

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

BOP/147
24 June 1974

Limited Distribution

Original: Spanish

1974 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH CHILE

Statement Submitted by Chile under the
Simplified Procedures for Consultations¹

BALANCE-OF-PAYMENTS POSITION AND PROSPECTS

On the occasion of Chile's last report, presented for consideration in 1969, the Chilean delegation announced that the improvements in the balance of payments was making possible a gradual liberalization of trade and a consequent relaxation of restrictions, particularly in respect of prior deposits on imports. Indeed, in January 1970, such deposits were almost all abolished and various products were added to the list of permitted imports. These measures were made possible by the increase in the country's international reserves and by the exchange and trade policy pursued.

During the second half of 1970, however, a new economic policy was adopted which modified the exchange policy of periodic devaluations and established a fixed rate of exchange. At the same time, the monetary policy resulted in large issues of bank notes. These developments caused the rate of exchange to become unrealistic, with the result that exports fell off and, at the same time, acute distortion appeared in the price system and in the relation between internal and external prices. Needless to say, this distortion became greater as the inflationary process continued.

Within a relatively short period of time, this situation led to an exhaustion of foreign exchange reserves and to heavy short-term indebtedness in order to satisfy import demand. It therefore became necessary to intensify restrictions and to establish a system of prior deposits of 10,000 per cent on many products. At the same time, a system of multiple rates of exchange was established.

¹L/3772/Rev.1

On taking up its functions, the Junta initiated a series of measures intended to eliminate distortions and discriminations in the economic system. To this end, it established a realistic exchange rate, lifted numerous restrictions on imports, eliminated numerous de facto discriminations against importers, established an external debt policy and re-established mechanisms which permit the free play of competition between producers to encourage efficiency in production and a better use of resources. The monetary authorities have constantly adjusted the exchange rate by periodic devaluations. Likewise, the great majority of prior deposits has been abolished and substantial tariff reductions have been undertaken to permit competition. A more detailed account of the measures taken to this effect will be given below.

Evolution of the balance of payments

The favourable balance-of-payments situation achieved during the years 1965-1970 became extremely unfavourable as from 1971, with annual deficits exceeding US\$300 million between 1971 and 1973, a figure which does not take account of arrangements prior to the cessation of servicing of the external debt in 1971 and its subsequent renegotiation.

The trade balance, which is of particular interest in this statement, showed a considerable deterioration between 1970 and 1973, falling from a surplus of US\$85 million in 1970 to a deficit of US\$319 million in 1973.

<u>Trade balance</u>	
(in \$ million)	
1970	85
1971	-110
1972	-498
1973	-319

The forecasts for 1974 indicate an improvement in relation to recent years, despite the negative effects of the energy crisis, with tremendous increases in prices of fuels, lubricants, many raw materials and various agricultural products in addition to a pronounced impact on freight costs.

Looking in closer detail at the forecasts for 1974, it is estimated that the trade deficit will reach US\$280 million, on the assumption that the average price of copper for the year is 90 cents per lb.

Exports of goods are expected to be at least 40 per cent above the 1973 level, as a result of increased exports of copper, together with a considerable increase in shipments of industrial products and the beginning of recovery in agricultural exports.

As regards copper exports, while world prices of this metal have reached all-time record levels, mention must also be made of the internal effort which has resulted in a nearly 20 per cent increase in copper output. It should also be underlined that the analysis of future prospects was based on the premise of an average price of only 90 cents per lb. for the year, and that a more satisfactory result can be expected given the effective quotations in the first quarter of this year.

Exports of industrial products are expected to be 30 per cent over the 1973 level, including a very pronounced increase in shipments of cellulose manufactures, the value of which is estimated at US\$75 million. A more moderate increase, in the vicinity of 27 per cent, is expected for exports of nitrate and iodine.

On the import side, examination of the situation is most complex because of the very substantial increases in international prices of agricultural products, fuels and lubricants. In any case, and in order to have a better indicator of the domestic production effort, one can consider separately the evolution of current imports. Whereas in 1970 these reached US\$630 million, they are expected to reach US\$1,720 million in 1974. The growth rate was 19 per cent in 1971, 23 per cent in 1972 and 1973 and a rate close to 30 per cent is expected for this year. Considering that the value of imports of fuels and lubricants alone has risen by about 230 per cent in 1974, and furthermore that world prices of those agricultural products of greatest relative importance for the structure of our imports are rising by at least 40 per cent in relation to 1973, one can have some idea of how encouraging it is for Chile to see that the increase in current imports is not exceeding 30 per cent; even if the relative share of foodstuffs and fuels in total imports of current goods in 1973 and 1974 remains in the vicinity of 55 per cent, it is an indication of the effort and reorganization made in respect of domestic production that the share of foodstuffs has declined from 45 per cent to 30 per cent, allowing the share of fuels to increase from 9 per cent in 1973 to 26 per cent in 1974.

Import duties

Under the customs tariff brought into effect by Legislative Decree No. 10 of 1967, ad valorem duties are applicable on the c.i.f. value of the goods for more than 80 per cent of all tariff headings, and mixed duties (specific and ad valorem) are applicable to the other headings. As from 31 December 1973, the mixed duties have been changed, and most of the specific duties have been replaced by ad valorem ones. At the same time, the results of the GATT negotiations are being maintained.

The specific duties are expressed in gold pesos per physical unit of goods (kilogramme, litre, etc.). The parity between the gold peso and the United States dollar is determined on the basis of the fine gold content of each currency. It used to be 4.85461 pesos per United States dollar until the devaluation of the latter currency. The current equivalent is 4.02442 pesos to the United States dollar following the second official devaluation.

For the purpose of calculating duties in current Chilean currency, the par value of the dollar and other foreign currencies is determined in accordance with instructions issued from time to time by the Central Bank of Chile.

The new import duties negotiated within LAFTA are brought into effect each year by decrees.

The various lists of the Liberalization Programme of the Cartagena Agreement were brought into effect in Chile by the following Ministry of Finance decrees: Nos. 893 and 1138 of 1970; 663, 664 and 797 of 1971; and 132, 133 and 1505 of 1972.

The Common Minimum External Tariff of the Andean Sub-Region is applied in accordance with the provisions of Ministry of Finance Decree No. 1030 of 1971 and in pursuance of Decision No. 30 of the Commission.

GATT Schedule VII, setting forth the concessions granted by Chile within the framework of the General Agreement, was brought into effect by Ministry of Finance Decree No. 2291.

Other charges

Since 1966, the tax established by the Law on Stamp, Seal and Sealed Paper Duties has been replaced by a 3 per cent charge on the c.i.f. value of imports, collected when the import is registered by the Central Bank. Subsequently, in 1971, the Executive was authorized to raise the tax rate to 10 per cent, but this increase has not been made.

Also since 1966, a customs clearance charge is made on imports which are entirely or partly duty free; at the present time this charge is at the rate of 8 per cent of the customs value (c.i.f. value with the adjustments allowed by the Brussels Definition of Customs Value). The Executive is empowered to exempt any product from this charge, and in fact has granted exemption to a broad range of imports.

Lastly, a special tax, amounting to 10 per cent of the customs value of the goods, has been imposed since 1971 on imports which are entirely or partly duty free. This is not applied on a large number of imports exempted by Law No. 17564 which established the tax, or by supreme decrees subsequent thereto.

Other instruments regulating imports

(a) Prohibitions

In accordance with the general principle underlying the foreign trade régime - as set forth in Decree No. 1272 of 1961 - any goods included in the List of Permitted Imports may be imported in any quantity. Goods not included in that List are deemed to be prohibited for import. The prohibitions do not affect imports of products originating in member countries of the Cartagena Agreement (exceptions list and/or sectorial reserve programmes) nor goods negotiated within LAFTA.

(b) Licences

There are no licences in the general régime, but only as exceptions within the special régime, under Law No. 12008. Nevertheless, in periods when the balance of payments shows a large deficit the Central Bank is authorized, under Law No. 16101, to reject all import applications for any product included in a heading of the List of Permitted Imports if imports of that product are in excess of 5 per cent of average imports for the heading concerned in the past twelve months. It should be noted, however, that this provision has not been invoked since 1966.

(c) Quotas and like measures

There are none. In the period from 1971 to September 1973 a quota system based on an import programme was applied. This system, which established quotas for importers, was abolished by the Governing Junta because it had been an element of discrimination. As an exceptional measure the legal provisions establishing reductions, exemptions or special import régimes determine import quotas for certain goods.

(d) State monopolies

The Agricultural Trade Enterprise is the only body with a de facto monopoly for importing certain foodstuffs of agricultural origin such as wheat, maize, meat, etc. This State monopoly is applied solely for administrative reasons. In 1974 it was eliminated on certain imports, such as tea.

(e) Prior deposits

On the occasion of the last consultation, in 1969, Chile stated that in view of the minor importance of prior deposits on imports at that time and because of the outward-looking policy pursued in respect of foreign trade, this type of restriction would be eliminated. Indeed these restrictions were abolished in January 1970 and only a small number of items remain subject to the prior deposit system.

Subsequently, in 1971, because of the change in economic policy, the balance-of-payments difficulties mentioned above and the decision of the Government to centralize foreign trade to a greater extent, a prior deposit of 10,000 per cent was established for most items in the list of permitted imports. This treatment affected approximately 70 per cent of all the items in the list. Because of the prohibitive amount of the deposits, they were not made in practice, but importers had to request an exemption whenever applying for registration of an import transaction by the Central Bank; this system was therefore very restrictive and particularly discriminatory for the users.

In October 1973 the Government established systems of exemption from the 10,000 per cent deposit which were more automatic and more general, thus avoiding any discrimination between importers.

In April 1974 the Central Bank decided to abolish the 10,000 per cent prior deposits, leaving them in force, on a provisional basis, only in respect of 56 tariff headings; this implied a more rapid process of relaxing restrictions and more than 2,500 tariff headings which had previously been subject to this obligation and this control system were released therefrom. In addition, this measure allows import formalities to be carried out more rapidly.

In any case, prior to the elimination of prior deposits, various imports had been exempted, including in particular imports covered by special legislation, raw materials and various pharmaceutical products as well as products originating in countries of LAFTA and the Andean Pact. Nevertheless this latter category of imports has been covered since October 1972 by safeguard clauses which allows the Central Bank to make them subject to the same prior deposit régime as imports from other countries.

(f) Consular fees

These fees have been legally abolished.

(g) Customs valuation systems

The Brussels Definition of Value for Customs Purposes was adopted in 1967 (Ministry of Defence Decree No. 12 of 1967). Nevertheless official minimum prices are in effect for some ten products (refrigerators, cutlery, etc.).

(h) Other

There are special regulations or prior endorsements for the customs clearance of certain products in respect of public health, quality, arms and explosives, etc.

Description of systems of import duty exemption or reduction

Chile has an abundant legislation on special import systems. It is therefore expedient to be selective in this matter and to cite only a few examples of those systems which have actually been applied in recent years and which are, moreover, of economic importance.

It cannot be said that there are special systems of duty exemption or reduction which take account exclusively of the product concerned. The determination of products eligible for exemption always depends either on the qualification of the importer or the use or final destination of the product. Thus, for instance, wheat may be imported duty free provided it is imported by the State body called the Agricultural Trade Enterprise, and imports of certain types of machinery and implements may benefit from special treatment provided they are to be used for agricultural work.

The economic policy currently being carried out is intended to rationalize and reduce the exception systems drastically, since, apart from establishing privileges, they can lead to inadequate use of the country's resources. A study of the problem is under way.

Systems of import duty exemption or reduction

The principal exception systems from which imports still benefit are listed below:

(a) Sectorial

By way of example, the following may be mentioned:

- Copper-Mining Industry - Law No. 11828
- Iron and Steel Industry - Ministry of Finance Decree 2141/68
- Nitrate Industry - Ministry of Finance Decree 1228/68

(b) Individual (enterprises and institutions)

By way of example, the following may be mentioned:

- Agricultural Trade Enterprise - Legislative Decree No. 274 and 88;
Law No. 15142
- Municipal Services - Legislative Decree No. 240
- Fire Brigade - Law No. 9839
- Universities - Law No. 11519
- International Organizations ECLA - Decree No. 433

(c) Zonal

- Department of Arica - Law No. 13039 and the amendments thereto
- Food-Supply Free Zone. (Provinces of Tarapacá and Antofagasta and Departments of Chañaral, Copiapó, Huasco and Freirina) - Laws No. 12858 and 16590
- Industrial Franchise Zone. (Departments of Iquique, Pisagua, Tocopilla, Taltal and Chañaral) - Law No. 12937
- Provinces of Chiloé, Aysén and Magallanes - Law No. 12008

(d) International Agreements

By way of example, the following may be mentioned:

LAFTA: A National Schedule, Special Lists for countries at a relatively less-advanced stage of development and a few Industrial Complementarity Agreements are in force in Chile.

GATT: The concessions granted by Chile are set forth in Schedule VII, as published in Decree No. 2921/70 and supplemented by Decree No. 2201/68.

Quantification of restrictions on imports

Quantification of customs duties and of duty exemptions and reductions.

The tariff level can be quantified on the basis of the amounts actually collected and those no longer charged as a result of the exemptions granted. The latest available information, dating from 1972, indicates that an amount corresponding to 24.6 per cent of the c.i.f. value of imports was actually collected and that, as a result of the exemptions, an amount corresponding to 30.3 per cent of the c.i.f. value of imports was no longer levied. The total value of c.i.f. imports amounted to US\$941,118,620, according to the calculations of the Customs Administration.

Quantification of other instruments regulating imports

The effect of non-tariff restrictions since the date of the last consultation is difficult to quantify, not only in respect of defining a methodology but also on account of variations in import policy. It may be noted that, in 1971, such restrictions increased substantially and that, since October 1973, they have been decreasing. Since April 1974, their effect has noticeably diminished.

For this reason, non-tariff restrictions cannot be quantified with any acceptable approximation.

It must be taken into account that the decision not to include a product in the list of permitted imports can be based on various considerations, such as its classification as a non-essential or luxury item. The criteria themselves can be modified having regard to the balance-of-payments situation. Consequently, and particularly during a period such as that mentioned above, it is not feasible

to adopt a uniform method of quantification for all import restrictions. Moreover, whatever method is chosen is likely to be quite complex and may be technically open to question. Thus, for example, if one opts to compare international market prices with the domestic market prices of the importing country, one must allow for the system of taxation, trade margins, etc.

Effect of restrictions and policy pursued recently

The balance-of-payments difficulties which arose as from 1971 led the monetary authorities to introduce a system of prior deposits of 10,000 per cent which has been described above. This mechanism was supplemented by a policy of multiple exchange rates so that it was discriminatory and did not suffice to prevent disequilibria in the balance of payments. At the same time, the drop in the price of copper and the stagnation of copper production constituted negative factors in the development of the trade balance. Likewise, the decline in agricultural production had the negative affect of increasing imports from US\$150 million in 1970 to nearly US\$600 million in 1973.

Since October 1973, the new authorities have substantially devalued the Escudo, establishing a realistic exchange rate for foreign currency and, at the same time, abolishing multiple exchange rates. They have also adopted a system of periodic adjustment of the rate of exchange in relation with internal inflation. The maintenance of a realistic exchange policy, in conjunction with the monetary policy pursued, constitutes an important part of the means which are being used to achieve equilibrium in the balance of payments.

Prospects concerning tariff policy and other instruments to regulate imports

To define the principles already mentioned, in January 1974, the Minister of Finance formulated the rules the country would follow in respect of tariffs. The most important points are described below.

The tariff system which will finally be established will be determined essentially by the degree of protection it is considered advisable to give to national sectors. This means that customs duties will not be used to achieve aims other than those mentioned above, such as, for instance, the restriction of non-essential imports, the securing of larger fiscal receipts or the solution of temporary balance-of-payments problems. It also means that, in future, recourse to other instruments to regulate imports (quotas, deposits, licences, etc.), which have been extensively used in the country's foreign trade, will be avoided. Lastly, in order that the tariff may fully achieve its basic objective, it will

have to be applicable to all imports. Thus the policy will be that the relevant customs duty will have to be paid on all imports, regardless of whether they are effected by the public or the private sector. Moreover, in addition, a detailed analysis will be undertaken of all existing special systems and, as a general rule, discriminations resulting from customs duty exemptions will tend to be eliminated.

Likewise, in the context of the general criteria that will determine tariff policy, it must be remembered that Chile is a member of the Latin American Free Trade Association (LAFTA) and the Andean Group. This means that it has taken on certain international obligations which will naturally influence the final structure of its tariff. Indeed, in the near future, a single tariff is to be established in several Latin American countries, including Chile.

Lastly, it is expected that the tariff reform and the revision of the other instruments regulating imports should be fully achieved within a period of not more than three years (as from January 1974).

In pursuance of the above-mentioned aims, the following corrective measures have been taken with immediate effect:

- (a) All ad valorem duties exceeding 220 per cent have been reduced to 200 per cent.
- (b) Ad valorem duties of between 50 per cent and 200 per cent have, as a general rule, been reduced by 10 per cent of the actual rate, subject to the following limitations:
 - (1) The scale of ad valorem duties was made up solely of tariffs which are multiples of 5 per cent, so that any ad valorem duty which is not a multiple of 5 per cent has been approximated to the nearest corresponding rate.
 - (2) Where the resulting ad valorem duty is lower than the Minimum Common External Tariff, the latter has been adopted.
- (c) Existing prohibitions on the import of certain types of goods will continue in force for the time being. As a general rule, however, where the purpose is to limit internal consumption of the products concerned, the prohibitions will be lifted and replaced by suitable consumption tax mechanisms without discriminating between the domestic or imported products.
- (d) In respect of customs duties, State or mixed enterprises will be treated in the same way as private enterprises. In addition, as a general rule, no further applications for duty exemptions on specific import transactions are to be granted.
- (e) The specific duties which still remain will very shortly be transformed into ad valorem duties and adapted to the new levels. Only in cases of absolute necessity will a few specific duties be maintained.
- (f) Revision of values in accordance with the rules laid down by the Brussels Valuation Committee will be urged and encouraged.

After the adoption of these measures by Decree No. 453, the maximum duty rate of 200 per cent was reduced to 160 per cent, and a simultaneous reduction was made in the other rates.

EXPORT REGIME

Exports are duty-free. By way of exception, in the case of iron ore, a small specific duty per ton of ore is charged.

Instruments to regulate exports

(a) Prohibitions

The Ministry of Economy is authorized to prohibit the export of certain products, for one year.

(b) Quotas and the like

The Ministry of Economy fixes export quotas for a few products, for the purpose of ensuring the supply of the domestic market. This practice is of limited scope.

(c) State monopolies

By law, any person may freely export any goods not subject to prohibition or quotas. As an exception to this general rule is copper raw material, which is marketed exclusively by CODELCO if the copper comes from the Copper Mining Company. All other copper raw material is subject merely to inspection by CODELCO.

(d) Other

There are the usual controls such as quality, sanitary and other controls, carried out by various public services: Central Bank, Ministry of Agriculture, Customs, etc.

Export promotion régimes

Customs mechanisms:

(a) Export duty exemption. Law No. 16528.

(b) Temporary admission. Customs Ordinance and Law No. 16528.

- (c) Replacement of raw materials and inputs used in products for export. Ministry of Finance Decree No. 409 of 1970.
- (d) Industrial warehouse. Customs Ordinance, Law No. 16,528 - Legislative Decree No. - 4/67.
- (e) Import duty exemption for capital goods used in the production of goods for export. Legislative Decree No. - 257/60.

Fiscal mechanisms

- (a) Internal tax exemption - Law No. 16528.
- (b) Refunding of internal taxes - Laws No. 16528 and 17,033.