

GENERAL AGREEMENT ON TARIFFS AND TRADE

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EXPANSION OF TRADE - AGRICULTURAL POLICY

REPORT OF COMMITTEE II ON THE CONSULTATION WITH

C H I L E

1. In accordance with the Decision adopted by the CONTRACTING PARTIES at their fourteenth session, that consultations should be held with individual contracting parties regarding their agricultural policies, the Committee carried out the consultation with Chile. The Committee had before it the following documents:

- (i) document COM.II/2(y)/Rev.1, dated 9 December 1960, which contained a synopsis of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers, furnished by the Government of Chile;
- (ii) document COM.II/101, dated 22 December 1960, which contained statistical information, also supplied by the Government of Chile on agricultural products entering importantly into international trade.

The consultation was completed on 5 December 1961.

A. GENERAL AGRICULTURAL POLICY

2. In his introductory statement the representative of Chile described the general conditions of agriculture in his country. Only 11 million hectares, constituting 15 per cent of the total area of Chile, could be considered as agricultural land, and only half of this was arable land. The best agricultural area was in the central region of the country, but the configuration of the soil and bad rainfall distribution necessitated the construction of highly expensive irrigation works in that area.

3. The representative of Chile pointed out that his Government had initiated in 1956, in the framework of the general economic plan of the country, a continued process of liberalization and had now eliminated practically all obstacles to internal and external trade. The internal price controls were fully removed, with the exception of prices for wheat and rice, which were fixed annually by the Government. Prices of meat were free of control and domestic consumption was encouraged by the exemption from customs charges of imports of live cattle for

slaughter. The Government of Chile had abolished recently the system of advance deposits on imports and had replaced this system, in line with the authorization given by the CONTRACTING PARTIES on 27 May 1959, by the levying of surcharges. These surcharges would be abolished completely after the entry into effect of the new Customs Tariff.

4. With regard to State trading, the representative of Chile referred to the existence of the Agricultural Trading Company, "Empresa de Comercio Agrícola (ECA)". It was not the objective of this agency to intervene in agricultural trade in a monopolistic way. The Government, however, was empowered to afford ECA a monopoly on imports of wheat for human consumption when this was considered necessary, but so far this power had not been used. In practice wheat importations by ECA were exempted from customs charges. With regard to meat and other agricultural and livestock products, ECA could be authorized to intervene on the domestic market. ECA could also be authorized to effect imports or exports of agricultural products in general but not as a monopolistic agency.

5. The representative of Chile further explained that Chilean agriculture had not developed sufficiently as to meet the growing demand for foodstuffs. A Production Development Board had elaborated, in the framework of the national programme of economic development, 1961-1970, long-term plans for promoting agricultural production, rather on the basis of greater yields than through the extension of cultivated land. The objective was to increase production by a more intensive use of the available means of production. The plans over the ten-year period included an appreciable extension of the irrigated area, soil reclamation, the promotion of fruit production, the construction of fruit packaging and dehydrating plants, the construction and enlargement of dairy factories and of cold storage plants. A new law for the development of agricultural and livestock production had been submitted to Parliament. This law included provisions for the exemption of customs charges on certain seeds, fertilizers and herbicides; a bonus system would be established on the prices of genetic and certificated wheat seeds and seed potatoes; the establishment of slaughterhouses would be promoted by tax facilities; measures would be taken for improving agricultural conditions by better parcelling of land, by improving conditions of lease, by the avoidance of erosion and by the recuperation of eroded areas; in order to promote the concept of "family farms" and to avoid an excessive division of land, the law laid down certain basic norms and limitations on land division for farms allocated from State lands.

6. The representative of Chile stated, in addition, that the economic development plan included certain measures such as a fertilizer subsidy, the extension of farm credits, the promotion of agricultural research and re-forestation, the increase of cattle population, the encouragement of settlement in new areas and the construction of roads and irrigation works. In carrying out this programme, the Government of Chile received valuable assistance from the FAO, the Government of the United States, the Organization of American States and from private foundations, such as the Rockefeller Foundation.

7. With regard to subsidies, the representative of Chile explained that his country had only a limited system for subsidizing agriculture. The purchase of fertilizers was subsidized by means of a bonus; a reduction was afforded on rail freight charges for certain agricultural products. A fiscal bonus on the exports of wines was fixed annually and granted directly to the exporters. In order to stabilize the price of wheat and rice, the purchase and selling prices were fixed by the Government. These were the only products subject to price intervention by the Government, the objective of which was to stimulate production and protect the consumer.

8. In concluding his opening statement, the representative of Chile stated that his Government had recently placed special emphasis on the channelling of bank credits towards agricultural and livestock production. Thus in the year 1959 investments in agriculture increased from 72 million escudos to 97 million escudos. Furthermore, the Production Development Corporation and the State Bank had been authorized to grant controlled loans for agriculture under terms and conditions suitable to the agricultural producers. During 1960 this policy was maintained and the total credits for agriculture almost reached 90 million escudos.

9. Referring to the numerous projects which the representative of Chile summarized in his opening statement, a member of the Committee enquired as to the methods by which the Government of Chile proposed to finance them. The representative of Chile explained that in 1954 his Government embarked on a long-term agricultural and transportation programme which was partially financed through the aid received from the United States under Public Law 480. After the serious setback caused to the economy of the country by the natural disasters which occurred in 1960, the Government of Chile drew up another development plan covering the ten years from 1961-1970 and the projects started in 1954 were also incorporated in it. This Development Plan had been designed with a view to improving the overall economy of the country. The Government proposed to spend 939 million escudos on the agricultural sector during the Plan period, and this expenditure would be met both by the Government and by private initiatives. The private sector and the Government would raise funds from internal capitalization and from foreign loans. One of the many foreign sources would be the United States Public Law 480.

10. Members of the Committee enquired whether the Development Plan 1961-1970 stipulated any target figures for agricultural improvements and whether it was designed to attain self-sufficiency in foodstuffs. The representative of Chile stated that the Plan aimed, among other things, at an increase in the irrigated area by 375 million hectares, soil reclamation of 150 million hectares and an increase in the fruit production area of 43 million hectares. It was expected that agricultural production would increase, but Chile did not aspire to complete self-sufficiency in agricultural production. The farm policy was designed with a view to attaining a higher level of production only in respect of those agricultural products which could be economically produced. In his opinion there was no object in channelling efforts to increase production of those agricultural commodities which were not suited to the agronomic conditions of the country.

11. A member of the Committee noted that 30 per cent of the country's active population was engaged in agriculture and enquired whether there was any scheme by which the Government encouraged the shift of labour from the agricultural sector to different occupations, or whether this movement was left to the normal forces at play. The representative of Chile stated that there was a certain variable trend for agricultural workers to move from agriculture to industry, due to better living conditions prevailing in the towns, but the Government did not in any way stimulate or discourage the movement of population out of agriculture.

12. Replying to a question with regard to the diversification of the agricultural production, the representative of Chile explained that due to its very special geographical location, Chile was endowed with a great variety of climatic conditions. The policy of his Government was not directed towards promoting any particular diversification of agricultural production, but only towards increasing production of those species and varieties which were best adapted to the agronomic conditions in each region of the country, thus promoting the diversification of production in general. The natural conditions of Chile were very well suited to the production of, among others, certain fruits, horticulture, wines, pulses and certain types of oilseeds.

13. A member of the Committee referred to the Montevideo Treaty which contained a provision authorizing, during the transitional period, and under special circumstances, the maintenance of certain limitations on trade competition between member States in respect of agricultural products and enquired whether the representative of Chile could give some more information on this particular aspect of the Treaty. The representative of Chile stated that Article 23 of the Montevideo Treaty provided the possibility for member States to limit imports of agricultural products from the other member States, or to equalize the prices of the imported and domestic products. This provision gave Chile a right which could be used if necessary, provided that the conditions stipulated in the Article were satisfied.

14. In reply to various questions by members of the Committee, the representative of Chile explained that the Agricultural Trading Company (ECA) had recently replaced the INACO. The new organization was a State corporation possessing legal status and with its own separate financial resources. At present ECA dealt only with the importation of wheat and not with the import of other products. There were, however, legal provisions under which the Government could authorize ECA to deal also with the import of other agricultural products. These provisions would only be applied when the Government considered it necessary in view of unusual circumstances. ECA in its present operation was not formally a monopoly but wheat imports by ECA benefited from an exemption from import charges, so that by this special customs regulation, ECA in fact was the exclusive importer of wheat. However, the Government had no legal impediment to extend this benefit to importers other than ECA.

15. In reply to a request for further information in respect of subsidies, the representative of Chile stated that only three types of subsidy were applied: a subsidy on the purchase of fertilizers, an export bonus for wines and a reduction on the cost of railway freight for certain agricultural products. With regard to the subsidy on fertilizers, he further explained that the amount of the bonus was fixed annually by the Minister of Economics. The subsidy was paid directly to the producers through the State Bank. The total amount of bonuses paid in 1960 amounted to 10.6 million escudos. The bonus was paid on the purchase of both national and imported fertilizers. A similar subsidy scheme was applicable to the export of wine. The bonus was fixed annually and granted directly to the exporters. The total amount paid in 1960 amounted only to 90,000 escudos. With regard to the cost of transportation, a reduction on rail freight was granted, varying according to the region and to the commodity. The reduction could amount to up to 53 per cent for railway freight charges to the northern part of the country.

16. A member of the Committee considered that the reduction on transportation costs was necessary in view of the very special configuration of Chile. The cost of living would be very high if the transportation of agricultural foodstuffs had been subject to the normal rail freight charges. In his opinion, this subsidization should rather be considered as a subsidy to the railways than a subsidy to the agricultural producer. The representative of Chile explained that this subsidy was not a bonus but only a reduction on transportation costs, and was a stimulus to agricultural producers to produce the foodstuffs which were needed a long distance away.

17. In reply to questions with regard to the level of retail prices in the country, the representative of Chile gave the following information:

	<u>1958</u>	<u>1959</u>	<u>1960</u>
	(prices in pesos/kg.)		
Rice	147	167	174
Beans	133	185	311
Fresh milk	72	81	85
Butter	1,450	1,732	1,943
Beef	729	998	1,264
Tea	1,505	2,266	2,747

18. Members of the Committee enquired what regulations were applicable for the shipping of goods to and from the country and whether the freight charges of the Chilean shipping companies were kept down in comparison with foreign competitors by means of any form of subsidy. The representative of Chile explained that the Chilean law required the shipping of 50 per cent of exports and imports by means of Chilean ships. In practice, however, this law hardly operated because all ships which belonged to pooling arrangements (such as the Conferences for the Pacific and the Atlantic) and in which Chilean shipping lines also participated, received the same treatment as Chilean ships, so that exports and imports were practically effected on a free basis. The freight rates of the Chilean shipping lines were not subsidized and were established under normal rules of competition; they were not lower than similar rates maintained by foreign lines.

19. While noting that the system of advance deposits on agricultural imports had been replaced by a temporary system of surcharges, members of the Committee stated that imports from countries with which Chile maintained bilateral agreements had been exempted from the requirements of advance deposits. They enquired whether this exemption also applied to surcharges and if so whether any tariff preference would be created when the surcharge system was replaced by the new customs tariff. The representative of Chile explained that the exceptions of advance deposit enjoyed by certain countries by virtue of special bilateral payments agreements had disappeared when the advance deposit system was replaced by additional surcharges. In view of the fact that the additional surcharges admitted no exception and were equally applied to all countries, it followed that no preferences would be made in the new tariff, due to this concept.

B. COMMODITIES

Cereals

20. Members of the Committee recognized that ECA, through its special customs treatment, was the sole importer of wheat and enquired whether ECA in its import policy granted a special preference to countries with which Chile maintained bilateral trade agreements. The representative of Chile replied that the bilateral agreements which Chile maintained did not contain any provision with regard to wheat. The principal suppliers of wheat to Chile were at present Argentina and the United States. In its import policy ECA was guided only by considerations of quality and the best economic terms which could be obtained.

21. In reply to further questions by members of the Committee, the representative of Chile pointed out that ECA did not now deal with grains other than wheat. He explained that all commercial operations were effected by ECA itself and not by the intermediary of private traders.

22. In reply to questions on the rate of the surcharge on cereals, the representative of Chile stated that the surcharge on wheat amounted to 2 per cent of the c.i.f. value, on rice 10 per cent and on other grains 75 per cent.

23. In reply to a question with regard to the present support price of wheat, the representative of Chile stated that the support price of wheat was fixed by the Minister of Economics and amounted, for the period October-December 1961 to 8.03 escudos per 100 kg. (\$2.07 per bushel).

Meat

24. A member of the Committee noted that the price control of meat had recently been abolished and enquired, as the production of meat in the country was at a rather high level, whether imports of meat were still under control. The representative of Chile stated that there were no obstacles to imports of meat in his country except import charges leviable thereon. The customs duty on imports of frozen meat was suspended until 31 December 1961, but a surcharge of 5 per cent on the c.i.f. value was imposed, replacing the former system of advance deposits. Imports of beef cattle were free. There was no price control of meat.

25. With regard to questions on the operation of ECA in respect to imports of meat, the representative of Chile explained that by law the Government could authorize ECA to deal with the importation of meat, but that this provision at present was not applied. Therefore, at present meat could be freely imported into Chile by any firm or individual.

26. Members of the Committee enquired whether in the bilateral agreements which Chile maintained with certain countries provision was made for some tariff preference in respect of meat. The representative of Chile pointed out that the bilateral agreement with Argentina provided for a tariff preference in

respect of tallow, lard and edible greases, but not on meat. Imports of these products from Argentina were subject to a lower specific duty than imports from other countries. These duties were expressed in gold and in the conversion of this duty to normal currency a different and more advantageous conversion rate was applied in respect of the Argentinian products.

Dairy Products

27. Members of the Committee noted that retail prices of butter and cheese had increased considerably. They enquired whether this had in any way affected consumption. The representative of Chile replied that the rise in retail prices was due to creeping inflation. He also stated that salaries were adjusted in order to try to compensate for the rise in prices. He was as yet unable to state whether these adjustments were sufficient to cover the inflationary effects and consequently to avoid a reduction in consumption.

Fish

28. With regard to fish flour, members of the Committee noted the substantial increase in production from 15,600 tons in 1955 to more than 30,000 tons in 1960 and the very sharp increase in exports from 8,600 tons in 1955 to more than 24,000 tons in 1960. They enquired whether the Government of Chile had taken special measures to promote this development and what were the prospects for future development. The representative of Chile explained that the main centre of fishmeal production was in the northern part of the country where conditions were very suitable. The fishmeal plants in this area benefited from certain privileges and exemption of customs duties in the importation of their equipment. These measures gave this area a special economic advantage which stimulated a rapid growth of industry in this zone. With regard to future prospects, he stated that as the Government did not contemplate any special measures for promoting this particular production, the future development of both production and export were wholly dependent on the possibilities of the world market and the private efforts of the processing companies themselves.