

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/122
10 April 1971

Limited Distribution

Committee on Balance-of-Payments Restrictions

Original: Spanish

CONSULTATION UNDER ARTICLE XVIII:12(a) WITH ARGENTINA

Basic Document for the Consultation¹

1. Legal basis for the restrictions

(a) On 30 June 1971, by Decree No. 2118, the Argentine Government ordered the temporary suspension, for a period of one year, of imports of goods which, because of their nature or intended utilization, were not essential for the country's economic development and whose purchase abroad adversely affected the balance of payments.

No differentiation was made between the goods on the grounds of origin or provenance, and, in accordance with the provisions of the Decree (L/3615/Add.1), the suspension was to come to an end on 30 June next.

(b) By Act No. 19,242 of 17 September 1971 this measure was extended and all imports became subject to a general and temporary suspension until 31 October 1971; in other words, imports were completely suspended because, in addition to the continuing serious disequilibrium in the Argentine balance of payments, reflected in the progressive decline in foreign exchange reserves, there had been an unusual increase in purchases abroad, which much exceeded the normal requirements of the domestic production process.

This general suspension of imports terminated on the specified date and the measure was then withdrawn.

(c) In view of the fact that the suspension had to a large extent produced the desired effect of checking excessive purchases abroad, the Argentine Government considered that less strict measures might be introduced. On 1 November 1971 two new Acts - No. 19,326 and No. 19,327 - came into force. By the first of these, the suspension was confined to purchases made abroad by the public sector. This measure was introduced because imports by government bodies were a heavy burden on the balance of payments; the Executive was empowered to abrogate it when circumstances permitted, and, until then, the Ministry of Industry and Mining was empowered to authorize the importation of goods that were essential for the supply and equipment of the country.

¹Supplied by the Argentine authorities.

As part of a further effort to bring about an improvement in the balance of payments, the second Act, No. 19,327, introduced an additional import duty of 15 per cent, to be applied regardless of the origin or provenance of the goods. Under the provisions of Article 10 of Act No. 19,367 of 15 November 1971, this surcharge was to be reduced to 10 per cent from 1 February 1972 and to 5 per cent from 1 March 1972, and to be withdrawn on 1 April of the present year.

The Argentine Government, taking into account the temporary and emergency character of this surcharge and the fact that the measure had been sufficiently successful in checking purchases abroad, and above all because it is meticulous in the observance of its international commitments, especially of those it has assumed under the GATT as a contracting party, abolished this surcharge on 22 February 1972, i.e. before the specified date, under Act 19,501 (document L/3685).

2. System and methods of the restrictions

Under the above-mentioned Act No. 19,326, suspending imports of goods for government bodies, an exception was made in the case of goods which on 21 October 1971 were in an Argentine port or embarked for Argentina, and of all goods which on that date were covered by an irrevocable documentary credit for the total value of the goods. The same Act also provided that the exceptions that would necessarily have to be made while it was in force must be authorized by the Ministry of Industry and Mining by means of a certificate issued before customs clearance was given.

3. Import régime

Argentina's import trade is based on the principle of non-discrimination. Like products are subject to the same customs duty, regardless of their origin and provenance. Apart from what has been mentioned and from its obligations as a member of the Latin American Free Trade Association, Argentina has no import licensing or global quota system, or other non-tariff system hampering the development of import trade; nor is there any State trading.

4. Exchange régime

In order to make the exchange market more fluid, under Decree No. 3952 of 17 September 1971 the exchange market was divided into two, the commercial rate of exchange being fixed at M\$N 5 per US dollar while a financial market with a variable rate of exchange was established, through which all financial transactions now pass.

Subsequently, under Decree No. 4320 of 24 September 1971 the Central Bank of the Argentine Republic was empowered to define and regulate exchange transactions by establishing the conditions applicable to imports of goods and determining through which market - the commercial market or the financial market - such operations were to be effected.

Accordingly, on 25 October 1971 the Central Bank decided that payment for imports was to be made through the commercial exchange market to the extent of 80 per cent of the f.o.b. value at port of embarkation, the remaining 20 per cent to be paid through the financial exchange market. Subsequently, on 9 December 1971 these amounts were adjusted to 70 and 30 per cent respectively.

In respect of gold, books, printed matter, newspapers, periodicals and other publications, payment abroad is made entirely through the financial exchange market.

On 23 February 1972, it was decided that payment for imports of goods could be made through the commercial exchange market to the extent of 57 per cent of the f.o.b. value at port of embarkation and the remaining 43 per cent through the financial exchange market. Since that date, imports of pearls, diamonds, platinum and palladium have been paid for entirely through the financial exchange market. Lastly, on 20 March last a further adjustment was made in the proportions, so that payment is now made to the extent of 64 per cent through the financial exchange market, and 36 per cent through the commercial exchange market, representing approximately an average commercial rate of exchange of M\$N 8 per US dollar and a further de facto devaluation of approximately 14 per cent in the average rate of exchange. This measure does not affect imports of goods for which payment was already being made entirely through the financial exchange market.

It should also be noted that there has been no change in the fiscal régime applicable to imports.

Since the establishment of the dual market, and as a result of the various adjustments made to the proportions of foreign exchange to be negotiated, by transferring to the financial exchange market, part of the transactions effected in the commercial exchange market, together with the continuing devaluation of the financial rate of exchange, the average effective rate of exchange has moved from M\$N 5 to M\$N 8 per US dollar for all imports. In other words, there has been a 60 per cent adjustment in the commercial rate of exchange in relation to the US dollar over a period of six months.

Through these exchange measures, the Argentine Government has pursued a realistic policy and intends to continue doing so in the future, in order to avoid having to impose restrictions of some other kind in order to remedy the balance-of-payments deficit.

5. Balance-of-payments situation

During 1971 the balance of payments of the Argentine Republic deteriorated to the extent of approximately US\$840 million, from an overall surplus of US\$300 million in 1970 to an overall deficit of US\$530 million in 1971. Approximately two thirds of this aggregate decline was on capital account, and one third on current account, within which the trade deterioration accounted for 85 per cent.

In 1971 Argentina's trade balance was in deficit, as a result of a decline by 4 per cent in the value of exports and a pronounced increase (by 12 per cent) in the value of imports. The decline in the value of exports reversed a trend that had been characterized by appreciable annual increases and was in contrast with the medium-term trend, and with estimates for the years 1972 and 1973. On these grounds, Argentina had recourse to compensatory financing within the IMF at the end of February 1972, in an amount equivalent to 64 million in special drawing rights.

In the case of meat, for example, foreign shipments of livestock and of meat and sub-products of cattle, sheep, pigs and horses totalled 649,646 tons and 121,182 head of cattle last year as against 1,127,856 tons and 167,065 bovine animals on the hoof exported in 1970, representing earnings of US\$538.5 million in 1971 as against US\$601 million in the preceding year. It should be noted that while the volume of these exports decreased by nearly half, the decline in foreign exchange earnings was proportionately smaller because of the increase in world market prices.

A similar situation developed in 1971 with respect to other products which are of importance for Argentina, due mainly to weather conditions. As a result, there was a slowing down in the growth of export values as recorded in recent years, and indeed the value of exports was lower than in the preceding year. At the same time, imports increased rapidly, to a level above the country's normal supply requirements and even reaching excessive proportions, causing a deficit in the trade balance for the first time since 1962, and adversely affecting the country's balance of payments to a significant degree.

The increased deficit in the services and transfers sector is mainly attributable to the increase in interest payments abroad by the private sector. Lastly, the substantial deterioration in the capital account is almost entirely attributable to short-term private capital movements. Net capital receipts in the public sector were above the level recorded in 1970.

In 1971 Argentina's total external indebtedness (public and private) increased, with some slight change in composition. Whereas in 1970 public indebtedness (capital) had shown a moderate increase and private indebtedness had risen substantially, in 1971 public indebtedness increased by 18 per cent and private indebtedness, according to estimates established at the end of the first six months, increased at an annual rate of 10 per cent. The servicing of public indebtedness (capital and interest) which is estimated at approximately US\$620 million for 1972 and US\$520 to 540 million for each of the two ensuing

years, has had a negative effect on the balance of payments. For 1972 the figure mentioned represents somewhat more than one third of the value of exports in 1971, the "interest" component 24 per cent of total servicing and the "capital" component 19 per cent of public indebtedness (capital) as at 31 December 1971.

It is our hope that Argentina's balance of payments will recover from this situation as soon as possible, because the Government is firmly resolved to pursue a policy of expanding exports as being a better way of overcoming the trade deficit than resorting to import restrictions in order to restore equilibrium. It is also the Government's intention to eliminate import restrictions on State purchases, to the extent that the balance-of-payments situation permits. To this end, the Government hopes that Argentina can be assured of access to the principal import markets and that the emergence of regional trading blocs or other preferential schemes will not stand in the way of free trade.