

# GENERAL AGREEMENT ON

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## TARIFFS AND TRADE

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COUNCIL  
4-5 March 1992

TRADE POLICY REVIEW MECHANISM  
ARGENTINA  
MINUTES OF MEETING

Chairman: Mr. B.K. Zutshi (India)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman introduced the report of Argentina's trade policies and practices, pursuant to the CONTRACTING PARTIES' Decision of 12 April 1989 (L/6490). He noted that the Council was to base its work on two reports: a report by the Government under review, drawn up on its own responsibility (C/RM/G/18), and a report by the Secretariat (C/RM/S/18A and 18B). Since the time the main reports were prepared, there had been many new developments in Argentina's trade and economic policies. Attention was, therefore, drawn to the Addenda to the Government and Secretariat reports, which outlined the salient developments since the production of the original reports.

2. In line with the Decision establishing the Trade Policy Review Mechanism, the Secretariat had sought clarification from Argentina on its trade policies and practices, as far as the six factual chapters of the report were concerned.

3. Australia and the Nordic countries had given advance notice in writing of some questions that they intended to raise at the meeting. These points had been passed to the delegation of Argentina in Geneva.

4. With respect to the procedures for the debate, the Chairman suggested the following two main themes:

- (1) General economic environment and objectives in relation to trade policies. This would cover questions relating to the evolution of Argentina's economy; its macro-economic reform policies and their effect on growth and investment; exchange rate policies; the reduction of inflation which had occurred and its effects on confidence; and Argentina's policy approach toward multilateral and regional trade liberalization, including the development of trade and trade-related policies in the context of the Uruguay Round, relations within Latin America (ALADI and MERCOSUR), and with the United States in the context of the "Enterprise for the Americas";
- (2) Changes in the use of trade and trade-related measures and policies, including the reductions (and frequent changes) which had been made in the tariff structure; the abolition of quantitative import restrictions; the privatizations programme; the effect of the elimination of export taxes; changes in Argentina's investment régime and Argentina's proposed new trade law.

The Chairman invited the representative of Argentina to make his introductory remarks, to be followed by the two discussants. Mr. Theilgaard would speak first, followed by Ambassador Seade.

II. INTRODUCTORY STATEMENT BY THE REPRESENTATIVE OF ARGENTINA

5. First of all I wish to stress the great importance which my Government attaches to this opportunity to this review of Argentina's trade policy in the context of the economic reform process. This is aimed at expanding the Argentine economy with price stability, on the basis of a free market economy, with stable, clear and automatic rules of the game which make possible informed investment decisions.

6. To show as clearly as possible the extent of the changes being carried out in Argentina, I would like to make a brief reference to the historical background. The Republic of Argentina returned to democracy in 1983 with the election of President Raul Alfonsin. In 1989, for the first time in 60 years one democratically elected president was succeeded by another, this time President Carlos Menem. Once the institutional life of the country had recovered, we worked to do away with decades of political instability, international isolation and State intervention. The economic consequence of these policies had been ongoing inflation and, ultimately, hyper-inflation which, in mid-1989, was approximately 200 per cent a month.

7. For decades the malfunctioning of the price mechanism had led to a misallocation of resources which inhibited growth and generated inflation. Industries sought growth within the internal market; no account was taken of the potential of exploiting Argentine resources to allow us to compete in international markets. There were incentives for some sectors, while other were penalised. Take fisheries as an example: while production for exports might have been possible, multiple exchange rates and export taxes worked counter to this in order to keep food prices low and boost real wages. This was an essential component of support for growing urban-based manufacturing production geared for the internal market. In general, production for the internal market had adverse effects on our capacity to export, as well as generating a demand for imported inputs whose costs, in turn, were increased by high tariffs and non-tariff barriers. The administration of these macro-economic and trade policies engendered permanent inflationary pressures. In consequence, Argentina showed greater prolongation of economic stagnation after the Second World War than almost any other country.

8. In spite of the fact that Argentina has a labour legislation which is particularly oriented towards the protection of the worker and, in spite of having a well organized trade union movement, real wages in Argentina never grew for more than in three years in succession. Real wages followed the oscillation of price policy which derived from the consequence of devaluations, over-valuation of currency and the transfer of income from the rural to the urban sector. Real wages could not increase because there was no growth of the economy.

9. Years of economic stagnation and persistent inflation in turn led to a systematic loss of confidence in our national currency. The public sector, which did not have healthy budgetary practices, financed its expenditure through the issuance of currency and attracting the savings of Argentina in the capital market. This led to a phenomenon of elimination of the sources of financing of private activities because it was taken over by the public sector. This had extremely harmful results, since it led to a lack of finance for the Argentine economy. Inflationary taxation became an important source of financing for the public sector. The way to evade the payment of that taxation was through rejection of national currency. Thus situations were created where the M1 monetary aggregate represented less than 2 per cent of the GNP. The economy became run on the basis of the dollar and national savings were transformed into hoarding of foreign currency. This economic situation, which found its parallel in the political and institutional organization of the country, began to change after the restoration of institutional life throughout the country.

10. Thus, I should like to emphasize that, at present, in Argentina, and, as a result of the political decision taken by the Argentine society as a whole, the representative republican and federal system of government laid down in our constitution of 1853 is now fully operational. The judiciary, the legislative and the executive are fully, mutually independent. There is freedom of the press and respect for individual rights. The isolation of Argentina, not only in economic terms but also isolation in general, also began to change. Our external policy at present shows that we fully adhere to the principles of the United Nations Charter. This can be illustrated in the re-establishment of diplomatic relations with the United Kingdom in 1990 and by the transformation of Argentina's borders with neighbouring countries into areas of trade. These changes are the result of the political decision by Argentina to integrate itself into the community of nations.

11. As regards economic policy, starting from the above situation as a diagnosis of the serious structural problems, an overall policy of change was adopted which involved the complete reorganization of the economic structure of Argentina, and the establishment of clear and automatic rules to ensure predictability in making business decisions. This was done in a number of critical areas. The most important was the reform of the State, encompassing several aspects. For example, administrative reform was intended to transform the Argentine State into an efficient State, in keeping with the extent of services to be provided, and financed on the basis of taxation receipts for which provision is made each year in the national budget.

12. The whole administrative system in Argentina was reviewed re-defining the scope of certain functions, and establishing standards for efficient

administration. All of this action is ongoing and constitutes one of the key elements and most successful elements of our administrative reform of these past years.

13. The reform of the State included not only administrative reform. Progress was also made in respect of privatization. To some extent what happened in Argentina was that, in a very disorganized manner - not dictated by any political or economic strategy, which took account of the interests of the country - the public sector accumulated a whole range of production activities, goods and services, covering the whole spectrum of activities. This introduced not only inefficiency and a lack of competitiveness, but also created a very important source of the fiscal deficit. These State enterprises financed their operating deficits through the State budget and engendered an important source of inflationary pressure.

14. As of 1989, a very ambitious privatization plan was put into effect. In 1989 the National Congress adopted the Law of Economic Emergency and the Law on the Reform of the State which enabled the Executive to undertake effective and rapid action to put State companies into fit shape for privatization, and allowed it to offer them to whomever might be interested in buying them. This privatization process, which began with the air transport company and the telephone company, continued with such activities as oil, gas and electricity, drinking water, and transport in general, as well as activities of every kind such as the production of a whole series of activities. However, together with the process of privatization, there was also action to create regulatory frameworks to ensure competition in the supply of services as well as the quality of services for the user. This privatization policy also makes it possible to link the curtailment of activities with the reduction of external debt, which had been growing over time.

15. Another important action within the context of State reform was deregulation. The economy of Argentina was a highly regulated economy as a result of State interventionism which led to serious distortions in the operation of markets and the price structure. Argentina, at present, is carrying out the elimination of the whole spectrum of regulations which affected the provision of goods and services in the domestic market as well as in international trade. In October 1991, the Executive issued a decree whereby it laid down the general principle that all restrictions on the free operation of markets, or on the free supply of goods and services in the Argentine economy would be eliminated.

16. Thus, the State reform has three main objectives. The first is to restore the required fiscal balance to ensure price stability. Another objective is to eliminate the inefficiencies that originate in State

intervention, and which implied high costs for Argentina and placed it in a poor competitive position internationally. Another objective is to promote the free operation of markets and increase the level of private productive activity.

17. With respect to fiscal discipline, for many years the public sector functioned without a budget. It was the practice to approve the budget for a fiscal year at the end of that fiscal year and not at the beginning. Thus, public expenditures had no limits either set by Parliament or because of the availability of resources derived from taxation. Expenditures were made, and they were financed by whatever was collected through taxation plus inflation. In 1991, for the first time in 25 years, the Executive presented to Parliament a budget for the 1992 fiscal year. This was adopted by the Argentine Congress in December 1991. In 1992, the Executive cannot spend beyond what is authorized by the budget, nor can it spend on anything that is not included in the budget. The extent of expenditure is thus determined by resources derived essentially from taxation.

18. Argentina has also initiated a reform of its tax collection system which has enabled it to increase those revenues in a manner that has few precedents in the world. This has been done simply by improving the collection services. However, the reform also concerns modification of the taxation system itself. Until now, evasion has been a common practice in Argentina. To do away with tax evasion, not only is it necessary to improve the control system, but one must also have a simple taxation system, easy to control, and which does not discriminate against production in any particular sector. This is being done through a reform that has already been introduced and other reforms that are being proposed to Congress. Under these proposals, we will have a taxation system whereby the collection of taxes will derive essentially from the value added tax currently levied at a general rate of 18 per cent, together with a tax on what we might call the non-salary value-added amounting also to 18 per cent, complemented by a 12 per cent rate on distributed income or profits.

19. The objective of fiscal discipline which is fundamental in order to ensure price stability, has a complement in the currency reform which went into effect in April 1991. The monetary reform, adopted in 1991 - the Law of Convertibility - laid down that the monetary basis should be fully backed by the availability of hard currency and gold in the country. No currency can be issued except as a result of the sale by the public of hard currency to the Central Bank. The reserves resulting from the increased demand for national currency are the property of the holders of pesos who, if they so decide, can exchange their holdings in pesos for foreign currency, or vice-versa, at a rate that was originally set at 10,000 austral per dollar and which, after the name change at the beginning

of this year, is 1 peso for 1 dollar. This monetary reform prevents the public sector from financing anything through the issuance of currency. The Executive cannot cancel debts by simply issuing currency.

20. The characteristic of a closed economy, which was a feature of Argentina for a long time, was to try to improve its relative position through successive devaluations without being compelled to compete internationally. The private sector sought to improve its position by improving its relative prices through the tool of devaluation. Of course, this implied indexing the economy and ensuring sustained growth of prices. The opening of the economy, together with the present monetary system which excludes the possibility of devaluation, compels the private sector to face up to competition, to reorganize its activities, to try for greater efficiency, for more productivity, to reduce costs and to improve the quality of its products.

21. Another important chapter in the economic programme is the one which relates to the treatment of the internal and external debt of the national Government. Part of its financing was obtained by the public sector by merely postponing payments to the suppliers. On the other hand, the system of pensions in our country also generated a high level of debt. According to our legislation, retirees are entitled to 82 per cent of the salary of a working person, or 70 per cent, depending on the age at which they retire. Since it was not possible for the public sector to pay the 82 or 70 per cent, the money received by the retirees generated a deficit which accumulated and became a very large debt. This domestic internal debt was such that in 1989 the national Government, through a law enacted by Congress adopted legislation on refinancing through bonds, with which to wipe out its debt with suppliers over a 16 year period and its debt with retirees in 10 years.

22. The external debt rose to very high levels. Linked with fiscal reforms, reform of the State and reorganization of the economy, Argentina obtained standby credits from the IMF in 1991. At present, it is discussing with the IMF access to extended facilities, while at the same time it has started negotiations with creditor banks in order to arrive at a result that will make it possible to normalize the foreign debt, enabling Argentina, once again, to have access to international financial markets.

23. Another important chapter of the reform is in the external sector. Trade liberalization and the opening of the economy is an essential component of reform. The sustained growth of the Argentine economy can only succeed if the country organizes its production on a competitive basis. For this, it is necessary to eliminate distortions resulting from import restrictions; to eliminate tariff and non-tariff restrictions; and to prevent internal price distortions resulting from a tariff structure

which has hidden effects of transferring incomes and which shackles sustained economic growth. For this reason, a substantial reduction in import tariffs has been implemented, the tariff structure has been simplified, and tariff dispersion and the tariff average have been reduced. Currently, there are basically three levels, a maximum of 22 per cent, 13 per cent of intermediate goods and 5 per cent for primary products. Non-tariff measures have been eliminated at the same time. With respect to exports, bureaucratic obstacles as well as export taxes have been eliminated. The tariff changes have therefore been designed to achieve more efficient resource allocation within the Argentine economy. Other measures to increase the competitiveness of the economy include the deregulation of the external economy, privatization of ports, and the working of the Customs administration. All export and import permits have been eliminated and we are still working on eliminating any remaining distortions.

24. It is also part of the opening of the economy to promote foreign investment. The current régime eliminates any possibility of discrimination. There is no difference in treatment between foreign and domestic investment. There is free movement of capital and there are no restrictions in the foreign exchange market. There are no restrictions on the remission of profits or on the use of foreign exchange earnings from exports. There is no differential tax treatment on foreign investments. The capital market is being reformed to permit the channelling of financial resources to productive activities.

25. The opening process also includes services. Thus, Argentina has given advance application to the treatment of services being discussed in the Uruguay Round.

26. This policy of integration in the world economy, without restrictions, is not in conflict with the arrangements with Brazil, Paraguay and Uruguay to form the MERCOSUR. The decision of the Governments to pursue economic integration has, as an essential element, the creation of an economic grouping integrated in international trade and not the creation of a larger, closed domestic market.

27. The reform is continuing with a medium-term plan which has the objective of ensuring annual growth of 6.5 per cent, the alignment of international and domestic price movements, and fiscal policies which guarantee the balance necessary to stabilize prices and to ensure there are adequate resources to meet external debt targets. Government income coming from tax receipts, which reached 21 per cent of production in 1991, will reach 25 per cent in 1992, and will generate an annual average surplus prior to services debt in the order of US\$3,200 million in the period 1992-1994. The fiscal and balance-of-payments targets of the medium-term

plan ensure the growth of the economy and the fulfilment of the external debt commitments. Growth in imports, after adjusting to the liberalization, will fall into line with the growth of real production, and exports will also grow in line with GDP.

28. This has achieved some favourable results. Taking April 1989 to January 1990 as a base for comparisons, the monthly rate of inflation in consumer prices was 60 per cent. From the time of monetary reform in 1991, and from the fiscal reforms at the time of the opening of the economy, inflation has been drastically reduced, falling to 2.3 per cent in January 1992. This decline is even more marked in the case of wholesale prices, which fell from 63 per cent to 0.3 per cent over the same reference period.

29. This change has not been accompanied by economic recession. From a base of 100 in the period April 1989 - January 1990, industrial output grew by over 22 per cent by December 1991. There was also an increase in purchasing power for the average wage earner; the real average wage improved by 35.3 per cent. But in the manufacturing sector alone, the recovery was just below 54 per cent. Along with the pick-up in real wages, there was a substantial increase in the utilization of manpower. The demand for labour, taking 1989/90 as a base, then in the same months as 1991/92, increased by 200 per cent, and industrial demand for labour increased by 300 per cent. This is also reflected in unemployment rates. In October 1989 unemployment was 7 per cent of the work force. In October 1991, it had been reduced to 5.3 per cent.

30. At the outset I made reference to the considerable achievements for collecting taxes, as a result of reforms in the management of the taxation system. I would now like to give you a few figures to illustrate this. If we compare 1989/90 with January 1992, tax revenues increased by 48 per cent. If we compare the same period of 1991/92 with 1989/90 the average increase was 32 per cent. That improvement in tax collection took place along with the elimination of some taxes which had been considered to distort economic activity. If we confine ourselves to taxes, i.e. excluding trade taxes, the improvement is even clearer. Between 1989/90 and January 1992, tax collection improved by 84 per cent.

31. This change was accompanied by a sizeable reduction in the interest rate. The interest rate for fixed term deposits in 1989/90 was 48 per cent as the effective monthly rate but by January 1992 had fallen to 0.7 per cent. The interest rate for loans, which had been 66.7 per cent monthly, had fallen to 3 per cent by January 1992.

32. Another important indicator of the recovery of the Argentine economy is given by the performance of the monetary aggregates. M1 - on a monthly

average in the period April 1989 to January 1990 - was 3.2 per cent of GDP. Currently it is 5.1 per cent. Gold and currency reserves have risen from US\$2,500 million and are currently US\$7,600 million. US dollar denominated deposits in Argentine banks, which in 1989/90 were US\$1,100 million, are currently US\$6,900 million.

33. We could continue to give indicators which are representative of price stability and growth in the economy, but these figures which I have given are sufficient. For this reason I would now like to move on to another aspect which I consider to be of fundamental importance.

34. The figures I have given you show the effort we have made to lay the base for sustainable growth with price stability. However, this has to be done in an international environment which gives the reform policy a chance of success. The appropriate international economic environment for Argentina, and for other Latin American countries where similar policies are being carried out, is one without trade restrictions, without discrimination and which makes it possible for trade flows to increase. Protectionist and discriminatory policies in international markets create adverse conditions and make it more difficult for the country to achieve the goals of growth and stability.

35. For these reasons, I would like to endorse the commitment made by the Government of Argentina in the multilateral trading system, based on the GATT. I should also like to reiterate the importance of an open multilateral system for the success of the economic programme of my country. Argentina's commitment for the GATT system has been repeatedly demonstrated as can be seen by its active and constructive participation in the Uruguay Round discussions. It can also be seen in the very policies which have been adopted, and which have been firmly carried out. Any other approach would be absolutely inconsistent with the very nature of the economic policy which we are carrying out.

36. The effort made by Argentina to open up its economy, to deregulate and do away with the subsidies, should be supported by all countries, above all by those countries which bear the greatest responsibilities in terms of their share of world trade. The most obvious example is the need to eliminate subsidies in areas such as agriculture and textiles. For these reasons, the Government of Argentina supports the proposals by the Chairman of the Trade Negotiations Committee, recognizing that the Draft Final Act is an important step towards achieving the objectives to which the country aspires. Of course, these objectives are still far from being attained. Nevertheless, we consider the proposal provides a sound basis for their achievement. The Draft Final Act, adopted by the Trade Negotiations Committee on 3 January 1992, implies a difficult balance, yet also an appropriate base for moving towards final success.

37. The Republic of Argentina has just submitted its list of offers, including a commitment to bind its tariffs at a level of 35 per cent. We have also submitted a schedule of commitments for agriculture. Over the next few days we will present a revised list of offers for services. As I mentioned at the beginning, this is an extremely broad offer which places Argentina well ahead in these matters.

38. Of course, the final Argentine position will depend upon the results of the Uruguay Round negotiations. Despite the uncertainty which currently reigns in terms of the final outcome, Argentina maintains its position. In a sense, it has no choice, given the economic policy changes which I have just described. This is our firm position and we intend to stand by it.

39. For these reasons, we cannot accept results which take us further away from the fine balance achieved in the Final Act. Therefore, we support the maintenance of these proposals and the achievements of the negotiations. Thus, Argentina has demonstrated its support for the international trading system not simply as an end in itself, but also as a means of ensuring the success of its own policy objective of sustainable growth in a secure environment for long-term investment.

### III. GENERAL OBJECTIVES OF TRADE POLICY

#### (1) Statement by the first discussant

40. The first discussant noted that the review was taking place at a time of radical change in Argentina's foreign trade framework, involving a complete overhaul of economic policies, including a reorientation of trade policy. This could expect to be received favourably by the GATT Council, which would seek to consider specific aspects and possible impact of the new policies, although a full assessment was premature. The policy changes were courageous and not without political risk.

41. He raised a number of questions. At a time when reform was taking place in other countries, to what extent could experience from South America be used in Europe or Africa and vice-versa? Would countries directly concerned feel that there was value in exchanging views and information despite the differences in the point of departure or perhaps even the detail of policy objectives? He asked whether companies established in Tierra del Fuego would continue to benefit from special incentives. He also asked how the Argentine authorities would cope with the discontent that might arise if the shedding of jobs in inefficient production units were faster than the creation of jobs in efficient ones. In this respect he felt that consultation with industry and labour market partners on what was politically acceptable was perfectly normal.

42. Noting that regional integration was a contribution to an improved multilateral trading system, he asked several questions about MERCOSUR. He asked whether there was complete coherence between Argentina's liberalization policy and the trade policies of other MERCOSUR members. To what extent were productive sectors complementary and would member States have the political resolve to face cross-border job movements? Was it relevant to make a comparison between the European Communities where freedom of factor movements was to be achieved some 35 years after the Treaty of Rome and MERCOSUR where such freedom was planned in a much shorter time span? Finally, would MERCOSUR take over from the Latin American Integration Association (LATA)?

#### (2) Statement by the second discussant

43. The second discussant noted that the reports gave only favourable indications and augured well for the results of the important and complete structural adjustment, aimed at providing the basis for healthy sustainable economic growth in the context of economic liberalization and a free market. It was a pleasure to see positive evolution in Argentina after decades of stagnation, reflected mainly in successive inflationary crises and in progressive external indebtedness. It was gratifying to note the

recognition by Argentina of the limiting and negative effects of a highly regulated economy, based on excessive participation by the public sector, behind a highly protectionist economic policy. This had prevented private and foreign investment in competitive productive processes.

44. Much would depend on the sense of irreversibility conveyed by the package. This was evident from the firm macro-economic measures, the establishment of MERCOSUR, and Argentina's participation in the Uruguay Round. In the macro-economic area, measures such as monetary and exchange rate policy, taken to reduce inflation and the fiscal deficit, deserved to be mentioned, as did attempts to widen the tax base through the introduction of a value added tax. This should improve the allocation of resources. It would be interesting to learn more about its implementation. In respect of the Law of Convertibility, what success had been achieved in establishing a satisfactory level of reserves? To what extent was it felt that inflation still was a risk, in view of the most recent figures, after the success towards the end of 1991? Although inflation had fallen to its lowest level in 20 years, this had also been a pattern of earlier stabilization plans. However, it appeared that the present programme had generated confidence which was missing from earlier plans. How did the Government today view the success of its monetary and foreign exchange policy? Did the Government consider that macro-economic stability was an essential precursor of successful trade policy reform? How did the Government feel about the sustainability of the fixed exchange rate, given that there had been no major devaluation at the time it was introduced?

45. The recent external sector reforms had transformed Argentina into one of the most open economies in the world. They sought to reduce distortion in foreign trade and to integrate Argentina more fully into international trade. This was to be welcomed. It was noted that a new Trade Law was being drawn up to institutionalize the changes that had been introduced. What was the progress in the passage of this law? What changes were envisaged to anti-dumping rules? Would the main elements of the new law be notified to GATT? Would the new law embody the provisions of GATT in domestic law?

46. Argentina had become an important player in the Uruguay Round. It had contributed to improved access to markets through its offer to bind its entire tariff at 35 per cent. It had also offered to bind its current level of non-tariff barriers, under which quantitative restrictions now only affected 25 out of 11,000 tariff lines and licensing had been abolished. Argentina had also opened up its market in the context of regional integration in LAIA and MERCOSUR, under which tariffs would be reduced to zero by 1 January 1995. This should lead to economic reactivation in the member countries. Would MERCOSUR be open enough to permit the accession of other countries in the region? What was the

likelihood that MERCOSUR might lead to an increase in barriers against third countries? Would MERCOSUR be outward-looking, permitting the participation of members in wider regional trade agreements, even on a hemispheric level, thus strengthening the multilateral system based on GATT through trade creation and liberalization?

(3) Statements and questions by members of the Council

47. The representative of the United States praised the Government of Argentina for its hard work and bold moves towards outward-looking and competitive economic and trade policies. Argentina had moved faster and further in the previous year than any other country in Latin America. Its trade policy reforms were a model for both developed and developing countries. What had once been a classic case study of inward-looking import substitution policies, protectionism and bad economic management was now one of the most open economies in the world. The reforms would help stimulate a climate for liberalization on a regional and global basis. There had been a shift to pragmatism. The people and Government of Argentina had determined that an open and competitive economy was in their own interest.

48. He cited a list of recent reforms: the Law for the Reform of the State; the Law on Economic Emergency; the elimination of all quantitative restrictions except in the automobile sector; the elimination of a complex import licensing system; deregulation of the domestic market for goods and services; the elimination of almost all sectoral and industrial policies; the reduction of tariffs from an average of over 40 per cent over the last five years to 9.5 per cent; a significant reduction of export taxes, particularly in the agricultural sector; the introduction of a patent law which would stimulate innovation, technology transfer and investment; and the Law of Convertibility.

49. In the view of the United States, the reforms were paying off. Price rises had been tamed, with the inflation rate falling steeply. The fixed exchange rate should remain stable. Foreign investment was up. Economic growth was expected to resume later in the year. The Government's mandate for reform should continue.

50. The United States looked forward to the creation of MERCOSUR which could provide new opportunities by reducing barriers to trade and investment for members as well as for trading partners outside the agreement. It was hoped that MERCOSUR would be brought for review under Article XXIV of the GATT. The United States had signed a truly historic bilateral investment treaty with Argentina, the first for the United States. Argentina was a major player in the GATT, including in the Uruguay Round (not only in agriculture). Argentina had chosen a path based

on its own and the world's economic interests. It showed why it was necessary to work hard and conclude the Uruguay Round as soon as possible. It had played by the rules and the Round would give Argentina the opportunity to consolidate its reforms under a multilateral trading system and expand economic growth to the benefit of all its trading partners. The reforms were truly exciting and the U.S. wished Argentina well in its endeavours.

51. The representative of Canada noted that Argentina's long economic decline was an illustration of the costs of unsound economic and trade policies, even for countries with an enviable natural and human resources base. The policy turnaround and the rapid appearance of results illustrated that a bold, ambitious and comprehensive approach to economic reform was the most prudent because it produced results faster and helped to convince investors, traders, consumers and voters that the authorities meant business. Accordingly, Canada wholeheartedly commended the general thrust of Argentina's current economic programme.

52. He asked whether Argentina anticipated the need for a structural adjustment programme. Noting that the privatization programme could reduce the burden of the public sector on the economy, he asked what measures would be used to ensure that the new enterprises would compete for business. What was the authorities' approach to competition policy? How active were the authorities? Could the public lodge complaints?

53. With respect to MERCOSUR, he noted that with 187 million consumers and US\$455 billion of GDP, the market would cover about half of Latin America's entire economic activity. Whether the market would be trade creating depended on several factors. In particular, he asked whether there would still be sectoral agreements, covering production or market-sharing. He urged Argentina and its MERCOSUR partners to notify the Agreement under Article XXIV of the GATT.

54. Concerning exchange rates, he noted that Canada's experience in pegging its currency to the U.S. dollar had been unsuccessful, and Canada had found it more expedient to manage this relationship through a floating exchange rate.

55. The representative of Chile expressed its gratitude to Argentina for the deep and far-reaching liberalization and opening-up of its economy in recent years. The reforms had changed Argentina from one of the most protected economies in the world to one of the most open. It was important to mention the reduction of inflation and exchange rate and macro-economic instability; the reduction in the share of production affected by quantitative import restrictions; the suppression of a complex system of licences; the tariff reductions; the elimination of the statistical tax on

exports; and the liberalization of foregoing investment policies. Chile attached particular importance to the elimination of "Buy Argentina" régime. It was also necessary to highlight the deregulation of the services sector.

56. Chile congratulated Argentina on the trend of its changes because these changes brought the countries closer together, with possibilities for mutual trade expansion and improved welfare for the peoples of both countries. The reforms would stimulate more balanced bilateral trade.

57. Chile also recognised Argentina's active participation in the Uruguay Round, its rôle in the Cairns Group and its attempt to achieve an agricultural trade régime which was more market-oriented. Its offer to bind its tariffs at 35 per cent was most welcome. Chile was pleased with Argentina's success which it also considered as affording opportunities for its neighbours. In the last year Chile's exports to Argentina had doubled.

58. There was only one question: in connection with the environment, what measures were being taken in the area of sanitary and phytosanitary measures affecting trade.

59. Finally, it was particularly appreciated that the reforms had been carried out within a democratic political framework in conditions of respect for the freedom of the press and of opinion. This showed that authoritarian régimes were not a necessary condition for carrying out market reforms.

60. The representative of Mexico said that Argentina should be applauded for the radical changes in its policies intended to integrate its economy in international trade flows and investment. These moves made Argentina one of the most open economies in the world. Examples were the privatization programme, the balancing of public finances, reforms in tax collection, monetary policy, reform of the State, including the re-sizing of the public sector, and the economic deregulation programme. To this should be added the restructuring of debt, tariff simplification and reduction to levels similar to those of industrialized economies, the measures for the promotion of foreign investment.

61. In the context of the Uruguay Round, Mexico was pleased to see the active participation of Argentina in all the negotiating groups. Argentina's offer in market access was a tangible sign of its commitment to the Round, in particular the offer to bind the tariff at 35 per cent.

62. Some quantitative restrictions still remained, although some had been eliminated in the Uruguay Round. However, it was striking that Argentina had disinvoked Article XVIII:B in 1991.

63. The process of integration with other countries in the LAIA and MERCOSUR was welcomed by Mexico. This would expand and promote international trade, rather than raising barriers.

64. More than 60 per cent of Argentina's exports were of agricultural products subject to border measures and internal supports in other countries. Argentina's export performance had deteriorated because of these measures; in turn, this had adversely affected its ability to import. It was necessary to improve the international trade environment, including the MFA, VERs on meat, and anti-dumping and countervailing measures for some products. It was to be hoped that the Uruguay Round results would help Argentina's export environment.

65. The representative of Hungary said that her Government had followed with great sympathy the process of deep economic reform in Argentina. Recent years had seen a series of important fiscal, monetary, trade and industrial policy changes intended to reverse the unfavourable development of the country's economy. The launching of a privatization programme, the liberalization of foreign investments, the introduction of legal restraints on currency emission, the increased efficiency of tax collection were only a few examples of the recent far-reaching reforms. The present trade policy was designed to help developing an open and efficient national economy. The elimination of quantitative restrictions and the licensing system and the radical cut-back in the applicable tariff rates had largely contributed to the opening-up of the economy. These market opening steps would result in a significant improvement of the competitiveness of the Argentine economy.

66. Hungary shared the view of the Argentine Government that fulfilment of the objective of developing an open and efficient national economy required a rule-based and strengthened multilateral trading system which provided for, inter alia, improved market access conditions. Hungary appreciated the active involvement of Argentina in the work of the GATT, and in particular in the Uruguay Round negotiations. It fully understood Argentina's strong interest in the substantial liberalization of world agricultural trade through the progressive reduction in support and protection. The successful conclusion of the Uruguay Round could make an important contribution to Argentina's reform efforts. Hungary also hoped that the full implementation of the economic reform programme in Argentina would also contribute to a more dynamic development of the bilateral trade between Argentina and Hungary.

67. The representative of New Zealand noted that the extensive trade liberalizing actions taken by Argentina had resulted in levels of protection below those in many developed countries. The pace of reform was impressive. The strides made in opening the economy, deregulation,

privatization, fiscal adjustment, inflation management and negotiation of durable solutions for the debt problem in recent months were remarkable. Argentina richly deserved the plaudits it had received from the international community.

68. Argentina's approach was not seen as being in conflict with its objectives in the Uruguay Round to secure the removal of other countries' trade barriers. Rather than viewing unilateral liberalization in the narrow trade negotiations sense of giving away negotiating coin, Argentina saw the Round as an opportunity to consolidate its liberalization programme in return for better treatment overseas. New Zealand commended this broad approach to the Uruguay Round negotiations - an approach which it had also taken.

69. The growing regional reorientation of Argentina's trade might be expected to continue and be reinforced under the Latin American Integration Association (LAIA) and the recently concluded MERCOSUR agreement. New Zealand agreed that the success of MERCOSUR in increasing the economic welfare of the countries involved would depend on its willingness to pursue outward-looking market-oriented policies. New Zealand hoped that MERCOSUR would take the "low road" in establishing common tariffs and the "high road" in its relationship with GATT by using Article XXIV notification procedures, as New Zealand had urged at the last Council meeting. Such an approach would do much to ensure that the development of MERCOSUR contributed to the effective operation of the GATT system. As a general policy point, New Zealand would also wish to avoid situations where countries maintained wide margins between bound and applied tariff rates.

70. The Secretariat's report showed the potential for growth in unsubsidized agriculture once a regulatory framework was in place which encouraged investment and production in the most competitive areas. It also highlighted the serious external constraints faced by any reforming country, due to the distortions in international markets. Even under reasonably conservative assumptions, the welfare gains which would accrue to Argentina from global trade liberalization in agriculture were of the same order of magnitude as the interest cost on Argentina's foreign debt. The Uruguay Round offered Argentina the possibility to provide greater predictability in its trading régime through binding current reforms in a meaningful way. It also afforded the international community the opportunity and responsibility to facilitate the locking in place of such reform by providing to Argentina, and other countries undertaking market-oriented economic reform, the means by which to enjoy sustainable growth based on comparative advantage. New Zealand could only hope and urge that this mutually advantageous opportunity would be taken advantage of by all contracting parties.

71. The representative of India noted that, like many other countries, Argentina had experimented with inward-looking policies as a result of the fall in international prices for its commodity exports. In 1986, approximately half of domestic production was protected by quantitative import restrictions. More than 7,000 tariff lines were subjected to import licensing and imports of consumer and industrial goods were prohibited. Average tariffs were in the region of 43 per cent, in addition to the levy of additional import taxes. Since then, there had been a conscious attempt to reform the economy. Tariffs had been reduced to an average of 9.5 per cent, import licensing had been abolished, unrestricted access had been provided to foreign exchange market, the foreign investment régime had been liberalized and the Government had embarked on a programme of privatization of public sector undertakings. The general effect of these reforms had been to transform Argentina from a closed economy to a more open one. The recent entry into force of MERCOSUR would give a further fillip to the economic reforms underway.

72. Falling commodity prices, partly on account of increases in farm support policies and export subsidies by the major traders, had resulted in a decline in the share of agriculture in merchandise exports of Argentina. Primary commodities, however, continued to be the mainstay of Argentina's exports. It was, therefore, natural that Argentina should attach so much importance to the integration of agriculture into the mainstream of GATT.

73. India fully supported the painstaking economic reforms being undertaken by Argentina against the backdrop of an adverse external environment. Distortions in agricultural trade had an adverse impact on its export earnings. Argentina was the third most severely indebted developing country, with an external debt of US\$60.5 billion. Interest payments absorbed almost 44 per cent of its export earnings. Argentina required positive support from its major trading partners in its endeavour. The success of the economic reforms undertaken by Argentina would provide confidence to other economies which were in the process of reform. The international community had the responsibility to ensure that the Argentinian experiment succeeded. An early integration of trade in agriculture to the mainstream of GATT was required to make the Argentinian experiment a success.

74. The representative of Finland, speaking on behalf of the Nordic countries (Iceland, Norway, Sweden and Finland) recognized the efforts of Argentina to liberalize the foreign trade and to encourage foreign investment in the country by liberalizing the law on foreign investments. All quantitative restrictions on imports, except for the automobile sector had been abolished, the complex licensing system had been made redundant and tariffs had been reduced to 9.5 per cent on average. The Nordic

countries appreciated the commitments made by Argentina in the Uruguay Round. However, Argentina's adhesion to all GATT Codes would be welcomed.

75. The Nordic countries noted Argentina's privatization scheme, the aim of which was to reduce public spending, increase economic efficiency and to reduce foreign debts.

76. Due to the new economic and foreign trade policy, the economic state of the country had recovered, inflation had diminished, exports had increased and the capital investment had begun to flow back to Argentina. In 1991, the Argentine peso had been pegged to the US dollar and since then the exchange rate had been stable. However, there had been a continuous rise in the domestic price level leading to increasing overvaluation of the peso. This development had evidently benefited importers and been detrimental to exporters. It would be interesting to hear how the Argentine authorities planned to address the problems resulting from the "overvaluation" of the currency.

77. The Nordic countries had sent written questions to the delegation of Argentina concerning the Southern Common Market (MERCOSUR), the scope of the new trade law and its effects on the trade policy, as well as the possible influence of the new economic liberalization scheme on the freight levy. In addition, the Nordic countries would appreciate further information on the automobile industry in Argentina, e.g. what kind of support programmes are envisaged. It would also be interesting to learn how the Argentine delegation assessed the effects of the Presidential Decree issued on 30 October 1991.

78. The representative of Japan said that his country supported the economic reforms undertaken by the Menem Administration during the last few years. The restructuring of Argentina's economy, including the privatization of trade and investment, and the efforts for deregulation, had helped it to regain and further enhance credibility in its economy. In this context, Japan welcomed the extensive privatization programmes, which should further activate the Argentine economy in the long run. Japan hoped that Argentina would press ahead with its reforms. The promotion of the reform process and the increase in investment were the best way for Argentina to overcome difficulties, such as accumulated debts, budget deficits, inflation and stagnation.

79. Japan welcomed Argentina's abolition of most of its quantitative restrictions and import licensing measures. Some restrictive measures remained and Japan expected that Argentina would make further efforts to eliminate all remaining quantitative restrictions.

80. Japan noted recent moves by Argentina towards regional economic integration. With a number of its neighbouring countries, Argentina had established the Latin American Integration Association (LAIA), which had replaced the Latin American Free Trade Association in 1980. In 1991, Argentina and three other countries signed a treaty to establish the Latin American Common Market (MERCOSUR). Japan was encouraged at the last Council Meeting to hear that these countries had notified the GATT of the establishment of MERCOSUR. Japan would follow the development of MERCOSUR with great interest, and would like to participate in examining the agreement in an appropriate forum.

81. The recent slump of Argentina's exports of agricultural products came partly from the increase in farm support policies and export subsidies by its major trading partners. Japan shared the view that the most trade distorting factor in agricultural trade was export subsidies.

82. He raised a number of specific questions. First, concerning the Trade and Investment Treaty between the MERCOSUR countries and the U.S., how did Argentina view the future of regional integration, especially in relation to President Bush's Enterprise for the Americas Initiative? Second, Japan would like to know how the quota allocations system, or mechanism, under Argentina's quota restriction scheme operated for automobiles and trucks, and how quotas were allocated between countries. Third, when did Argentina intend to accede to the Government Procurement Code? Finally, concerning the close links maintained between the Argentine Government and industry, Japan would like to know the details of the pacts and their rôle in the decision-making procedures of the Government.

83. The representative of Australia said that the recent economic reforms had set Argentina well along the road of economic stability and growth. The reforms and trade liberalization set in place by the Government of President Menem were to be commended. Argentina had led the way in the trend towards greater opening of developing country economic systems and greater reliance on market forces to determine resource allocation. Australia noted that Argentina's reform programme had met many of the demand of international institutions and the urgings of industrialized countries. Like many other countries which engaged in the process of structurally adjusting their economies in an extensive liberalizing context, Argentina's efforts needed to be complemented by broad improvements in international competitive conditions through the Uruguay Round. Argentina's commitment to the Uruguay Round was well demonstrated by its active participation across the whole Uruguay Round agenda.

84. In the view of Australia, the success of the Argentine economy since the late 1980s had been achieved through reforms directed towards reducing the Government's rôle in the economy - including through the privatization

of many public sector enterprises, the suspension of export taxes on agricultural exports and tax exemptions and other subsidies to industry. This had opened up domestic industry to increased competition and had generated growth in exports and imports.

85. The MERCOSUR common market agreement, which entered into force in November 1991 had been notified to the GATT. Australia looked forward to examining this arrangement in the light of relevant GATT provisions. Australia believed that the success of MERCOSUR would lie in its willingness to pursue outward-looking, market oriented policies.

86. Argentina's reliance on the tariff, the elimination of both its complex licensing system and most quantitative restrictions as well as substantial reductions in export taxes were very positive features of its trade policy. Only 407 of some 11,500 tariff lines were bound, but he noted that in the context of the Uruguay Round, Argentina had offered to bind its entire tariff at 35 per cent.

87. The 3 per cent statistical tax still applied to imports. The representative asked if the Argentine delegation could advise on whether there were plans to eliminate this tax on how Argentina viewed this tax in terms of its consistency with GATT provisions. He presumed that imports from MERCOSUR countries were not exempt from the tax. With respect to the new revenue duty of 5 per cent, Australia had some concerns that this might be moving against the general trend towards trade liberalization evidenced by recent economic reforms. In particular, Australia was concerned about possible discrimination against its exports vis-à-vis exports from other countries subject to zero duties.

88. Finally, Argentina's agricultural sector faced similar problems to those of Australia in terms of commodity price fluctuations and international market distortions for subsidized grains and meat. For this reason, Australia was cooperating closely with Argentina in the Cairns Group to secure international agricultural trade reform.

89. The representative of the European Communities said the Argentina should be congratulated for the liberalization of its trade policies. This would have all the greater chance of success since it had been accompanied by a very bold, courageous and complete trade reform. It also went hand-in-hand with a very widespread modernization and streamlining of the administration and privatization - a very important element.

90. The process of regional integration was also a very important factor in economic and political stability. From the perspective of the European Communities this would also ensure the success of the reforms undertaken by Argentina.

91. The representative of Brazil said that the enormous efforts undertaken by Argentina had started to yield fruitful results by combating inflation, stimulating investment, promoting macroeconomic stability - all in the context of an external trade environment which was far from favourable. If the programme was to continue, as was the intention, then Argentina must have the support of the international community.

92. Argentina, with its partners in MERCOSUR was also utilizing regional integration to complement the opening of its economy. This should make the opening even more complete. It would benefit all contracting parties.

93. In the Uruguay Round it was necessary to highlight Argentina's active participation as a member of the Cairns Group and as a party interested in trade liberalization in support of its own efforts. These were indicated through its offers in the Groups on Market Access and on Services.

94. The representative of Switzerland said that the great change taking place in Argentina showed that political democratization and economic liberalization went hand-in-hand. Argentina had been able to eliminate the import substitution régime which had undermined its growth. The 1980s were losing their reputation as the "lost decade" and seemed to be a precursor of a new decade full of hope. After hyper-inflation and economic stagnation, not to mention recession, the situation had stabilised and recovery had begun. With a reduction of fiscal disequilibrium and control of inflation, Argentina had started the very difficult restructuring of the economy. Privatization had made it possible to eliminate inefficient industries and to improve the budget, as well as to allow Argentina to tackle the serious problem of external debt. Paris Club rescheduling would lead to the reintegration of Argentina into the world financial system. These efforts were not in vain. Investors had shown their appreciation of the new investment climate by the repatriation of capital.

95. Economic liberalization would increase dependency on multilateral trade. It was therefore hoped that Argentina would persevere on this path and eliminate the remains of protectionism. It should participate actively in the Uruguay Round to demonstrate its conviction that the way to economic development and prosperity went with a multilateral system of trade in goods and services, based on clear, unequivocal and strict rules.

96. The representative of Uruguay said that Argentina had made a great effort in liberalizing its economy, not without considerable political and social costs. These reforms should be supported by the international community with actions not just words. Argentina's broad offer in the Uruguay Round showed its commitment to the multilateral trading system. The situation should be ended whereby Argentina had a free and open trade policy while developed trading partners applied more restrictive trade

policies. Within the framework of MERCOSUR Argentina would be supporting liberalization which would also be outward-looking.

97. The representative of Romania said that Romania was most impressed by the bold and rapid reform undertaken by Argentina. The results achieved so far indicated the correctness of the approach. This was most instructive for other countries.

IV. USE OF MAJOR TRADE POLICY INSTRUMENTS AND SECTORAL ASPECTS OF TRADE POLICY

(1) Statement by the second discussant

98. With respect to trade policies and measures, the discussant traced the history of various trade liberalizations and their reversals. By 1986 approximately half of national production was affected by quantitative import restrictions. More than 7,000 tariff lines were subject to import licensing and imports of many consumer and industrial products were prohibited. Tariffs were about 43 per cent, a surcharge was levied on imports and various additional duties were charged. In this background, he was particularly pleased to see the reduction in tariffs from over 40 per cent to 9.5 per cent. The share of manufacturing production affected by import restrictions had been reduced to 2 per cent, and licensing was abolished. It would seem that currently, with very few exceptions, there was complete freedom to import.

99. Overall, recent measures were very positive. However, in view of earlier experiences there must be some concern with respect to the stability and durability of the changes. As an example, he cited the recent tariff increase from zero rates to five per cent, and from 11 to 13 per cent, increasing the average rate from 9.5 per cent in April 1991 to 12.2 per cent in early 1992. The most recent change was the thirteenth since 1987 and the third which increased rates. What was the reason behind the recent rate increases? Was this just an example of "fine-tuning"?

100. The discussant noted that the automotive sector was the main exception to the liberalization policy, with high effective protection, import quotas and local content and export performance requirements remaining. When was it envisaged to dismantle these restrictions?

101. He also drew attention to a number of other important reforms covered by the Law on Economic Emergency and the Law for the Reform of the States, such as the "Buy Argentina" policy and the system of industrial and regional incentives. This was a major advance in streamlining the operation of production as a whole. What had been the rationale in the past? What exceptions were there other than the Tierra del Fuego régime? With respect to the export régime, it was noted that export taxes and the statistical tax on exports had been eliminated. Were there any remaining export restrictions? Were there export charges that had been succeeded rather than eliminated? Given the elimination of export taxes, had there been a change in other tax measures in order to compensate for loss of real income?

102. Concerning the privatization process, which was very extensive, this would help reduce debt and the fiscal deficit. Given the scope and rapidity of the process, together with the fact that it covered many sensitive sectors, what problems had been encountered? What was the current status of the programme? Would the State continue to exercise some supervision of these sectors? Although foreign investment now appeared completely open, were some sectors excluded from foreign ownership or participation? Were financial services included?

103. The discussant went on to ask a number of questions in relation to competition policy. He asked how would competition be ensured among the new market entrants following privatization? Why was the model law on competition never employed, even though in the past cartels and monopolies prevented price reductions resulting from tariff cuts from being passed on to consumers? Concerning the process of consultation on reforms with the more important sectors of industry, how did this work and how were the interests of those sectors reconciled? In the context of deregulation and privatization would these processes of consultation be stepped up, and, if so, how and to what extent?

(2) Statement by the first discussant

104. The first discussant said that implementation of the new policies had begun fairly recently, and that it would be underway for some time to come. While preliminary economic pointers were encouraging, a full assessment was premature. Accordingly, he had chosen to focus on a few substantive issues.

105. With respect to privatization, the Argentine authorities had set up an ambitious programme with regard to coverage as well as to pace of implementation. It would be extremely interesting if the Argentine delegation could give an account of the experience in the field of privatization. What difficulties had arisen? Did the policies and procedures originally envisaged still apply, or had it been decided to make adjustments in the light of experience gained? The Argentine experience would be valuable to a broad group of contracting parties and observers. Privatization was also a key policy instrument in countries in central and eastern Europe as well as in Africa. Even in western Europe, privatization was important. The cases of the United Kingdom and Germany were well known. In Denmark, Government-owned enterprises had been sold; food, laundry and cleaning in public buildings were being privatized, as were public transport, telephone and postal services. Some of these countries shared with Argentina the fact that a private sector had always existed. It would be interesting to hear from countries in central and eastern Europe in view of their particular points of departure which parts of the Argentine experience they found of particular relevance.

106. A striking facet of Argentine trade was the composition of its exports, which were dominated by products characterized by modest value added. Argentina probably had the potential for giving further emphasis to more sophisticated products. In a country where the production structure was dominated by small- and medium-sized enterprises, adequate resources for research and development generally did not exist at the company level. He remarked that this was very much the situation in Denmark where they got round the problem by creating direct links between companies that had an idea which they could not explore and develop on their own and research institutes at, for instance, universities. When ideas led to commercial production, or the idea was dropped, the research institute opted out. The costs of these direct links were shared between private companies and the Government. Researchers moved from research institute to industry or vice-versa, thus avoiding the build-up of a static bureaucratic research establishment. Were similar policy instruments envisaged in Argentina - or perhaps already in place? If they were in place: what was the experience so far?

107. The economic reform underway would lead to increased economic activity in Argentina, and hence to an added strain on the environment, including natural resources. He asked whether the Argentine delegation could provide information as to what policy instruments would be used in this area?

108. As a last point, he noted that there was a 30 per cent surcharge on top of the normal tariffs affecting "the import of Spanish-language books printed in non-Spanish-language countries" (Secretariat report). He asked whether this was a non-negotiable, cultural identity provision?

(3) Statements and questions by members of the Council

109. The representative of Canada said that, impressive and valuable as Argentina's recent reforms were, their full pay-off would only appear once investors and traders became convinced that they were irreversible, which could be guaranteed by having them bound in the GATT. In this respect, Canada welcomed Argentina's Uruguay Round offer to bind its tariff at 35 per cent. However, certainty for traders and investors would be enhanced if these bindings were made at rates much closer to those currently applied. Similarly, efficiency and trading opportunities would be improved if complexity were reduced, not only in the five-tier rate structure, but also in the supplementary trade taxes. He asked what further plans the Argentine authorities had for simplification and reform of their tariff and supplementary taxes such as the 3 per cent statistical tax on imports (already abolished for exports)? He also asked whether the Argentine delegation could provide further details on the duty drawback

scheme, notably the provisions of the scheme and sectoral or product coverage.

110. With regard to non-tariff measures, Canada welcomed the statement by Argentina on page 22 of document C/RM/G/18/Add.2 that "the Argentine authorities are fully disposed to examine the adoption of each and every one of the rules and codes that result from the Final Act ...". Canada would encourage Argentina to conduct this examination in a positive spirit. Canada would offer similar encouragement regarding the GATT Code on Government Procurement.

111. Canada applauded Argentina's active participation in the Uruguay Round negotiations, noting, in particular, Argentina's participation, as a fellow member of the Cairns Group, in efforts to improve the functioning of the multilateral trading system for agriculture. Argentina had removed a number of constraints to productivity gains in the agricultural sector, including export taxes, price controls for domestic sales, etc. Yet, for some crops - notably soybeans - the producer subsidy equivalent had risen rapidly, with consequent increases in output. Did this not raise the possibility that soybeans were now being grown at the expense of more efficient, and less subsidized, agricultural production in Argentina?

112. Fully assembled vehicles and parts accounted for the lion's share of value-added and employment in the transport equipment sector. While there had been some liberalization in the sector, there continued to be a significant level of protection, particularly in the form of quantitative restrictions. Decree No. 997/91 only allowed an estimated 6,800 cars to be imported from other countries outside MERCOSUR, of which only an allotment of 680 would be available to the public at large and manufacturers or distributors not yet established in Argentina. On the other hand, the Automotive Protocol with Brazil would allow imports of 20,000 cars this year. He said that Canada was concerned about the discriminatory nature of these arrangements. Was Argentina considering allowing greater market access for auto suppliers other than Brazil? How were import quotas determined with respect to other countries? Did Argentina have any other sector specific agreements with Brazil, or other MERCOSUR signatories?

113. The representative of Australia raised several points. Were there plans to eliminate the statistical tax on imports? How was the tax viewed by Argentina in terms of the consistency with GATT provisions? Was the tax applied equally to imports for MERCOSUR countries? Concerning the new 5 per cent duty, this moved against the general trend. Australia was concerned about discrimination against its exports vis-à-vis exports from other countries subject to zero duties. Australia noted that Argentina's agriculture faced similar problems to Australia with regard to commodity price fluctuations and international market distortions for subsidized

grains and meats. For this reason, Australia was cooperating closely with Argentina in the Cairns Group to secure international trade reforms in agriculture.

114. The representative of Chile said that the process of conversion of the economy was not complete and there were prospects for further changes. Chile urged the elimination of remaining quantitative restrictions. He also asked whether it had been contemplated to eliminate the statistical tax on imports and the prohibition on the export of hides and skins. Also, were there any plans to make tariffs more uniform?

115. The representative of Mexico said that the first part of the review had been positive while in the second part there had been an absence of criticisms or questions concerning the measures implemented in Argentina. We should also hear about concrete actions which would improve the trade environment. This could be one of the conclusions which the Council might draw from the review.

116. The representative of Bolivia said that his country congratulated Argentina for the achievements to date. In the context of deregulation could Argentina give some idea of the policies of deregulation in the area of hydrocarbons?

117. The representative of the European Communities said that the Communities were interested in a liberal climate for investments. Many expectations had been aroused among economic operators in the Communities in the context of the privatization programme. Could this be elaborated? There seemed to be some problems with the repatriation of dividends.

V. COMMENTS AND RESPONSES BY THE REPRESENTATIVE OF ARGENTINA

118. In responding to the comments by discussants and delegations, the representative of Argentina referred first to certain specific points. First, as regards the legal status of GATT in Argentina's legislation, he said that all international agreements ratified by Congress had the force of law and took precedence over domestic legislation. Concerning MERCOSUR, he recalled that the Secretary-General of LAIA had notified this to GATT under the Enabling Clause during the last GATT Council meeting. Brazil had made this communication on behalf of all members of MERCOSUR. Irrespective of the provision under which the notification was made, the MERCOSUR countries guaranteed full transparency with respect to its provisions and integration mechanism, and were prepared to undertake a broad exchange of views with all.

119. The Argentine Government attached considerable importance to the protection of the environment, and had recently adopted the following measures:

- (a) A Secretariat of State had been established with this responsibility, directly reporting to the President of the Nation.
- (b) A law had been enacted which prohibited the imports of polluting wastes and goods.
- (c) Under the privatization programme, provisions had been included to ensure the preservation of the environment.
- (d) Bodies responsible for sanitary and phytosanitary monitoring had restructured and strengthened. Considerable progress had been made with regard to the control of foot and mouth disease.
- (e) As regards environmental issues and international trade, the delegation of Argentina participated actively in the discussions in the Working Group on this topic which had been re-established by the GATT Council. The purpose of that group, in accordance with the sanitary and phytosanitary agreement negotiated in the Uruguay Round, was to achieve interpretations by the CONTRACTING PARTIES, acting collectively to ensure that any exceptions to GATT rules for environmental reasons should not be used in an arbitrary, unjustified manner which would discriminate against trade.

120. As regards the Government Procurement Code, the Argentine authorities were prepared to consider the adoption of that Code in the light of final results of the Uruguay Round.

121. With respect to the statistical tax, which was applied to imports in non-discriminatory manner, this had been notified under the heading of Other Duties and Charges Article II.1(b) of GATT in Argentina's National Schedule which had been submitted in conformity with commitments on market access. This charge amounted to only 3 per cent, and it was the intention of the authorities to eliminate it when tax collection objectives reached the levels agreed with the international financial organizations.

122. Concerning restrictions on exports only one measure was now applied - the temporary suspension of exports of raw hides. This was to ensure supply for the domestic processing industry. This measure was, at present, under review.

123. As regards the various references made in the Secretariat report to cars and trucks, he pointed out that this sector had not been excluded from the trade liberalization programme. Indeed the de facto prohibition on imports had become a transitory régime of regulated imports according to the type of vehicle. A tariff quota had been established which was granted without any discrimination with respect to origin and which was increased on a yearly basis. Furthermore, any physical or legal entity could import those models which were similar to those produced in the country or those models which were imported by local producers at a 22 per cent tariff without any quota restriction. The plan that had been set out in the Uruguay Round offer was to liberalize imports of this sector completely under the general bound tariff by 1 January 2000. To this end, in accordance with paragraph 23 of the Safeguard Agreement of the Uruguay Round, notification would be made of the elimination of non-tariff restrictions which were still in effect on 31 December 1999. Progressive liberalization, which was referred to earlier, should assist the restructuring of the sector, while maintaining a level of production which was in keeping with demand and international quality, without causing serious social and employment difficulties. This was important, given the large amount of employment generated in the sector.

124. In order to comply more closely with the objectives of the deregulation, established in the relevant decrees, the Under-Secretariat for Deregulation in the Ministry of Economy was drawing-up a follow-up plan and additional recommendations in order to achieve the objectives. At the same time, a permanent consultation mechanism with the private sector was being established.

125. Concerning the industrial promotion régimes, all types of promotion and sectoral subsidies had been eliminated. As far as regional promotion was concerned, the only benefits which had been maintained were those where acquired legal rights existed. The fiscal and customs régime for Tierra del Fuego was still under consideration. It was not contemplated that similar régimes would be applied in the future.

126. There was no limitation on (a) participation of foreign investment in the privatization programme, (b) participation in the different areas of production and services including the financial services, and (c) repatriation of capital.

127. Apart from action by national organizations on technological development for industry and agriculture, special programmes were being drawn-up to give support to technological upgrading with a particular emphasis on small- and medium-size enterprises. Assistance for this purpose was being provided by the international financial institutions.

128. The additional tariff for books printed in Spanish in non-Spanish speaking countries was being reviewed.

129. There was no subsidy for the production of soyabeans. On the contrary the export of oilseeds was the only case where there is still an export duty, now reduced to 6 per cent.

130. As regards the other comments and concerns which had been expressed, these could be grouped into four main headings: economic policy, the privatization programme, the MERCOSUR integration process and the impact of the international economic situation on the Argentine economy.

A. ECONOMIC POLICY

(1) The risks of a new inflationary spiral

131. The measures adopted and the success achieved so far as regards fiscal discipline, elimination of the financing of public expenditure by inflation, and opening-up of the economy had eliminated the underlying causes of inflationary pressure which, for years, had brought about distortions in the Argentine economy. The new policies guaranteed the convergence of the pace of change in domestic and international prices.

(2) The demonstration of trust on the part of investors

132. This had been clearly expressed, inter alia, through the increase in monetization of the economy, the drastic expansion of the capital market,

the substantive increase of domestic production and the importation of capital goods. Credibility of the policies could be seen from the firmness with which they were maintained by the Government, and the general acceptance by Argentine society of the need for and the irreversibility of the policy. This had been clearly demonstrated in the elections in September of 1991 when more than 70 per cent of the population expressed its support for the transformation of the Argentine economy.

(3) Maintenance of convertibility

133. The increasing level of reserves of gold and currency - at present beyond US\$600 billion, the equivalent of nine months of imports was the result of the aforementioned credibility, and reflected the decision of Argentine society to transform its foreign currency savings into national currency. Convertibility had been guaranteed, thanks to this trust and the support which it provided for the monetary base.

(4) Trade stability

134. As had been pointed out before, the consistency of the economic policy in order to achieve the objective of price stability was based on openness in external trade policy.

(5) Maintaining the real exchange rate

135. The inclusion of new investments, the technological improvement, and the reduction of costs as a result of the deregulation of the economy, as well as access to new sources of financing (which implies a considerable reduction in financial costs), had together jointly acted to maintain and improve the exchange rate. Although the total effect of the foregoing would only be fully effective in the medium- and long-term, its impact could also be felt in the short-term. Wholesale prices had shown a monthly fluctuation of 0.3 per cent since April 1991. No matter what measure of international inflation was used, it could be seen that, far from deteriorating, there was in fact an improvement in the exchange rate. Higher consumer prices did not affect the exchange rate for the producer although it did give rise to this possibility because of the negative impact on real wages. Moreover, it could give rise to possible wage claims which would then be translated into increased production costs. The changes introduced in legislation on collective wage bargaining had set limits on this possibility. Increases of wages and salaries were only authorized when they had been financed through an increase in productivity and this increase did not cause higher prices. The fixing of the parity of the Argentine currency to the dollar rather than a basket of currencies was natural given the overall direction of Argentina's external trade, which

was concentrated in the dollar area, namely South and North America. The use of fixed parity rather than a flexible rate stemmed from the use of the exchange rate as an important instrument in the control of inflation.

(6) Measures taken to facilitate the adjustment process

136. Despite the fact that the Argentine economic plan was intended to reactivate the economy and to increase job opportunities, the Government was aware of the effect which such far-reaching measures could have in certain sectors. The Government was therefore also establishing programmes to deal with unemployment, the retraining of certain types of labour and the financing of industrial restructuring. Within this overall programme, the Investment and Foreign Trade Bank had been created to tap financial funds, both externally and domestically, to use for promoting investment and expanding exports.

(7) Competition policies

137. Existing legislation providing for the protection of competition was applicable to all sectors of activity. Those sectors undergoing privatization which, because of their very nature, might have a monopoly rôle would be subject to strict controls, established by law or Presidential Decree. They would be monitored by regulatory bodies which had the technical and legal powers required to ensure quality and competition in the provision of the services. This was a fundamental requirement for activities, such as communications, production and distribution of gas, electricity and drinking water, as well as passenger transport.

138. Under the general heading of competition policy, reference could also be made to the new external trade law, at present under review. As regards the anti-dumping régime, Argentina had signed the Tokyo Round Agreement, and the draft law now before Congress would be based on the relevant provisions of the Agreement.

(8) Consultations with labour and business

139. The overall design and implementation of economic policy benefited from permanent mechanisms for consultation with enterprises and labour unions. One example was the agreement signed by the Government and the Unión Industrial Argentina, referred to in the Secretariat Report. The commitment taken by this enterprise group to support the transformation of the economy had been obtained without concessions from the Government in terms of subsidies or any other type of advantage. For its part, the Government had committed itself to continue the elimination of all obstacles to the development of productive activity, to promote its

expansion through the development of credit under commercial conditions, and the defence of competitive national production on external markets. Another example, was the joint review by the Government and trade union representatives of the changes in the social security system.

(9) Recent tariff changes

140. The principle purpose of the recent tariff changes was to reduce tariff dispersion.

B. PRIVATIZATION

141. The programme of privatization initiated in the beginning of 1989, continued to make progress towards the achievement of the objectives set by the Argentine Government to transfer all private activities which did not fulfil the specific needs of the public sector. The programme took account of experience elsewhere in two fundamental areas: the establishment of a regulatory framework for natural monopolies; and, on the other hand, the improvement of procedures for public tenders by these enterprises to ensure the greatest possible competition by interested investors. This would ensure the transformation of these activities into efficient operators.

142. At present, progress had been made with the privatization of rail transport. Progress had also been made in the electricity sector in line with the timetable fixed by the National Government. The process of privatization should be completed by the end of 1992.

143. A specific question was raised with respect to hydrocarbons. It had to be pointed out that privatization of the gas and oil sector was accompanied by a deregulation in the area of prices, which would determine the level of the imports and exports of this particular sector.

144. In the same way, the privatization of shipping went hand in hand with deregulation in the area of cargo handling, port operations and review of the trade union legislation for both dockers and ship workers.

C. MERCOSUR

145. MERCOSUR was being implemented within the framework of the LAIA mechanisms for the promotion of agreements between countries and groups of countries. These agreements could be carried out more rapidly than the general integration process.

146. As a group, the MERCOSUR countries had reached an agreement in the areas of trade and investment with the United States within the framework of the Initiative for the Americas.

147. MERCOSUR was aimed at achieving a common market between Argentina, Brazil, Paraguay and Uruguay. It had taken place at a time of development of similar liberalization policies for the opening-up and deregulation of economic activities. While the degree of progress in these policies might differ from one country to another, this did not constitute an obstacle for development at the national level. A clear indication of the similarity in approach of policies and openness in MERCOSUR with third countries can be seen from the offer made by member countries to bind their tariff in the Uruguay Round at 35 per cent, without the application of non-tariff measures.

148. Internally, the treaty provided for the elimination of tariff and non-tariff barriers to trade by the 31 December 1994. The treaty also provided for the establishment of a common external tariff which would encourage external competitiveness of the member States and the co-ordination of macro-economic policies. As regards sectoral trade, non-discrimination and sectoral accords would be made subject to the final liberalization programme.

149. As regards the complementarity or competition between member States, both situations existed. Complementarity came from climatic and geographical diversity. Competition would occur through the growth of intra-industry trade, where there was competition in the same area of activity.

150. The countries of MERCOSUR were determined to meet the deadlines to ensure predictability and to promote investment.

#### D. THE INTERNATIONAL ECONOMIC ENVIRONMENT

151. Several delegations had referred to the impact of the international economic environment on the Argentine economy. Argentina had undertaken an economic programme which would ensure the greatest possible efficiency in the allocation of resources, and in which the opening-up of the economy played a rôle of paramount importance. It was hoped that this would contribute to the overall system of multilateral trade. The reform programme involved tremendous sacrifices for the population. It had been given effect through the elimination of subsidies for domestic production and external trade, the opening-up of the external sector, and the provision of protection solely through reduced tariffs, without the application of non-tariff measures.

152. Despite its magnitude, this plan was essential but not sufficient to ensure a sustained growth of the economy. Without an opening-up of the international market, the aforementioned efforts could lose much of their effectiveness. The effects of protectionist policies and market

distortions on Argentine exports implied lost opportunities for agricultural exports from Argentina in international markets. From 1970 until 1989, Argentina had lost the equivalent of almost the totality of its external debt for this very reason. It was, therefore, essential that the major trading countries should shoulder their responsibilities and adopt the political decisions which would make it possible to strengthen the multilateral trading system on the basis of a greater opening-up of markets. This was particularly vital in areas which were important to developing countries, such as, agriculture, tropical products, and textiles.

153. Argentina had supported the draft Final Act of the Uruguay Round, since it was convinced that, although it did not fully meet its objectives, it was nonetheless, the only way to achieve a positive result in the negotiations on the basis of the ideal of trade liberalization. Argentina had fulfilled its commitments and deadlines set, and it trusted that this was an attitude which would also be adopted by major trading countries.

VI. OTHER STATEMENTS

154. The first discussant said that the policy reforms in Argentina were exciting and happily the economic indicators were pointing in the right direction. It was to be hoped that the risks would not jeopardize the reform process. The reply by Argentina had been comprehensive. The pace and extent of reforms showed that some of the questions by others showed unjustified impatience.

155. Concerning MERCOSUR, he welcomed the readiness of Argentina to discuss the details in the GATT.

156. On environment, a number of steps had been taken. Imports of harmful substances had been prohibited. Privatization laws included provisions for preservation of the environment and it would be interesting to learn more about this. He noted with satisfaction the willingness of Argentina to participate in discussions in the GATT on trade and environment issues.

157. He welcomed the interest of Argentina in adhering to the Government Procurement Code. This would be a natural consequence of policies now underway.

158. The need to avoid social conflicts was raised in several places, especially in sensitive sectors such as cars. Was it correct that agreement with labour market leaders involved the support for the reforms, or simply that discussions were aimed at ensuring the political feasibility of what the Government was planning?

159. In respect of foreign investment, including in privatization, this had been politically sensitive in many countries. How had this been handled in Argentina?

160. He asked whether it was considered that labour market legislation was temporary, or was it felt that in the longer term this would be best left to the labour market partners themselves. He noted with satisfaction the recognition of the need to retrain workers who were displaced as a result of the reforms.

161. Concerning competition policies, how did monopoly control work in practice?

162. Regarding MERCOSUR, it was understood that this would take place within the context of LAIA. How would this work exactly? What was the timetable envisaged for implementing MERCOSUR? To what extent were MERCOSUR partners competitive or complementary with each other?



163. The second discussant said that the replies had been frank and detailed. The only concern was ensuring that the right signals of permanency were given, and not giving the idea that changes were being made for their own sake.

164. The representative of Canada thanked Argentina for the detailed responses. There are two last points. First, Canada was interested in the responses on competition policy, but Canada was also interested in knowing whether Argentina was considering the establishment of some kind of watchdog body and what might be the opportunity for public inputs. The second point concerned the evolution of MERCOSUR from sectoral protocols with Brazil. The question was, since these had not been abrogated, how these fitted into MERCOSUR.

165. The representative of Chile also appreciated the response, particularly for Chile's questions on environmental protection, removal of the statistical tax, revision of the export quotas on raw hides, and the explicit acknowledgement of the intention to reduce tariff disparities in the near future.

166. The representative of Peru said that the economic policy now being applied by Argentina was the most appropriate and deserved support by the international community through an improved trading environment, particularly in agriculture.

167. The representative of Costa Rica congratulated Argentina on its efforts and on the success achieved so far. He singled out two points which deserved special mention: one was the action on the pension system, which was often neglected, and the other was the law on repatriation of capital, which was innovative and had great interest for others in the area.

168. The representative of New Zealand supported the representative of Peru and others concerning the obligation of the international community to aid Argentina's efforts through a more open trading environment.

169. The representative of Bolivia appreciated the response to his questions of the previous day and also welcomed the positive evolution of the Argentine economy. He was also happy to learn about MERCOSUR. This was of particular interest to Bolivia, given its geographical proximity to the MERCOSUR countries.

170. The representative of Argentina said he would make more detailed written responses later. The acceptance by society of the link between economic policies and the social elements came from the conviction that these measures were the only way to improve overall welfare. Social costs

were reduced because adjustment measures had been introduced earlier. There was no government intervention in fixing wages. The law only regulated the procedures for collective bargaining. In the past, wage increases were financed by price increases; now, in the wage discussions, inflation adjustment was included in the contract. Under the new law, a wage increase could not be legally adopted unless financed by a reduction in costs in other areas, i.e. an increase in productivity. This meant that wage increases simply could not be passed on to other sectors. Concerning monopoly control after privatization, this would follow classical guidelines for regulatory frameworks, e.g., in the United States. Concerning the link between LAIA and MERCOSUR, the latter fell under LAIA's framework for economic complementarity agreements. Argentina appreciated the many statements of support for its economic policies which required the participation and cooperation of the international community.

VII. CONCLUDING REMARKS

171. The reviews undertaken by the Council in the framework of the Trade Policy Review Mechanism aim 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. My closing remarks are intended to summarize, on my own responsibility, the salient points emerging from this review. These remarks are not intended to substitute for the full discussion and assessment by the Council. This, including Argentina's responses to points raised by the participants, will be reflected in the minutes of the meeting.

172. All participants complimented Argentina on the extensive and rapid reform programme underway. Under this programme, Argentina was being transformed from a highly protected and regulated economy into one of the most open in the world. In the last few years, quantitative restrictions had been virtually eliminated, a series of tariff reductions made and export taxes removed. Argentina's extensive privatization programme and the deregulation of the internal market were also central to the reform process. A number of participants felt that other countries could benefit from Argentina's experience.

173. Under the Government's current economic programme, inflation had been brought to very low levels, growth in output and employment resumed and there was increasing confidence in the economy by consumers and investors. A number of participants expressed interest in Argentina's views on the linkage between and sequencing of macroeconomic and trade reforms.

174. Some participants raised questions about progress in formulating Argentina's new proposed Trade Law; in particular, about procedures under consideration for the handling of anti-dumping or countervailing matters.

175. A number of participants emphasized that the opening of Argentina's market required the support of an open international environment. They noted that Argentina's efforts had not been matched by some of its trading partners, whose agricultural support policies in particular were creating barriers to Argentina's exports and contributing to the decline in commodity prices. They stressed the responsibility of the international trading community to support Argentina's reforms and help Argentina realise the benefits of its restructuring.

176. Participants commended Argentina for its strong commitment to the fundamental principles of the multilateral trading system. Its active participation in the Uruguay Round, particularly in the areas of agriculture, TRIPS, TRIMS, services and dispute settlement, provided evidence of this commitment. Its offer to bind its entire tariff was well

received, although it was noted that the proposed binding level of 35 per cent was well above the average applied level. Argentina had adhered to a number of the MTN Agreements; some participants encouraged Argentina to join remaining Agreements.

177. Attention was called to the increasing intra-regional orientation of Argentina's trade. In this context, questions were raised about the relationship of the Latin American Integration Association (LAIA) to MERCOSUR, the new common market formed by Argentina, Brazil, Paraguay and Uruguay. Some delegations encouraged the participants in MERCOSUR to notify it under GATT Article XXIV. The hope was expressed that MERCOSUR would be an outward-oriented arrangement which would complement Argentina's own liberalization.

178. A number of participants raised questions concerning Argentina's exchange rate policy. While it was recognized that this policy had contributed to stabilizing the economy, some members questioned whether a fixed nominal link to the United States' dollar was sustainable in relation to Argentina's longer-run international competitiveness.

179. Participants recognized that Argentina's trade policy in relation to agricultural products was generally open, Argentina being a major agricultural exporter. Few items were still covered by export restrictions, which had been an area of concern in the past. A successful conclusion to the Uruguay Round would assist the re-structuring of Argentine agriculture and help the sector to make a greater contribution to the solution of Argentina's macro-economic and debt problems.

180. By contrast, Argentina's manufacturing sector had, in the past, been developed largely on an import substitution model behind a variety of tariff and non-tariff barriers. Industrial and regional support measures had been used extensively in support of this policy. Most of these measures had now been eliminated and others suspended pending review, as the new outward-oriented strategy was being implemented. Some sectors, such as automobiles, appeared still to benefit from special measures, including local content and export performance requirements, but it was understood that these programmes were being re-examined, inter alia, in the light of MERCOSUR.

181. In addition to these general points, specific questions were raised and clarification sought on:

- The recent increase of the minimum tariff from zero to 5 per cent, and its effects on tariff escalation and effective rates of protection to industry;

- The continuation of the statistical tax on imports and its consistency with GATT obligations;
- Experience in the application of the VAT system;
- The effects of trade liberalization on the relative efficiency of different sub-sectors within the agricultural sector;
- Remaining export restrictions on raw hides and skins;
- The extent of privatization in the hydrocarbons sector;
- Competition policy, particularly in relation to the privatization of State industries;
- The system of Government/industry pacts;
- Information regarding the evolution of Argentina's patent legislation;
- Freight rates and freight sharing arrangements under the Reserved Cargoes Law;
- The relationship between sanitary and phytosanitary regulations applied by Argentina and protection of the environment.

182. In response, the representative of Argentina said that the objectives of its economic and monetary policies were to reduce inflation and interest rates, maintain stable exchange rates, minimize the public deficit and debt. The reforms undertaken in 1991 sought to achieve these objectives. Competitiveness would need to be achieved by increasing productivity. Public credibility, which was necessary for the continuation of the reform process, had been demonstrated by the results of the recent elections.

183. In connection with questions raised concerning the fixing of the exchange rate to the US dollar, reserves were growing and there were no pressures on the exchange rate. The dollar basis reflected the orientation of Argentina's foreign trade. A fixed rate was seen as one measure to control inflation.

184. All international agreements ratified by Congress were national law and took precedence over internal legislation.

185. Argentina would examine the question of accession to the Government Procurement Code in the light of the results of the Uruguay Round.

186. Recent tariff changes were intended to reduce tariff dispersion.

187. The 3 per cent statistical tax, which had been notified consistently with Article II:1(b) of GATT, would be eliminated as soon as fiscal and monetary conditions permitted.

188. A permanent consultation mechanism with the private sector formed part of the follow-up plans formulated by the Ministry of Economy. Sectoral and regional support had been eliminated with the exception of the special tax and tariff régime for Tierra del Fuego, which was also under review. Automobiles were not excluded from the general liberalization programme. Automobile protection would shift to a tariff only system by 1 January 2000, allowing time for adjustment in the sector. This commitment had been included in Argentina's Uruguay Round offer.

189. No subsidies were provided to soyabeans. On the contrary, oilseeds were the only area still subject to export taxes (6 per cent). In principle, export restraints were now used sparingly, affecting only hides and skins. This was still necessary to ensure supplies for the tanning and leather industries.

190. MERCOSUR had been notified to GATT under the Enabling Clause. It was considered to be an Economic Complementarity Agreement under the provisions of LAIA. Regional free-trade agreements did not lower Argentina's commitment to the multilateral trading system. Regional agreements also furthered the expansion of trade and Article XXIV was an integral part of the GATT. As a small country, Argentina was very much dependent on the multilateral framework for trade. The effect of MERCOSUR on Argentine trade remained to be seen.

191. Argentina's privatization programme was continuing with the aim of transferring to efficient operators in the private sector all those areas which were not required to fulfil specific objectives of the public sector. With regard to hydrocarbons, the process of privatization was accompanied by deregulation of prices. Similarly, in maritime transport, the Reserved Cargoes Law would be deregulated along with port and maritime operations.

192. Steps taken in Argentina concerning protection of the environment included the creation of a special secretariat of State with this responsibility; the prohibition of imports of polluting waste and merchandise; special measures in the privatization plans; and restructuring of sanitary and phytosanitary control agencies. In this connection great progress had been made in the eradication of foot and mouth disease. Argentina was also participating in the Working Group on environmental measures in GATT.

193. Regarding the revision of Argentine trade law, anti-dumping procedures would be revised in accordance with the MTN Agreement on anti-dumping as it emerges out of the Uruguay Round.

194. The outcome of the Uruguay Round was critical for Argentina particularly in the fields of agriculture, tropical products and textiles. Without the opening of international markets, Argentina's programme would lose much of its effect. Between 1970 and 1989, Argentina had lost, in agricultural exports, the equivalent of virtually all its foreign debt as a result of protectionist policies by its trading partners.

195. The Council strongly commended Argentina for the considerable progress it had made in the transformation of its economy and the deregulation of its market, in the face of considerable economic difficulties. Argentina had been transformed from a highly protected régime to one of the most open economies. Its trading partners had a major responsibility to support this process by trade liberalization in areas of interest to Argentina. The Council expressed the hope that regional arrangements to which Argentina was a party would be sufficiently open to contribute positively to the development of the multilateral trading system. Argentina's positive rôle in the Uruguay Round and the importance of the Round in supporting Argentina's trade reforms was widely recognised.