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CHILEAN IMPORT CHARGES

Statement by th Representative of Chile at the meeting of the CONTRACTING PARTIES on 18 May 1959

For two broad groups of reasons the Government of Chile has had to introduce an additional customs duty on all goods imported into the country.

In the communication which I had the honour of forwarding to the contracting parties on behalf of the Government of Chile, I referred mainly to the fiscal and budgetary factors which, with their many repercussions, caused my Government to take this step. I shall come back to them in a moment.

At this stage I wish to refer to the reasons of commercial policy that were of equal importance in prompting the Chilean Government's decision and are largely connected with domestic reasons.

Ever since the creation of GATT, at meeting after meeting the CONTRACTING PARTIES have had to recognize Chile's right to apply quantitative restrictions to preserve its balance of payments and to prevent a further drain on its already depleted currency reserves. Both the statements of Chilean representatives and the reports of the International Monetary Fund laid stress on the imperative and often alarming reasons that governed Chilean policy on this matter. These reasons were chiefly derived from the fact that Chile is practically dependent on the export of a single commodity for the financing of its imports and its economic development. The price of this commodity, copper, on world markets is not fixed by us, and its periodical and violent fluctuations (such as those I myself mentioned at the thirteenth meeting of the CONTRACTING PARTIES) often involve us in depressions that extend to all spheres of national life and affect both the public and the private sector of the economy. They are reflected in the Government's finances, they raise the cost of living, they affect wage rates and they have repercussions in the sphere of industrial relations and in the political atmosphere.

Over the last few years, however, we have made very considerable efforts to lessen our import restrictions. Inter alia, I should mention Act No.12084, which, as I informed the CONTRACTING PARTIES at their 1956 session, abolished the system of preliminary import licensing ("previas") and import quotas and introduced a definite amount of freedom into our foreign trade.

Unfortunately, partly owing to weaknesses in the statute and partly owing to the pressure of adverse circumstances it was not possible to give full implementation to the Act, and so we retained two exchange rates, one that was really free and applied to stock exchange transactions and another that was known as the "free bank" rate and was the official rate for foreign trade purposes.

We also retained a list of prohibited imports, to which should be added all the items that were not on the list of authorized imports and therefore could not be imported, as well as imports subject to the issue of a "Certificate of Need" which imposed a series of controls and in fact almost amounted to a further prohibition.

The system of advance deposits, which should according to the drafters of the legislation have led to the normal development of our trade, had the opposite effect, and in certain cases the restrictions it imposed came to constitute almost insurmountable barriers.

Moreover, since we could not count on payment in transferable currencies for some of our main exports we were compelled to extend the validity of bilateral agreements that had already been in force for some time.

Meanwhile the country's economic and budgetary position was being imperilled by adverse factors at home and abroad. Inflation reached tremendous proportions.

The cost of living, which was already very high, rose in 1958 by 32.5 per cent and according to the figures at our disposal it was still rising at the beginning of the current year. The Monetary Fund states that in the months of January and February the rise amounted to 7.9 per cent as against 6.5 per cent in the first two months of 1958.

Wages have shown a similar rise. In 1958 they rose by between 20 and 27 per cent according to the time when the contracts of employment were renewed. At the beginning of this year the Government, despite its decision to combat inflation, had to agree once again to salary and wage increases of as much as 27 per cent.

Moreover, the Treasury was in an increasingly difficult position. In spite of the Government's action the budgetary deficit amounted to 68,000 million pesos by the end of 1958, and it has been estimated at 70,000 million pesos for the current year.

Our country's balance of payments continued to be unfavourable, as may be seen from the deficits over the past few years, which were as follows: 1956: 10 million dollars; 1957: 112 million dollars; and 1958: 47 million dollars.

The following figures will give an idea of the extent and speed of inflation in Chile. The dollar exchange rate rose from 124 pesos in 1952 to 1,050 pesos in 1958. The cost of living index (1958 = 100) stood at 10.6 in 1952 and 131.3 in April 1959. The budget increased from 42,000 million pesos in 1952 to 413,000 million in 1958. The note issue rose from 32,500 million pesos in 1952 to 287,300 million in January 1959. As a direct result, the national income, which amounted in 1952 to 2,610 million dollars, had by 1958 fallen to 2,290 million dollars: in other words, over the last six years the standard of living did not merely fail to rise or maintain itself but fell to a dangerous extent.

As you can see, our problem goes far beyond the scope of the GATT. We must solve it at any cost, and we hope to be able to do so with the support of the CONTRACTING PARTIES.

When the new Government of my country came to power in November 1958, it had to cope with this extremely serious situation and find an adequate remedy immediately. After four months of debating in Congress it managed, by curtailing the discussion, to secure congressional approval for Act No. 13305 which came into force on 9 April 1959 and imposed heavy burdens on the whole population. This Act alters wage adjustments in both the public and the private sector, enables public administration to be reorganized, alters the internal taxation system, introduces new taxes, amends the national budget, introduces reforms with regard to foreign trade and customs tariffs, establishes procedures for maintaining free competition in industry and commerce, changes the country's unit of currency and so forth.

With the agreement of the International Monetary Fund, the Government thought it essential to make substantial changes in the statutory provisions relating to foreign trade, and it adopted a series of measures to give greater flexibility to our economic relations and so far as possible to avoid bureaucratic interference in dealings that must be left to private enterprise.

In the first place it was decided in February 1959 to merge the two fields of exchange that had existed hitherto, so that at present there is only a single free exchange rate, which is used by banks and exchange dealers without restriction. This step is to enable us to increase our exports and to receive more prompt payment for them, as well as to avoid speculation, since there will no longer be any incentive to make import deals in a currency subject to rapid fluctuations in value and stocks will therefore be adapted to the country's need. At the same time, the two per cent tax on foreign trade transactions was abolished.

Accordingly, unrestricted access to foreign credits will enable business firms and private individuals to deal freely with foreign countries and bring down their costs considerably, as they will be able to obtain money on cheaper terms than at present.

Similarly, in order to curtail the Government's financial liabilities as much as possible, the Minister of Finance has forbidden all public and quasi-public organizations to assume commitments abroad during the current financial year which are repayable over less than eight years. Nor may they guarantee any such commitments made by third parties. As regards private business, the International Exchange Commission will issue general regulations, but the Government hopes that any deferred-payment credits or dealings will cover a period of not less than five years. In any case, each operation of this kind will be examined by the Commission so that it can allow special treatment if circumstances warrant it.

The Government's decision to replace bank deposits in Chilean pesos by dollar bonds issued by the Treasury will greatly relieve the pressure on the currency in circulation and will make available to the Government funds which have hitherto been tied up in the Central Bank.

For the same reasons, in any import dealings involving goods which are held for a period not exceeding thirty days, deposits which are maintained must

be made in dollars. The same will apply to the import of goods on a consignment basis which are held for the same period and also to payments for past transactions for which there are deferred terms.

As part of its new financial and monetary approach, the Government has completely overhauled both the general principles and detailed working of its trading policy so as to produce the additional resources which it urgently needs and, at the same time, to work steadily towards the freeing of trade, which should be complete within a relatively short time once the new tariff schedule has been introduced.

As a first step in this direction, a Presidential decree (No. 5474) was issued on 24 April giving a schedule of authorized imports and superseding the previous decree on the subject (No. 859); this decree lists all the goods which may be imported, i.e. the goods listed in the former decree No. 859, plus those which were specifically prohibited and all unclassified goods. This new decree (No. 5474) can be enlarged at any time to cover new items, the Government having decided to lift all bans on imports.

However, care had to be taken to ensure that this new policy did not completely disrupt the market, and a procedure has been laid down whereby there will be a gradual shift from the total or partial prohibition of certain goods to the complete abolition of restrictions. The system of advance deposits has been introduced as an interim measure in respect of goods whose import has hitherto been forbidden.

In due course - already in some cases - these advance deposits will be superseded by new customs duties which, as I have stated, may go up to 200 per cent ad valorem c.i.f. Apart from certain very minor exceptions, which are due to disappear in any case, the importer will not be required to pay the new customs duties in addition to making a deposit.

According to surveys carried out by the departments concerned, the new system will bring the Government closer into line with the principles and methods of GATT, while keeping the balance of payments in equilibrium and at the same time enabling speedy action to be taken against inflation - which is the source of all our current problems - by substantially increasing tax revenue. It has been calculated that these duties will yield 25,000 million pesos which, coupled with the revenue from the new internal taxes and the increases in existing taxes, will make it possible to wipe out the budget deficit and prevent the need for further unbacked issues of currency.

The new duties will come into force by stages. But, in view of the seriousness of the situation, the Government has been forced (as explained in document RESTRICTED L/975) to make a start now. For this purpose, it has selected the goods whose importation was prohibited either specifically or indirectly, and the goods subject to a deposit of 5,000 per cent, i.e. those in respect of which the new duties represent an improvement on the previous position.

Accordingly, during this first stage, two types of goods will pay the extra duty.

The first type, which will pay a duty of 200 per cent, comprises -

(a) goods whose importation was prohibited (and which, during the first stage, will require a deposit of 5,000 per cent);

(b) goods whose importation was permitted but which required a deposit of 5,000 per cent;

(c) vans, van chassis, cars (jeep type) etc., which also required a deposit of 5,000 per cent.

The second type consists of articles requiring a "certificate of need", i.e. articles, the importation of which (as stated earlier) was practically forbidden and which will be subject to various duties.

Without prejudice to the decision which will be taken on these individual cases, we request the CONTRACTING PARTIES to give us a general authority covering the third type of goods which can at present be imported under the advance deposits scheme, and on which the temporary additional duties will in general be less heavy than the cost of the deposits. This will enable the Government - as far as the GATT consolidated tariff classification is concerned - to continue to replace advance deposits by extra customs duties.

We urge the CONTRACTING PARTIES to bear in mind that the situation with which the Chilean Government is faced is extremely critical, that the new duties are temporary and that they will be eliminated by the end of 1960. We also ask them to consider that our new commercial policy - which forms part of a programme for the whole national economy - marks an effective and important step towards the liberalization of trade; that it will lead to the abolition of all administrative barriers; and that it will entail the gradual elimination of our bilateral agreements - two of which will not be renewed when they expire on 30 June next. Lastly, we ask them to consider that, generally speaking, this policy will not cause a rise in the cost of imports, that it will apply without exception to all countries and that it will not change the pattern of our imports (except under the impact of freedom to trade) or reduce the volume of our trade, which will be conducted freely and in far more favourable conditions than at present.

We are willing to supply any details which may be required and to answer any questions that the CONTRACTING PARTIES may wish to ask in the working party they will presumably appoint to examine our request.