile's Tokyo Round tariff bindings, he encouraged Chile to lower these bound rates with a view to enhance predictability in the Chilean trade régime.

104. He noted that Chile had initiated a significant number of countervailing duty investigations following the introduction of its legislation on this matter in the early 1980s. Remarking that the number of investigations decreased in the past few years, he asked for the reasons behind this decline.

105. The representative of Australia sought more information about the decision-making process and regulations in force for tariff variations up to the bound ceilings. He asked how the use of variable composite tariffs, tariff surtaxes and minimum customs values for purposes of anti-dumping and countervailing, related to Article VI of the GATT. In this context he also asked whether Chile was considering joining the Anti-Dumping Code.

106. The representative of Switzerland, welcoming the recent tariff reduction, asked whether Chile had any intention to adapt its bound rates as a result. Noting that under Chilean legislation tariff surtaxes could be applied on certain products, she sought information on Chile's existing policies in connection with dumping and whether Chile intended to sign the

Anti-Dumping Code of the GATT. She finally asked how Chile's environment concerns were translated into practice as regards fishery and forestry.

107. The representative of Sweden, speaking on behalf of the Nordic countries, asked under what circumstances Chile would contemplate the reduction of the bound tariff level. He noted that the difference between applied tariffs and bound rates created uncertainties for exporters, especially where long-term contracts were concerned. He also asked how far Chile would consider simplifying or altering the practices of setting minimum customs values and tariff surtaxes. Finally, he encouraged Chile to join other GATT Codes.

108. The representative of New Zealand recognized the international trading distortions which had led to Chile's use of variable specific duties, tariff surtaxes and minimum customs values. However, he expressed concern on the use and effects of such measures. The gap between the applied and the bound tariff levels was also a matter of concern for New Zealand. He again encouraged Chile to sign more GATT Codes, in particular the Customs Valuation and the Anti-Dumping Codes.

109. The representative of Egypt expressed his delegation's appreciation and support for Chile's efforts to liberalize its trade régime. He sought further clarifications on the use of tariff surtaxes and minimum customs values and raised the question whether these practices could be considered as anti-dumping and/or countervailing measures.

(4) Responses by the representative of Chile

110. In responding to questions relating to the use of major trade policy instruments, the representative of Chile said that the range of the Chilean tariff had been gradually reduced to reach a uniform rate. There were very few exemptions; the uniform tariff was easy to administer; and the benefits of liberalization were already perceived by economic agents. There were better tools than the tariff to address sectoral adjustment problems.

111. In Chile, the Congress had the responsibility for modifying tariff rates. The uniformity of the tariff guaranteed that administrative discretionary power was minimized. Chile recognized the negative effects of escalating tariffs on the allocation of resources. The uniformity of the tariff did not limit Chile's negotiating power. Chile was ready to reduce the differential between the applied and bound rates, depending on other contracting parties' concessions.

112. The difference between the bound tariff rate of 35 per cent and the applied rate of 11 per cent permitted Chile to maintain the possibility of raising tariffs in an emergency situation. That had happened once when

Chile faced a major crisis of external debt. Nevertheless, Chile had offered to reduce this gap in the Uruguay Round negotiations.

113. The simplified drawback scheme benefiting non-traditional exporters was not intended to provide subsidies, but rather to simplify the normal drawback mechanism. With respect to any export restrictions, the Chilean representative noted that his Government could not legally apply restrictions to exports, but that the private sector could enter into agreements of this nature.

114. The price band mechanism for certain agricultural products, established in the early 1980s, was intended to attenuate the adverse effects on the Chilean economy of internal price fluctuations. The mechanism contained clearly defined rules. It was automatic, leaving no scope for negotiations with producers or use of discretionary power by the administration. He believed that the average levels of protection provided by the mechanism were much lower than those indicated in the Secretariat Report. Moreover, any importer had the possibility to request the application of the 35 per cent bound tariff level if he believed that specific duties according to the price band mechanism were exceeding the ad valorem bound rate. The only circumstance in which the bound rate could be exceeded was under the safeguard provisions of the GATT.

115. Reference prices were no longer used. Only seven minimum customs values were currently applied. Minimum customs values were mainly intended to ensure the proper collection of duties and were not used as an instrument to counter dumping or subsidies. Investigations covered mainly evasion or failure to pay levies. Clear and transparent administrative rules governed the mechanism.

116. Tariff surtaxes had been used as temporary measures from time to time to raise customs duties on an m.f.n. basis to the ceiling level of 35 per cent. However, this instrument had not been used frequently in recent years. Countervailing duties could be imposed on a selective basis. In all cases, tariff surtaxes and countervailing duties were temporary, periodically reviewed and could not exceed binding commitments. The procedures were transparent and not different from those of the corresponding GATT Code.

117. Chile would be ready to accede to other GATT Codes if it considered that, after evaluation of any Uruguay Round results in this respect, these Codes were found to be anti-protectionist.

118. Considering that Chile was a "phytosanitary island" and that it was essential to maintain its comparative advantage, Chile did not view its phytosanitary measures as restrictive barriers to trade. Moreover, they were not discriminatory; domestic producers were also subject to the same requirements.

V. SECTORAL ASPECTS OF TRADE POLICY

(1) Statement by the first discussant

119. The Chilean Government in its report says that given its reliance on the market mechanism, domestic protective measures do not form the basic components of its overall economic policy. Non-discriminatory trade liberalization, combined with liberal foreign investment policies, appear to have led to considerable sectoral adjustment in Chile, resulting in growth of non-traditional export-efficient industries and thereby improving the economy's flexibility. Contracting parties may wish to explore further Chile's experiences in this regard, and the need for trade reforms and liberalization of foreign investment rules to complement each other.

120. Despite Chile's commitment to avoid sectoral trade policies, a few exceptions are noted in the Secretariat's report. Agriculture and forestry, mining and the motor vehicle industry seem to be the main beneficiaries.

121. In agriculture, composite variable tariffs apply to sugar, wheat and oilseeds, ranging up to ad valorem equivalents of currently over 100 per cent on wheat. These underpin domestic price bands. In the report from the Government of Chile one can read:

"Price bands are a system for keeping the domestic prices of the main agricultural products closely in line with medium-term world market trends ...".

This sounds rather harmless but the Secretariat's report is rather critical, for instance in paragraph 30 of its summary, it is said that:

"while agricultural self sufficiency is no longer a stated aim of the Chilean Government, the sectoral policies for wheat would appear to be an underlying factor in Chile's self sufficiency in this product since 1984."

Reference is also made to the practical difficulties of correcting for international price distortions, and the potential for these mechanisms "to substantially increase assistance during periods of falling world market prices".

122. It would be interesting to have some more debate on this issue, especially since a Cairns group member seems to embark on policies that have a more than vague resemblance although not complete to those of, for example, the European Communities.

123. In forestry, substantial production subsidies are made available. It would be interesting to discuss their effects on international trade flows.

124. In the mining sector, in addition to the State-trading aspect of the Chilean Copper Commission already mentioned which dominates the industry and controls exports, special measures such as tax concessions and rebates apply to oil exploration and development and small-scale mining operations. Another area of interest would be the Copper Stabilization Fund and how effectively it operates in stabilizing Government income and copper export income.

125. Finally, participants might wish to discuss some features in the vehicle industry, especially the local-content requirements and the import ban on second-hand vehicles. Chile, in its report, quotes mainly reasons of regional policy for existence of these special measures.

(2) Statement by the second discussant

126. Although Chile's policies rely on market forces and, in principle, uniform treatment of all sectors, under this item a few examples of exceptions to this rule could be taken up.

127. On agriculture, we have noted that "self-sufficiency in agricultural production is, in principle no longer considered as a policy objective". For wheat, for example, as the first discussant has already stated, self-sufficiency was reached in 1984. I understand the reasons behind the application of variable composite tariffs which evolved from an instrument introduced in order to stimulate production, to an instrument with the purpose to counter export subsidies or other trade distorting measures applied by Chile's trading partners.

128. I would like to join the first discussant in linking this issue with the stated objectives of the Cairns Group, to which Chile belongs. Similar considerations could be applied to sugar and vegetable oils.

129. I have noted with satisfaction Chile's successful results in fruit production and exports. It could be expected that this trend will be continued and that the introduction of voluntary quality controls on Chilean exports in 1990 would contribute to that end. I am interested to learn what specific reasons made the introduction of voluntary export quality control necessary and who initiated it. The questions related to forestry and copper have already been raised. I think that beside subsidies for forestry, the benefits from the income tax concessions and rebates for mining and petroleum industries could be discussed. In addition, relating to subsidies, I have noted that irrigation subsidies are being steadily reduced.

130. Finally, Mr. Chairman, on textiles I would like to stress that the Secretariat report provides information on the openness of Chile's textile industry with certain reserve relating to tariff surtax and minimum customs values. In analysing the developments in the textiles and clothing sector,

I was struck by two features. First, in spite of being a net importer of textiles and clothing, Chile has never participated in any MFA arrangement. Second, since 1974 Chile has undertaken substantial import liberalization and profound restructuring of domestic industry. The effects of these processes were the closing of more than two-thirds of factories and drop in gross output of more than 50 per cent in 6 years. However, during the eighties the competitiveness of the industry improved and now this sector accounts for approximately 10 per cent of industrial production. Chile's textile sector benefits from the same level of tariff protection as any other industry. Comments in this respect might be made in the context of the trade policies and practices of other importing countries which, much more than Chile, influence the international trading system.

(3) Statements and questions by the members of the Council

131. The representative of New Zealand raised a question concerning benefits provided to the forestry sector. He also sought some clarification on certain restrictions applying to exports of llamas and alpacas.

132. The representative of Australia congratulated Chile for the way it had reduced protection and preferential treatment for the industrial sector. He noted that Chile's agricultural output and exports had increased despite the relative lack of preferential sectoral policies. This could serve as an example of the benefits of eliminating distortions in agricultural production and trade. Recalling that mining had traditionally been a mainstay of the Chilean economy, he asked for more information about Chile's efforts at stabilizing the world market for copper through the Copper Stabilization Fund.

133. The representative of Canada highlighted Chile's participation in the Uruguay Round, as a member of the Cairns Group, to improve the functioning of the multilateral trading system for agriculture. With respect to the effects of the price band mechanism, he asked whether wheat was being grown in Chile at the expense of other agricultural production. Finally, he asked how Chile could rationalize the use of variable levies in the context of its general tariff policy, based on the principles of uniformity and transparency.

(4) Responses by the representative of Chile

134. The representative of Chile recalled, once again, that the price band mechanism on certain agricultural products was not intended to provide high protection to domestic producers. He recognized that wheat production in Chile had increased to a level of self-sufficiency and that even certain surpluses existed. However, he noted that production increases were not exclusively the result of the price band mechanism but rather of significant changes in Chile's real exchange rate.

135. Recent tax reforms had eliminated almost all tax concessions or exemptions. No preferential tax treatment was given to the mining or fisheries sectors. The only applicable sectoral support policy referred to forest plantation. At around US\$5 million, this was of small significance. The reasons for this measure related to the need to safeguard long-term investments by private foresting operators and to encourage reforestation in some regions as a protection against soil erosion.

136. The Copper Stabilization Fund represented a contribution to monetary reserves and did not affect market prices. The Fund had been established on the basis of recommendations made by the World Bank. In production and trade in copper, the Chilean Government held no monopoly powers, nor did it intervene in price-fixing.

137. Voluntary quality controls on food exports were entirely decided by the Chilean private sector. The Government did not intervene in this matter. One of the main arguments for quality controls was the necessity of providing certain homogeneity to Chilean export products.

138. Chile had rationalized its textiles industry, which was now competitive on world markets. Although Chile did not produce textile inputs, it had considerably increased textile and clothing exports, which reached in 1990 some US\$100 million. With regard to its non-participation to any MFA arrangements, Chile believed that as it did not apply restrictions in textile's trade, there was no reason for Chile to accept any quotas or restrictions in other markets.

139. Car imports into Chile were free from non-tariff measures, except for second-hand automobiles.

140. Export controls on llamas and alpacas were no longer in force.

141. Finally, Chile sought an improved GATT trading system, to the greatest possible extent, resulting from the Uruguay Round negotiations. Chile was prepared to make all necessary efforts in this direction.

VI. CONCLUDING REMARKS BY THE CHAIRMAN

143. The aim of the reviews undertaken by the Council in the framework of the Trade Policy Review Mechanism is to provide a collective evaluation of the full range of individual contracting parties' trade policies and practices and their impact on the functioning of the multilateral trading system. These closing remarks are not intended to substitute for the assessment made by the Council of Chile's trade policies and practices, but to summarize, on my own responsibility, the salient points emerging from this review. The full discussion, including Chile's responses to points raised by participants, will be reflected in the minutes of this meeting.

144. All Council members commended Chile for its open trade policy orientation and its adherence to the fundamental principles of the GATT. Chile was a relatively small, market-oriented, trade-dependent economy, which had achieved an impressive degree of trade liberalization. Liberal trade and foreign investment policies had fostered Chile's economic development. Chile's trade and foreign exchange policies had helped reduce the country's long-standing export dependence on one commodity, copper. Chile's economic expansion, on the basis of such policies, had brought its external debt to manageable levels. Many participants said that Chile could be considered as a model of a country where rapid trade reforms, when combined with an appropriate mix and sequencing of other economic policies, resulted in a marked improvement in performance. Members sought further information on Chile's experience with trade liberalization.

145. The Council welcomed the firm legal basis established for Chile's trade policies and the lack of bureaucratic discretion. A uniform tariff helped reduce distortions and ensure non-discriminatory treatment among productive sectors. Chile's binding of its entire tariff schedule had also reduced uncertainty for exporters to Chile. The transparency of Chile's trade régime was reinforced by the almost exclusive use of ad valorem tariffs and the prohibition, by law, of quantitative import restrictions and voluntary restraints. It was noted that tariffs had been reduced in the past few years. The recent reduction from 15 to 11 per cent was welcomed.

146. Non-traditional exports of manufactures and, in particular, of agricultural products from Chile had grown rapidly. Some members stressed that Chile's generally open trade policies were not, however, matched by improvements in access to other markets for these products. Such improvements, especially within the Uruguay Round negotiations, would encourage Chile to continue its open trade orientation.

147. Chile's firm commitment to the multilateral trading system and its active participation in the Uruguay Round, including as a member of the Cairns Group, was welcomed.

148. While commanding Chile for the general direction of its trade policies and practices, Council members posed questions regarding several areas of policy. They included:

- (i) Chile was asked whether there were plans to reduce tariff levels further;
- (ii) There was a substantial, and now larger, gap between applied and bound tariff levels. This increased the degree of uncertainty for exporters to Chile, particularly in the context of long-term contractual obligations. The question was asked whether Chile would consider reducing the bound levels of duty to increase predictability.
- (iii) Variable composite tariffs underpinning domestic price bands for certain agricultural products, had led to ad valorem duty equivalents in some cases substantially above bound levels. Clarification was sought on the functioning of and the rationale for this system, in the light of Chile's general policy of transparent ad valorem tariffs.
- (iv) Questions were asked regarding the use of minimum customs values and tariff surtaxes to provide temporary import relief, or to correct for what the Chilean authorities considered international price distortions stemming from unfair practices by trading partners. Members asked whether these measures were intended to be a basis for anti-dumping and countervailing actions and sought information on the reasons for the decline in the number of countervailing investigations since the mid-1980s;
- (v) In this connection, noting that Chile was a signatory to three MTN Codes, members asked whether Chile was considering joining other Codes, in particular the Anti-Dumping and Customs Valuation Agreements;
- (vi) Questions were asked concerning Chile's new bilateral trading arrangements with the United States and with Latin American countries. Concerns were expressed about the possible trade-diverting effects of these arrangements;
- (vii) Reference was made to the restrictive nature of Chile's health and sanitary regulations. Questions were asked regarding the criteria underlying these measures;

- (viii) Attention was drawn to the continued import prohibition on used cars. A question was also asked regarding the contribution made to the development of the Chilean automobile industry by local content requirements;
- (ix) The economic and trade effects of the few, but important, State-owned enterprises were queried;
- (x) The incidence of continuing export controls on copper was highlighted;
- (xi) Reference was made to the possibility of a discriminatory subsidy element in the simplified duty drawback scheme. Information was also sought on the system of production assistance for afforestation, and the extent to which this constituted a subsidy;
- (xii) Questions were asked concerning the social costs of the liberalization programme and measures taken to relieve poverty.

149. One delegation sought more information on the new economic package adopted by Chile in mid-June 1991.

150. In replying to the questions and comments made, the representative of Chile said that Chile's experience with trade liberalization had not been universally successful. The costs of reform were generally felt in the short term, while the benefits were experienced in the longer run. Macro-economic equilibrium and prudent management of external debt had been essential supports for trade liberalization. There was a high degree of consensus in Chile in favour of the liberalization process; the most recent tariff reduction had been accepted unanimously by Congress.

151. Up to now, Chile had concentrated its export efforts in areas based on natural resources in which it had a comparative advantage. Nevertheless, further diversification into exports of manufactures and services was being sought.

152. The uniform tariff could only be modified by Congress. Uniformity reduced the dispersion in incidence of duties among products and sectors, as well as the negative welfare effects of high tariff protection, and was very simple to administer. Chile was firmly committed to the uniform tariff, supported by a legal ban on other forms of restrictions. The gap between applied and bound rates gave Chile the necessary flexibility to take action in the event of economic crises. However, the increase in rates which had been made at a time of economic difficulties was executed on a uniform basis. Chile had offered to reduce its bound rates in the Uruguay Round negotiations. Further reductions depended on other

participants, including developing countries. Chile's efficient tax collection system allowed it to use other measures than tariffs for structural purposes.

153. Bilateral and regional trade agreements were, in Chile's view, compatible with the multilateral trading system. Chile's aim in concluding such agreements was to strengthen links with main trading partners, not to exclude others. Chile would support any such agreements covering all trade and providing only for tariff reductions. Chile did not participate in MERCOSUR and the Andean Group but regarded such agreements in a positive light, to the extent they contributed to trade liberalization. However, certain aspects of these agreements were not clear. Overall, Chile considered that trade liberalization was more important than economic integration.

154. Chile extended non-discriminatory, national treatment to foreign investment. Contracts with foreign investors were protected by law. Improvements in the system were, however, still being negotiated with some trading partners.

155. Price bands for agricultural products were established by Chile in the 1980s to minimize the domestic effects of international price fluctuations caused by export subsidization and not as a variable levy system. The mechanism was automatic. Ad valorem equivalents of the specific duties levied were considerably lower than those shown in the Secretariat report. The 35 per cent binding level was applicable as a maximum to imports of products subject to the price bands. Chile's self-sufficiency in wheat and general recovery in agricultural production was not solely the result of the price band mechanism but also a result of favourable changes in real exchange rates.

156. Tariff surcharges and minimum customs values were also intended to correct for the effects of international price distortions on domestic production. The Executive had the power to raise duties up to the bound level of 35 per cent in case of injury or distortion of competition. This level could not be exceeded. Procedures followed by the Import Distortions Investigation Commission were public, with clear, transparent administrative rules including the possibility of appeal at all levels. There were very few cases of application of minimum customs values or surcharges.

157. Chile would be considering its position vis-à-vis the GATT Codes at the end of the Uruguay Round.

158. The "simplified drawback" scheme was not intended to subsidize exports, but merely to create a simpler system by which small exporters could benefit from duty drawback.

159. Government involvement in voluntary export restraints was prohibited by law; however, the Government could not affect the conduct of private business in this regard.

160. The importation of cars, apart from used cars, was completely free from restrictions.

161. The Copper Stabilization Fund provided for resources to be kept in foreign currency when receipts are greater than target prices. This was purely a reserve measure. Chile did not affect international prices for copper in this respect, nor create distortions in international trade. The rôle of the Chilean Copper Commission had been somewhat misunderstood.

162. The Chilean Congress had almost concluded a new fisheries law containing specific provisions on preservation of fishery stocks. Chile had the highest reforestation rate in the world. New wood processing plants were subject to strict pollution requirements. Forestry plantation was now the only sector benefiting from financial assistance. This was because of the large importance of the sector and the long-term investment involved. The subsidy element was very low, around US\$5 million a year.

163. Social development was an important element in promoting domestic consensus. Recent tax reforms were intended to contribute to this objective.

164. The new economic package contained tariff reductions from 15 to 11 per cent; measures to make short-term financing more expensive; and an increase in certain selected taxes, for example, on fuel.

165. Chile applied sanitary and phytosanitary measures with the unique objective of protecting the health and sanitary conditions in the country. Chile was a "phytosanitary island", free of certain diseases, such as foot and mouth disease or fruit fly. Quarantine requirements were aimed at safeguarding this status. Voluntary quality controls on fruit exports were administered by the private sector to ensure the homogeneity of the products.

166. Chile maintained no import restrictions on textiles. The opening of its market had led to a major readjustment in the sector. Now, Chile was exporting over US\$100 million of textiles and clothing per year. The open nature of Chile's market was contrasted with restrictions to its exports in other markets.

167. Chile was heavily dependent on international trade for its economic growth. For a developing country with a very open economy, such as Chile, developments in the international trading system were fundamental. Chile firmly supported the Uruguay Round of multilateral trade negotiations. In this context, Chile expected to obtain effective concessions particularly

in agricultural and natural resource-based products and textiles. Chile was, on its own part, prepared to reduce its present bound rate.

168. In conclusion, the Council observed that Chile's trade policies were substantially in keeping with the overall principles of the General Agreement. It commended the clarity, stability, non-discriminatory nature and uniformity of Chile's tariff system, while expressing the hope that further reductions in bound rates could be made. The Council recognized that, although there were still some areas of concern, Chile's free trade policies, combined with stable macro-economic policies, had generated substantial economic benefits, domestically and for Chile's trading partners. The Council noted that Chile's open trade policies would be greatly assisted by improvements in the external trading environment confronting Chile, particularly in the area of agriculture. The outcome of the Uruguay Round was important for Chile's future trade and prosperity.