

GENERAL AGREEMENT ON TARIFFS AND TRADE

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RENEGOTIATION OF SCHEDULE VII - CHILE

Memorandum by the Government of Chile

By a telegram dated 25 October 1966, the Chilean Government asked the Director-General of GATT to include in the agenda for the meeting of the Council of the CONTRACTING PARTIES an item entitled: "Renegotiation of Schedule VII - Chile". Its purpose in so doing is to request the CONTRACTING PARTIES for a waiver for one year as from 1 January 1967, pursuant to the provisions of Article XXV, paragraph 5 of the General Agreement, in order temporarily to suspend Chile's obligations under Article II and to enable it to bring into operation, without prior negotiation, its new customs tariff that modify certain duties bound in Schedule VII of tariff concessions, annexed to the General Agreement. In addition, the Chilean Government expressed its intention of initiating the necessary renegotiations as from 1 January 1967.

2. As contracting parties will recall, by a Decision of 15 March 1965 an extension was given to the waiver originally granted to Chile under the Decision of 27 May 1959. The Decision of 15 March 1965 states: "The CONTRACTING PARTIES ... decide that the Government of Chile is authorized to continue to maintain until the entry into force of the new customs tariff or until 31 December 1966, whichever is the earlier, surcharges specified in the Decision of 27 May 1959, subject to the terms and conditions of that Decision."

3. In support of Chile's foreign trade policy, which is an integral part of its economic development programme, and furthermore in compliance with the undertaking given to the CONTRACTING PARTIES a new customs tariff has been drawn up.

The existing tariff was promulgated in 1928 by Law No. 4,321. The study of the draft was begun in 1924 and that suffices to account for its out-of-date nomenclature and for the absence of specific tariff headings covering numerous products which enter into trade today. By force of economic and commercial developments, it became necessary to supplement that tariff by various other scattered provisions making it difficult to classify goods adequately and consequently to clear them through customs expeditiously.

Numerous amendments have had to be made to the tariff that has been in force for nearly forty years, and which comprises duties and charges applied on different bases. By way of example, the following may be mentioned:

- (a) Specific duties established by Law No. 4,321 on the customs tariff. These duties are levied in a fixed amount, expressed in gold pesos, on a unit of goods - expressed either in weight, volume or number (per gross, legal or net kilo, per litre, per unit, etc.).
- (b) Ad valorem tax established by Treasury Decree No. 2,772 of 1943. The rate varies from 3 to 62 per cent of the "nationalized" value of the goods. The "nationalized" value is the c.i.f. value plus the amount of the duties and charges levied on importation, with the exception of the additional charge provided for under Law No. 13,305.
- (c) Loading and unloading charges provided for by Law No. 3,852 and subsequent amendments thereto, and charge for unloading in sea ports, established by Article 131 of Law No. 13,305. This charge is at the rate of 1 gold peso on each quintal or fraction thereof as regards goods coming from abroad and disembarked in Chilean ports.
- (d) Ten per cent increase in the specific import duties on vehicles using the road network, and on parts of such vehicles, under Law No. 4,851, as amended, entitled the Roads Law.
- (e) Import charge of up to 200 per cent on the f.o.b. value of vehicles, under Law No. 12,084, as amended. It should be noted here that a similar charge is applied on vehicles manufactured or assembled in Chile. In any case however this charge is applied at the time of importation.
- (f) Consular duties on certain documents, established under the Consular Law. There are two kinds of charges: those on commercial invoices which generally correspond to 2.5 per cent of the f.o.b. value; and those on bills of lading, at the rate of US\$5 on each 200 tons or fraction thereof.
- (g) Charges additional to those referred to in Article 169 of Law No. 13,305. These are applied on the c.i.f. value and vary between 0.1 per cent and 400 per cent.

4. This simple enumeration gives an idea of the complexity of the existing Chilean tariff. It indicates the obstacles that the tariff constitutes for trade expansion, which are clearly unfavourable to the country's economic development and to the interests of exporters and importers. The enumeration also makes it easier to understand the difficulties of all kinds that the Government has had to overcome in order to introduce a simple and up-to-date tariff.

5. By Law No. 16,464 of 25 April 1966, the National Congress laid down as follows:

"The Nomenclature used in Law No. 4,321 is hereby replaced by that adopted by the Brussels Customs Co-operation Council. The President of the Republic shall issue the necessary rules and regulations for the correct interpretation and application of the tariff to be established in pursuance of the present Law.

"In order to adapt the Nomenclature and bring its text up to date so as to take account of the country's external trade requirements, the President of the Republic may sub-divide the headings therein and amend such sub-divisions when he considers necessary; for the same purpose, he may incorporate in the Nomenclature any amendments approved by the Customs Co-operation Council.

"The President of the Republic shall consolidate in specific and/or ad valorem duties the existing duties and charges of any kind levied by the Customs. The application of this provision may result in a difference of not more than 15 per cent in relation to the global incidence of the above-mentioned duties and charges."

6. As already explained, the 1928 tariff now in force has been amended and supplemented by numerous provisions which, in general, have resulted in the introduction of additional charges. The Government has encountered various obstacles in drawing up the new customs tariff, including the following:

- (a) Conversion into specific and ad valorem duties, i.e. into a two-column tariff, of a host of duties and charges of various kinds and varying incidence. In order to simplify this reform, which involved great technical difficulties, Congress authorized the President of the Republic to allow differences of not more than 15 per cent as between the new duties and the global incidence of the existing duties and charges.

- (b) Congress specified that the duties in the new tariff must be the same as those in effect on the date of promulgation of the Law, the objective of the introduction of a new tariff being to simplify the numerous existing provisions by bringing the tariff into line with the Brussels Nomenclature, without affecting the level of duties. Since the promulgation of Law No. 16,464, however, and in order to contribute to the expansion of foreign trade, particularly with respect to imports required for the country's economic development, the Government has unilaterally reduced certain taxes and other barriers affecting those imports. In order to take account of the special case of reductions introduced between 25 April 1966 and the present time, the President of the Republic was also authorized "to suspend or reduce, where the national interest make this desirable, the duties, taxes and other charges levied by the Customs".

7. As already mentioned, the new tariff provides for two duties:

- (a) A specific import duty, expressed in gold pesos of 0.183057 grammes of fine gold, on each tariff unit. On this basis, one United States dollar corresponds to 4.85461 gold pesos.
- (b) An ad valorem duty payable on imported goods, expressed in terms of a percentage of the c.i.f. customs value.

The new tariff thus simplifies the system of duties and makes it easier for importers to calculate the cost of imports.

The Government intends to simplify the system still further. Under Law No. 16,464, it is hoped that in the near future the existing specific duties can be converted into ad valorem duties so that only the latter will remain. As regards the definition of value, the decisions of the Customs Co-operation Council will be applied.

8. Apart from the advantages mentioned above, adoption of the Brussels Tariff Nomenclature represents an additional contribution by Chile to the establishment of the Latin American Free Trade Area. It will already simplify trade relations and in the immediate future will strengthen the movement towards economic integration, which is intended to culminate in the establishment of a common market, in accordance with Article 54 of the Montevideo Treaty.

9. On 25 August of this year the Government asked the Director-General of GATT for the co-operation of an expert in tariff matters, in order to give advice on the revision of the nomenclature and on the duties in the new customs tariff. The GATT secretariat responded immediately to that request for technical collaboration, and was able to arrange for Mr. E. Kaae, of the Danish Customs Administration, to be made available. Mr. Kaae arrived in Chile in the latter part of September, since when he has been making a valuable technical contribution towards attainment of the objectives mentioned above.

10. Chile's request to the CONTRACTING PARTIES relates in particular to the products on which the duties are bound in Schedule VII annexed to the General Agreement. The Government is obliged to introduce the new tariff without having first renegotiated Schedule VII, as it would have wished, for the following reasons:

- (a) In view of the understandable difficulties involved in the discussion and detailed formulation of a customs tariff, Law No. 16,464 adopted by Congress not only set forth certain rules of a general nature but also authorized the President of the Republic to issue the necessary national regulations for the proper interpretation of the tariff to be established in pursuance of that Law and on the basis of the Brussels Nomenclature. At the same time, Congress decided, in a mandatory way, that the tariff must be brought into force within a specified time limit, and this is why it is not possible to renegotiate Schedule VII beforehand.
- (b) The Decision of the CONTRACTING PARTIES of 15 March 1965, which extended the original Decision of 27 May 1959, authorized the Chilean Government to continue to maintain the surcharges until the entry into force of the new customs tariff, or until 31 December 1966, whichever was the earlier. Since the new tariff consolidates all the duties and charges, it will constitute an instrument that should enable the Government to carry out the undertaking given by it in requesting the waiver concerned.
- (c) In addition, Law No. 16,464 authorizes the President of the Republic to consolidate in the form of specific and ad valorem duties the duties and charges levied by the Customs as at the date of promulgation of the Law (25 April 1966). Once the tariff has been drawn up and brought into effect, the President of the Republic - pursuant to the same Law - is authorized to renegotiate the trade agreements to which Chile is a party and to put into effect the results of those renegotiations. The Government will therefore only be in a position to renegotiate Schedule VII once the new tariff has been put into effect.

11. Abiding by its desire to observe the objectives of GATT, the Chilean Government has taken some measures of interest to contracting parties which should be borne in mind. Although the Decision of 15 March 1965 is still valid the Government has unilaterally decided to reduce the duties on imports of a number of products, as from 25 November 1966, in particular those usually referred to as "capital goods". As already explained, Law No. 16,464 states that all the duties and charges levied by the Customs as at the date of its promulgation (25 April 1966) are to be consolidated in the new tariff. This means that when the new tariff comes into force on 1 January 1967, all those duty reductions will automatically lapse and the duties will be restored to the full level applied on 25 April 1966.

In order to maintain the favourable situation for expansion of imports, particularly capital goods, and as a practical indication of its intention to initiate renegotiations, the Government firmly intends to restore these duty reductions on the day following the introduction of the new tariff. Two draft copies of the new tariff have been supplied to the GATT secretariat, together with a list of the products and duty reductions referred to.

In addition, and despite the tariff change, a whole series of government decisions, particularly decisions by the Central Bank of Chile, are to be maintained because they help to simplify and facilitate import transactions, as may be seen from the increase in imports recorded in 1965 and the first six months of the current year. In 1964, imports reached \$583.1 million; in 1965 they rose to \$697.6 million, and in the first six months of this year reached \$386.6 million, indicating that they are likely to exceed the 1965 level.

12. Within this same order of ideas, on 10 October last the Government issued a decree granting reductions in the customs duties and other charges on imports of industrial machinery. This measure is in the context of the national economic programme, particularly the industrial development programme. It covers machinery and equipment of all kinds for the expansion or installation of the following industries: (a) fish; (b) wood and wood products; (c) copper processing; (d) iron and steel; (e) agriculture and livestock; (f) leather; (g) chemicals and petro-chemicals; (h) processing of non-metallic minerals; (i) fertilizers, etc.

The reduction in customs duties and charges on these imports is 10, 50 or 100 per cent, according to the geographical area in which the industry concerned is to be expanded or installed, and also according to the nature of that industry. The text of that decree has also been forwarded to the GATT secretariat, for the information of contracting parties. As will be seen in due course, during the renegotiation of Schedule VII, this reduction in duties and charges substantially affects products included in the present Schedule VII - Chile.

13. For the foregoing reasons, the Chilean Government requests a waiver for one year as from 1 January 1967, pursuant to the provisions of Article XXV, paragraph 5, to enable it to bring its new customs tariff into effect as from that date and without prior renegotiation of Schedule VII. The Chilean Government reaffirms its intention to initiate renegotiations immediately following the introduction of the new tariff, and hopes that those negotiations will take place in the spirit of Part IV of the General Agreement.