

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Working Party on Accession of Argentina

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ACCESSION OF ARGENTINA

Memorandum presented by the Government of Argentina

I.

The Argentine Republic has, through its representative, requested that consideration be given to its accession to the General Agreement on Tariffs and Trade.

Our people aspire to progress, not only for ourselves but also for other peoples. We believe that no one, who is free to improve his situation by honest work and the use of his own abilities, will harbour resentment or hatred.

We do not regard economy or trade as ends in themselves, but as means for the attainment of common ideals.

Among these ideals is the achievement of a better standard of living for all peoples, which is one of the aims set out in the Preamble to the General Agreement.

That is why we are now here enjoying the hospitality of this beautiful country of Switzerland and are appearing before this distinguished gathering; we thank you all for your presence here, and wish to work together with you in considering the request for accession presented by our country.

II.

REASONS WHICH IMPEL ARGENTINA TO SEEK MEMBERSHIP OF GATT

Argentina has emerged from a system of State intervention, based on direct controls, in foreign and domestic trade, and has replaced it by a multilateral and non-discriminatory system.

The foreign exchange reform effected in December 1958 put an end to multiple exchange systems, import permits and subsidies, quotas, export licences, etc.

The former system of directed economy tended to replace imports basically by processed goods which normally require a great deal of manpower and relatively little capital investment.

This policy was energetically supported by subsidies which agricultural and stock-breeding export commodities had to pay towards the importation of raw materials, by means of a system of different rates of exchange. Moreover, the Industrial Bank of the Argentine Republic supported the development of this processing industry by means of enormous inflationary credits.

This whole mistaken policy has caused a grave structural flaw in the Argentine economy. Agriculture and stock-breeding became under-capitalized, and were thus not able to make technological advances at the same rate as other countries. The hypertrophy of the processing industries brought about a constant imbalance of trade, while at the same time our basic raw materials were not being put to good use.

Argentina has entirely eliminated the system of subsidies for all sectors of its economy, and will soon be able to put into effect a realistic customs tariff, which will make possible the gradual correction of all distortions left over from the former protectionist period.

We are convinced that excessive protection of both industry and agriculture can only entail, in the course of time, profound flaws in the economic structure.

Experience has taught us that it is difficult to avoid excesses in initiating a policy of promotion or protection of one sector of the economy at the expense of others; and that such excesses gradually come to constitute so heavy a burden that in the end this excessive protectionism must be suppressed.

It is certainty, born of experience, which has led us to abandon romantic ideas of autarky. We believe that the best way to assist the national economy is by means of a balanced tariff; and that is why we have come before GATT today to show that our country is one with a free economy which hopes for an intensification of mutual trade within the high conclave of this conference.

III.

THE ECONOMIC SITUATION OF ARGENTINA

Argentina is, purposefully, consciously and deliberately, moving towards the definitive establishment of an economy free in every respect.

The present economic situation is a transitional one: we are emerging from one stage and period, and entering another. As with all transitions it is not an easy period, but our country is coming through it bravely and with a certain pride. We are convinced that the worst is over, and we are beginning to see the first signs of a real economic recovery.

Until just over a year and a half ago our economy was stagnant and we were experiencing intense and apparently uncontrollable inflation.

The fiscal imbalance, caused mainly by an overgrown bureaucracy (which has today been reduced by 70,000 officials), and provoked chiefly by the excessive intervention of State undertakings, running at a loss, in the field properly pertaining to private enterprise, continually fed this inflation. Other sources were inflationary banking credits, subsidies to consumption and importations based on a multiple exchange system.

Inflation had discouraged savings and investment, and had led those persons who did save to keep their savings in foreign currency; imports were encouraged and exports neglected, which resulted in upsetting our balance of payments. At the same time our gold and foreign exchange reserves dwindled, and our foreign debts increased.

Since the foreign exchange reform, our balance-of-payments situation has undergone a fundamental change.

The gold and currency position of the Central Bank has moved from \$133 million on 31 December 1958 to \$680 million on 14 October 1960. This increase consists of \$267 million expansion of the Central Bank's own reserves, and \$413 million worth of stabilization loans obtained by the Argentine Government abroad.

The stabilization attained in the internal price level, the sound currency position of the Central Bank, the daily inflow of foreign capital into our exchange market and the balance achieved in commercial exchanges have brought about a stabilization of the dollar rate for the Argentine peso.

At present the country has an absolutely free and fluctuating exchange market and, since the official quotation of 18 pesos to the dollar was abandoned on 30 December 1958, it has been possible to achieve a stable balance at 83 pesos to the dollar, which has maintained itself for over a year.

The existing exchange market is valid for all financial or trade transactions with foreign countries, whereas the exchange used for the accounts of those bilateral agreements which are still in force is quoted at par with genuine currencies.

IV.

TRADE BALANCES

Our trade balance has also improved very considerably. In 1957 the deficit in the balance of trade was \$335 million; in 1958 it amounted to \$239 million, whereas in 1959, i.e. the first year after the exchange reform, there was a favourable balance of \$16 million.

The first eight months of the current year show a deficit of \$18 million; but it should be pointed out that in the course of the present year imports of machinery and vehicles amounted to \$335 million.

This shows that the country is making an enormous effort of capitalization, both in the oil and steel sectors and in the general re-equipment of its productive activities. It should be pointed out that, of the total amount for purchases made abroad during the first eight months of this year, \$262 million were for imports of machinery for industrial re-equipment. This represents about 35 per cent of the total imports, which shows that, in a developing economy, importers, left to themselves, tend to purchase capital goods and means of production.

Moreover it is hoped that by the end of next year Argentina will have become self-sufficient as regards oil, which will make it possible to put an end to the present importation of fuels and fuel derivatives, with an approximate saving of \$250 million a year. These import savings will make it possible to free purchasing power for other imports from abroad, preferably capital goods.

V.

BALANCE OF PAYMENTS

A similar development has taken place over the last few years in Argentina's balance-of-payments situation.

For the year 1957, there was a deficit of \$300 million. For 1958, there was likewise a deficit of \$256 million. For 1959, there was a favourable balance of \$12 million.

The total value of Argentine exports for 1959 amounted to \$1,009 million, while imports amounted to \$993 million. We hope, within the next few years, to increase exportable surpluses of cereals, meat, wool, hides, vegetable oils and manufactured products, so as to increase our purchasing power abroad.

These hopes are not based on subsidies or on excessive protection; we hope to attain our objectives through the contribution made by Argentine private capital, and also by public and private foreign capital seeking favourable opportunities in a country where the rule of law obtains, and where foreign interests are respected on an equal footing with national interests.

Since the entry into force of the law on this subject there have so far been 159 instances of foreign capital being invested in Argentina, their total amounting to \$287 million. This figure does not include foreign investments in the oil sector.

VI.

INFLATION

The struggle against inflation has also yielded effective results. Argentina has abandoned the system of subsidies and price controls, and has let free competition allow prices to find their real level.

In August 1960, the cost of living in Buenos Aires increased by only 0.4 per cent with respect to the preceding month. Today we can point to an auspicious fact which has occurred in our country for the first time for many years: in September of this year the cost of living actually decreased by 1 per cent as compared with the month of August.

If we compare these increases with those experienced during the past few years, we shall get a clear picture of the extent to which inflation has been checked. During the first six months of 1959, for instance, the cost of living rose by 75.3 per cent. During the first nine months of 1960, on the other hand, the rise was only of 6.4 per cent.

The economic situation of Argentina is rapidly improving through the efforts of all its citizens and of all those foreigners who have faith in us, although there remains much to be done in such sectors as the increase of exports and the balancing of the budget. Our presence here today represents a positive step by us towards the attainment of the first of these objectives.

VII.

FOREIGN TRADE SYSTEM

A. Exports

As we have said, Argentina has abandoned the system of State intervention in its economy, and therefore also in foreign trade. At present exports and imports take place freely and are not subject to controls, permits, quotas, or certificates. We apply no discriminatory policy in this respect.

Exportation is free, apart from certain limited exceptions of control imposed for reasons of internal supply. This is the case with oil-producing seeds, some raw materials for the manufacture of opotherapeutic products, and meat and cattle on the hoof. There is also a control on sugar, with the sole object of rationalizing the production of this commodity over a period of five years, in order to transform what has been a State-directed industry into a free one.

The commercial utilization of beryl and tungsten is in the hands of the State. Uranium and other strategic materials such as weapons, explosives and munitions are also under State control.

Apart from the specific restrictions mentioned, all exports are completely free.

Some exports of basic commodities derived from agriculture and stock-breeding are subject to the sales tax customary on the domestic market, to a few small promotional taxes and to retentive duties of 10 and 20 per cent, computed on the basis of unified prices or of index values.

These retentive duties were intended to assist in balancing the fiscal budget and avoiding too abrupt a transfer of income in favour of exporters, at the time of the foreign exchange reform of 1958. The authorities intend, as far as considerations of prudence permit, to diminish these retentive duties; this has, in fact, already been done in relation to maize, sorghum, and millet, the duties having been reduced from 20 to 10 per cent.

B. Imports

Imports are as free as exports. The few exceptions to this principle are based on the same reasons as appear in Articles XX and XXI of the General Agreement.

Argentina maintained for many years an out-of-date Tariff regulating import trade. The economic protectionism which prevailed in our country, as in others, after the 1930 depression, caused this Customs Tariff to cease being an effective instrument of import control, while at the same time subsidies, together with foreign exchange permits and quotas, made it lose its economic significance and thus become ineffective.

As from December 1958, a system of surcharges was introduced and added to the old Customs Tariff. These surcharges, of which the a priori purpose is to bring our present ineffective Tariff provisionally up-to-date, are aimed at a number of different objectives. One of these objectives is to afford a selective protection to those industries which developed under the quota and exchange permit system and which would not be able to face foreign competition without a reasonable degree of protection. Another of the basic objectives of the surcharges is to attain a levelling of our balance-of-payments situation.

- (1) The general system of surcharges operates on six categories of goods, as follows: those which are free of surcharge; and those with surcharges of 20 per cent, 40 per cent, 100 per cent, 150 per cent and 200 per cent, calculated on the basis of cost value and freight.
- (2) Against the background of this general system, current developments, our need for investment and considerations of economic development have led us to discontinue the following surcharges:

- (a) On the import of industrial machinery and motors not produced in Argentina.
- (b) On equipment for oil, coal, power, steel and railway development, if such equipment is not manufactured in the country.
- (c) Equipment and materials for ship-building, and for converting and repairing ships.
- (d) Production lines, on which no surcharge is paid if a considerable proportion of the materials used in them are not produced in the country.
- (e) Tierra del Fuego Free Zone: imports for use and consumption in this southern zone of Argentine territory are exempt from import surcharges.
- (f) No surcharge is paid on the used personal effects of immigrants, the personal effects of the diplomatic corps, wardrobe properties of theatrical companies, books, magazines and newspapers, etc., because such imports are not of a commercial nature; these exemptions are on the basis of reciprocity.
- (g) No surcharge is paid on ships over 3,000 tons and up to twelve years old, such as those for deep-sea fishing, and cold storage transport up to 3,000 tons, nor on raw materials, machinery, etc., for the building of ships, nor on floating docks, cranes, dredges, etc.
- (h) Aircraft and other goods required by central State agencies, by Argentine undertakings running regular commercial services, and by those serving human, animal and vegetable health; and parts used in the construction of aviation models.
- (i) Scientific instruments and equipment imported by the National Council of Scientific Research, by hospitals, etc., or by any other public or private non-profitmaking institution.
- (j) Road-building equipment is exempt from surcharges to the extent determined by the National Directorate of Roads.
- (k) Goods and luggage entering Argentine ports or airports in transit to a destination abroad are specifically labelled "in transit" and are, on completion of the statutory formalities, exempted from surcharges.
- (l) The inhabitants of countries directly bordering upon Argentina, residing in regions close to the frontier, may purchase for their own use and consumption certain categories of goods included in special lists.

- (3) Not only in order to discourage importation, but also in order to give due protection to our own infant industry, automobiles and certain other vehicles ("moto-coupées") are subject to surcharges, which are fixed by unit for "moto-coupées", and by kilogram of weight in the case of assembled automobiles.

In order to encourage the manufacture of automobiles in existing industrial plants in Argentina, a special system is applied to a percentage of imports decreasing progressively over a period of five years. A similar system has been instituted as regards the manufacture of tractors and internal combustion engines.

- (4) Surcharges have been suspended as regards the importation of goods coming from neighbouring countries (including Peru) and normally subject to a surcharge of up to 40 per cent, or of goods forming part of traditional trade with those countries. The same special system has been incorporated in the different trade agreements concluded with such countries as France, Italy, Federal Republic of Germany, United Kingdom, etc.
- (5) Capital investments. Industrial plants for establishment in Argentina are exempt from surcharges.
- (6) Industries established south of parallel 42° enjoy a partial and transitional system of liberalization as regards those raw materials which are not produced in the country.
- (7) The "draw-back" system has also been instituted, whereby exchange surcharges and/or customs duties may be credited to the importer, if the raw materials or products subject to such duties are to be incorporated into the manufacture of articles for export.

Finally, it should be pointed out that State undertakings and agencies pay the same surcharges as private commercial undertakings or individuals.

VIII.

THE NEW CUSTOMS TARIFF

The Argentine Ministry of Economy is drawing up a new Customs Tariff with a number of well-defined objectives, on the basis of the Brussels Nomenclature and its Additional Protocol of 1955. This will make it possible to unify the different nomenclatures at present in force; the customs nomenclature, that used for computing surcharges, and the statistical nomenclature. It is also hoped to attain the international comparability of our foreign trade figures, to simplify customs procedure and to use a nomenclature which will correspond more closely to the real nature of imports, bringing it up to date by adding a large number of new products which modern technology has made part of international trade.

The duties fixed in our new Customs Tariff will include all customs duties, surcharges and other taxes on imports, so as to reflect the true position and avoid those disturbances which the transition from one tariff to another generally brings about in a country which is undergoing a substantial change in its import system.

This Tariff will be kept up-to-date by a Customs Commission which will advise the Government on any changes which may become necessary. We hope that such changes will not be so frequent as to constitute a cause for uncertainty in foreign trade and in industrial costs, nor so difficult to achieve as to hamper the flexibility of a system which must remain in harmony with the pace of the process of national development which we are trying to achieve, and with the cost adjustments which must take place over the whole of our industry.

Once the new Tariff has been drawn up, the Argentine Constitution requires its approval by Congress.

IX.

SYSTEM OF TAXATION

Since Argentina is a Federal Republic, taxes are levied on the national, provincial and municipal levels; but, in contrast with the situation in other countries, the exercise of the power of taxation has been co-ordinated by means of agreements between the Federal Government and the different States which go to make up the Republic, so that in general there is no double or multiple system of internal taxation. Income tax is levied according to the principle of source of income, taking into account the allocation or use of the capital involved, or the activities carried out on the territory of the Republic, and does not therefore give rise to double taxation on the international level.

Taxes are in general low. For instance, the maximum rate of income tax only amounts to 54 per cent.

The Argentine fiscal system does not in general exercise discrimination in regard to the nationality or domicile of tax-payers. Only as regards the tax on the free transfer of property is there a rule, dating from long ago - and which the Government is at present trying to change - which establishes less favourable treatment for residents abroad.

There is no discrimination, either, in the field of internal taxes on consumption and sales, according to the origin of the goods taxed.

The taxation policy at present followed by the Government is intended to promote the capitalization of the country. In this sense provisions of real significance have been adopted over the past year, as for instance the deduction, for income tax purposes, of new investments, including foreign investments.

X.

FINANCIAL POLICY

The Argentine Government has followed an extremely firm policy to put an end to inflation. Monetary and fiscal policies have been subordinated to this aim.

The deficit in the governmental sector is the chief cause of the inflationary pressure to which Argentina has been subjected hitherto. This governmental deficit is also a matter of basic concern to our financial authorities.

The firm credit policy followed from 31 December 1958 onwards has consisted in a limitation of banking credits; to this end minimum deposits in banks were raised. In this way the country was for some time subjected to a sharp credit squeeze which to some extent stifled activity in industry and commerce.

This financial policy was, of course, accompanied by a wages policy in conformity with the same purposes. Although normally negotiations between workers and employers take place without official intervention, the freezing of the cost of living and the fact that banks no longer granted advances to industries which offered inflationary advantages to their workers, ensured that wage increases remained within estimated limits.

The Government, moreover, gave a good example by refraining from granting excessive pay increases to the staff of its own undertakings, while at the same time it maintained the salaries of the Central Administration staff at a low level.

This very considerable effort has produced the results shown by the cost of living index. At present, prices have become stabilized; the credit squeeze has, with the increased constancy of values, become less serious; and the investment market has begun to function in a way that corresponds more closely to the interests of a country with a stabilized economy: thus, the "black-market" rate of annual interest, which was 36 per cent during the peak of the inflation, has now fallen to 18 per cent, and the downward trend continues.

The trade union policy has also given excellent results. The understanding shown by our workers has made it possible to get through the phase of re-adjustment without the plan being endangered by strikes.

From the financial point of view, all that remains is to end the fiscal deficit; this will take rather more time, since it has at various times been necessary to effect fundamental changes, e.g. in the oil policy, the railway policy, the power policy, etc., before attaining the equilibrium we intend to reach.

Argentina has passed, within an incredibly short period of time, from an inflationist financial policy to a policy of stability, and we may say that in this respect the national monetary authorities enjoy general confidence.

XI.

INTERNATIONAL TRADE AGREEMENTS

After attaining independence, and approximately up to the 1930 world crisis, Argentina regulated its trade relations with other countries on the basis of treaties of trade and navigation, which agreed to "unconditional and unlimited most-favoured-nation treatment" and granted certain facilities to commercial traffic and navigation. Up to that time our policy was in this respect liberal and non-discriminatory.

As from 1930, because of the internal difficulties caused by the crisis, Argentina began a process of adaptation to international conditions. International trade relations began to take the form of commercial agreements which entailed bilateral reciprocity. The agreements with the United Kingdom, the United States, Brazil, Chile and Paraguay date from this period. These agreements provide for the consolidation of customs duties and agree upon certain specific exchanges of commodities.

As from 1956, there began in Argentina a process of adjustment of the old international agreements to the new conditions of world trade, and to the newer and liberalized policy instituted by the authorities. The trade and payments agreements which regulated our exchanges with Western Europe were re-adjusted on a multilateral basis, in accordance with the provisions of the Treaty of Paris, which had been jointly signed by the Federal Republic of Germany, Austria, Belgium, the Netherlands, Denmark, Italy, France, United Kingdom, Norway, Sweden, Switzerland and Finland.

More recently, as a result of the liberalization measures adopted by our country from 1959 onwards, a decisive advance has been taking place towards the liberalization and multilateralization of trade and payments.

With the countries that concluded the Treaty of Paris, the contractual provisions concerning payments systems included in bilateral instruments have, in practice, been superseded by the entry into force of the European Monetary Agreement on monetary convertibility. The trade provisions agreed with these countries remain in full force; they have been renewed by the mutual exchange of notes on the subject, all of which are of a multilateral and non-discriminatory nature. Independently of this, there are still in force agreements concerning the consolidation and amortization of debts, which had been concluded with the Federal Republic of Germany, France, the Netherlands, the United Kingdom, Italy and Japan; the provisions of these agreements are being put into effect in the form agreed.

Similarly, Argentina has denounced the trade and payments agreements which still existed with Yugoslavia, Bulgaria, Israel, Hungary, Czechoslovakia, Poland, and Rumania, as well as the banking agreement which it had signed with the Democratic Republic of Germany.

As regards the countries immediately bordering upon Argentina, it is worth pointing out that here too steps have been taken in the direction of the liberalization of payments. Bilateral accounts with Paraguay and Bolivia have been totally closed, and the bilateral account with Brazil has been partially terminated, as regards the trade in fruit. Talks have been initiated in the same sense with Chile and Peru.

At present Argentina maintains payments agreements, comprising bilateral accounts and reciprocal credits with the following countries: Brazil, Chile, Uruguay, Peru, Spain and the USSR.

Moreover, Argentina maintains conventions containing commercial clauses with the following countries: Cuba, United States, Canada, United Kingdom, Federal Republic of Germany, Austria, Belgium, Denmark, Spain, Finland, France, Greece, Italy, USSR, Japan, Norway, the Netherlands, Sweden, Switzerland, Lebanon, Paraguay, Bolivia, Chile, Uruguay, Peru and Brazil.

With Chile there is also in force an agreement which regulates the trade of a limited zone in the north of both countries, in which certain special facilities are granted, which are of no significance as regards their general international trade.

Special mention should be made of the treaty concluded in February 1960 between Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay, which sets up a Free Trade Zone and institutes the Latin American Free Trade Association. We do not consider it necessary to give details of this Treaty, since the CONTRACTING PARTIES have already taken due note of it during the sixteenth session and through the questionnaires sent, during the interval between sessions, to the Provisional Committee in Montevideo.

The setting-up of the Free Trade Zone in Latin America falls within the expressed objectives of GATT, and Argentina has done and will do everything in its power to ensure that this initiative will have all the success its importance deserves, since only a large-scale market can enable Latin American industries to work in accordance with modern techniques and at costs comparable with those of the large industrial countries of the world.

Gentlemen, I have taken advantage of your kindness, and I apologize; but we have tried to present a complete, though summary, picture of our past, our present, and our aspirations for the future.