

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

RESTRICTED

BOP/263
4 April 1986

Limited Distribution

Committee on Balance-of-Payments Restrictions

Original: Spanish

1986 CONSULTATION UNDER ARTICLE XVIII:12(b)
WITH PERU

Statement submitted by Peru
under Simplified Procedures for Consultations¹

¹These procedures are set out in BISD 20S, pages 47-49.

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I. DEVELOPMENT OF THE ECONOMY

In recent years the Peruvian economy has been subjected to a series of adverse pressure both from within and from without, essentially as a result of the unfavourable international economic situation that has been reflected in the deterioration of the terms of trade, increasing difficulties in placing exports owing to trade protectionism, and problems of access to capital markets in the context of high international interest rates.

The adverse affect of these external factors on the country's overall productive activity has been significant. They have accelerated an acute recessive trend which has been clearly evident in high rates of inflation, falling per capita incomes, unemployment and, in particular, balance-of-payments problems.

The persistent imbalances exhibited by the Peruvian external accounts since 1981, coupled with the natural disasters caused by meteorological factors in 1983, which severely affected the overall level of production, especially in agriculture, made a difficult economic situation even worse.

On the other hand, the decline in the prices of Peruvian export products, the tendency towards an imbalance between the supply of and demand for primary commodities on the international market, the urgent need to protect the level of international reserves and the shrinking of international credits compelled the Government to reduce the demand for imports to a level compatible with the available resources by applying higher rates of devaluation, liberalizing price controls, pursuing a restrictive credit policy and regulating the money supply.

The effect of these measures in mitigating the critical overall economic situation was minimal; the balance-of-trade deficit was brought under control but no success was achieved in reversing the adverse trend of the balance on current account and, contrary to the Government's intentions, inflation speeded up.

The immediate outcome of inflation was a substantial decline in the real liquidity of the economy and in the purchasing power of wages, with a resultant drop in private consumption, which in its turn had a direct impact on the demand for imports. Furthermore the rate of interest, which in real terms became a negative rate, and a shortage of domestic credit created a difficult financial situation for private enterprise, causing a slump in investment in that sector.

With regard to national production, the growth of the gross domestic product slackened in 1982, when national output could be increased by only 0.7 per cent of the 1981 figure. Overall economic activity declined sharply in 1983 at the unprecedented rate of 12 per cent by comparison with the previous year. In 1984 national production increased by 4.5 per cent - a moderate increase considering that the gross domestic product had been at a very low level in 1983. Hence the situation continued to be a source of concern, considering that the production levels of 1979-1980 had not yet been

regained. In 1985, according to preliminary estimates, the gross domestic product increased very slightly, by 1.8 per cent.

As a result of the factors already mentioned, inflation speeded up sharply. In 1980 the rate of inflation was 60.8 per cent; in 1981 it rose to 75.4 per cent and, after a slight decline to 72.9 per cent in 1982, there followed two years, 1983 and 1984, in which the rate of inflation was in three figures, at 112.5 and 111.5 per cent respectively. In 1985 the rate of inflation was 158.3 per cent, a clear indication of the critical situation besetting the Peruvian economy.

In this situation, in order to counteract the distorting effects of inflation on the cost and price structure, preserve the international competitiveness of Peruvian products, foster a favourable trend in the balance of payments and maintain the international reserves at an adequate level, the national authorities devalued the currency in ever-increasing proportions which reached 33 per cent in 1980, 47.7 per cent in 1981, 90.7 per cent in 1982 and 135 per cent in 1983. In 1984 the cumulative devaluation attained 132.7 per cent, and at the end of the second quarter of 1985 the rate of devaluation exceeded 88 per cent.

The magnitude of the economic problems, the high ratio of debt service to foreign exchange earnings from exports and the inadequacy of the resources available to service the debt gave rise to serious difficulties in meeting the international financial commitments incurred, making it necessary to depart from the schedule of payments due.

In 1984 the economic and financial programme in operation was modified with the aim of stimulating domestic economic growth after the substantial decline recorded in 1983; the result was a moderate growth rate of 4.5 per cent of gross domestic product and an adequate level of net international reserves that made it possible to make good the traditional shortfalls in food production with imports and to purchase some primary inputs that were needed in pursuit of the desired reactivation of industry.

In view of the gravity of the problems besetting the Peruvian economy, a "Emergency Economic Programme" was put into operation in August 1985 to avert the collapse of domestic economic activity. This was a step-by-step programme comprising a set of measures designed to heal the economy and to bring down the fiscal deficit and the inflation rate through the control of exchange rates, interest rates, costs, prices and basic wages. In October 1985, in response to the signs of recession observed in the various sectors of the economy, the second phase of the Emergency Economic Programme was launched; this was tailored to the revival of productive activity in industry and agriculture alike, and some of its goals are being acclaimed.

II. DEVELOPMENT OF THE MAIN COMPONENTS OF THE BALANCE OF PAYMENTS

The balance-of-payments results obtained in 1981 and 1983 were in some respects plainly erratic; this applied chiefly to the deficits recorded in the balances, resulting in a fall in the level of the net international reserves. In those years the net movement of long-term capital was the main means of financing the deficit on current account and also made it possible to offset to some extent the loss of income from foreign investment and the net outflow of short-term capital; however, despite the greater inflow of public capital achieved by renegotiating the debt - a short-term measure that averted an acute shortage of foreign exchange - some of these resources had to be diverted to cover the severe chronic deficit in the balance of services, which had an adverse effect on the current-account balance.

In 1982 and 1984 the balance of payments performed better, making it possible to restore the international reserves to moderate levels by comparison with the losses recorded in 1981 and 1983. As in those years, the net movement of long-term capital turned out to be the most important means of financing the current-account deficit in the balance of payments. It nevertheless proved impossible to reverse the adverse trend in the balance of services, which exhibited a succession of deficits, in contrast with the gradual reduction of the deficit in the balance on current account, which shrank from some 8 per cent of GDP in 1981-1982 to 5.4 per cent in 1983 and 1.5 per cent in 1984.

With regard to the balance of trade it should be said that in the years preceding 1983 deficits were a standing feature owing to the need for imports; thereafter, in 1983 and 1984, this trend was reversed, mainly as a result of the decline in productive activity, a variable with which the level of imports is closely connected. On the export side, in view of the fall in the prices of major export products, and despite the fact that efforts were made to offset that fall by stepping up production, the average earnings on exports diminished. This clearly explains the steady deterioration in the terms of Peruvian foreign trade, which means that an ever-increasing investment of capital and labour is needed in order to purchase a given item from abroad.

A. Balance of trade

In the biennium 1983-1984 the balance of trade was in credit, averaging US\$650 million and reversing the trend of the previous biennium when the deficit averaged US\$490.5 million. The change was due to the fact that, although both exports and imports had diminished since 1981-1982, imports had fallen faster than exports, mainly because domestic demand had declined.

1. Exports

Average export earnings during the biennium 1983-1984 fell by US\$190 million, a drop of 5.8 per cent from the level recorded in 1981-1982. The fall in earnings was due, among other factors, to the following:

- The revaluation of the dollar and high international interest rates set off a reduction of inventories, mainly of mining products, at the world level. This brought with it a reversal of the trend exhibited in 1983, causing a further deterioration in our terms of trade for 1984;
- The prices of petroleum and derivatives and of fishery products fell and exports of non-traditional products earned less;
- Restrictions persisted on the various world markets for traditional and non-traditional exports.

These factors were to some extent offset by the recovery, in price and volume, of exports of agricultural produce, with the exception of the volume of cotton exports which was kept in check in order to meet domestic demand. In the case of fishery products, the lower prices prevailing in the last year considered were offset by exporting more.

Exports by Principal Products*
(millions of US dollars f.o.b.)

	1981	1982	1983	1984
I. Mining products	1,494	1,313	1,578	1,368
II. Petroleum and derivatives	689	719	544	618
III. Agricultural produce	170	218	196	198
IV. Fishery products	141	202	79	137
V. Other traditional products	54	79	63	100
<u>Sub-total</u>	<u>2,548</u>	<u>2,531</u>	<u>2,460</u>	<u>2,421</u>
VI. Non-traditional products	701	762	555	726
<u>TOTAL</u>	<u>3,249</u>	<u>3,293</u>	<u>3,015</u>	<u>3,147</u>

* Preliminary

Source: Central Reserve Bank of Peru, External Sector Department.

(a) Mining products

The value of exports increased by 5.0 per cent between the biennium 1981-1982 and the biennium 1983-1984. The increased earnings came mainly from the export of refined silver, lead and zinc in greater quantities and at higher prices. In the case of copper and iron, not only did prices fall but a smaller volume was exported owing, among other factors, to strikes and natural phenomena affecting the extraction and haulage of ore.

(b) Crude petroleum and derivatives

An average value of US\$581 million was exported in 1983-1984 as compared with US\$704 million exported in 1981-1982. This decline, amounting to 17.5 per cent, was directly due to the fall in international oil prices from an average of US\$33 per barrel in the 1981-1982 biennium to US\$26 per barrel in 1983-1984 - a drop of 20 per cent. The volume exported increased by 3 per cent but failed to offset the fall in prices. In 1983 in particular a smaller volume was exported because natural disasters reduced the output of crude.

(c) Agricultural produce

The value of produce exports, consisting of cotton, sugar and coffee, increased slightly, by 1.5 per cent, from the level for the biennium 1981-1982. The failure to achieve a more significant increase reflects the problems caused by bad weather in Northern Peru in 1983, the main effect of which was to reduce output of cotton and sugar.

In the case of coffee, the quotas assigned by the International Coffee Organization to countries parties to the Agreement were met and in addition significant sales were made to non-Member countries, resulting in a larger volume of exports.

Although prices rallied in 1984 it proved impossible to improve on the average recorded in the previous biennium (1981-1982) because Brazil and Colombia, the world's largest producers, increased the world supply.

Cotton exports declined drastically in value, by 55 per cent, and in volume by 53.5 per cent because less was produced in 1983, making it necessary to restrict sales abroad in order to give priority to meeting domestic demand. Mainly in the last quarter of 1984, all such restrictions were relaxed, making it possible to proceed with some exports which had been contracted for early in the year. On the other hand the increase in world supply affected prices in the second half of 1984 and this factor in its turn reduced the value of exports.

(d) Fishery products

Earnings on exports of fish meal declined sharply, by 37 per cent, from the biennium 1981-1982 to the biennium 1983-1984. Not only was less exported but prices were low because the world supply of the commodity and its main substitute, soya flour, had increased.

In value, exports suffered an average annual decline of US\$64 million and in volume a loss of 163,000 metric tons.

1983 was a critical year for this commodity. Activity was affected by the ocean current El Niño, which meant reduced catches and consequently a smaller output of meal.

In 1984 production recovered and as a result more was exported; however, prices continued to fluctuate from year to year and averaged 3 per cent less in the 1983-1984 biennium than in 1981-1982.

(e) Non-traditional products

The value of this export item increased substantially, by 30.8 per cent, from 1983 to 1984. However, the value recorded in the 1983-1984 biennium was 12.4 per cent less than that earned in 1981-1982. This was due in part to difficulties in widening international markets and finding new ones, and those difficulties in their turn were caused by the world-wide application of protectionist measures. Furthermore the revaluation of the dollar made Peruvian export products less competitive abroad, especially in Europe and Latin America.

2. Imports

The average value of imports declined by 35 per cent from the 1981-1982 biennium to 1983-1984, when an average of US\$1,331 million less was imported.

The fall in imports was due to the decline in domestic productive activity; the policy of gradually raising the real exchange rate, which affected imports expressed in Peruvian currency; the shrinkage of foreign investment; and the reduction of short-term and long-term foreign lines of commercial financing as a result of the difficulties experienced by Peru in servicing its foreign debt.

The liberalization of imports which had begun in 1979-1980 continued in the 1981-1982 biennium, when the tendency was to make goods more widely available at home as an aid to the anti-inflationary programme launched by the Government.

In the 1983-1984 biennium the drastic reversal of the international situation, with consequent adverse effect on the public accounts and the balance of payments, made it necessary to strengthen them by imposing tariff surcharges.

In the context of the necessary flexibility of tariff policy consistent with economic policy as a whole, these surcharges were accompanied by rises in the average tariff with the aim of increasing tax revenue and counteracting the effect of low prices for primary export commodities, world-wide protectionism and high real rates of international interest.

At the same time, however, imports of various products for agricultural use were exempted from duty altogether and the tariff on imported foodstuffs was lowered in order to supplement the domestic supply of these items.

The imports which underwent the greatest reduction during the latter biennium were consumer goods other than food, capital goods and defence matériel.

Imports of capital goods were 41.7 per cent less in the 1983-1982 biennium than in 1981-1982.

Within this total reduction, private sector imports, including those of foreign investment in particular, fell by 55.7 per cent, while public sector imports declined by 16.7 per cent. This was due in part to the low level of economic activity, the high cost of money and the difficulty of obtaining credit. On the other hand it should be mentioned that, for the purpose of financing new investments, capital formation in the private sector took place before 1983, taking advantage of the liberalization of imports.

Purchases of commodities for processing, or "inputs", from abroad, including such food products as wheat, maize and soya oil, diminished by 27.4 per cent; within that overall decline, imports in the public sector diminished by 9.1 per cent and those in the private sector by 35.6 per cent. This represents on the average a decrease of US\$332 million in imports during the 1983-1984 biennium.

These decreases were due in part to the decline in industrial activity, which was affected by a fall in domestic and foreign demand, chiefly in 1983.

It should be noted that food imports, in the form both of inputs and of consumer goods, fell by 16.2 per cent during the same period. The reduction in food purchases affected maize, rice, dairy products and meat and was due to an increase in domestic production of maize and rice and to a fall in domestic demand.

Imports*
(millions of US dollars f.o.b.)

	1981	1982	1983	1984
I. Capital goods	1,454	1,411	900	771
II. Inputs	1,401	1,321	1,026	949
III. Consumer goods	578	464	349	255
IV. Miscellaneous and adjustments	369	525	447	165
<u>TOTAL</u>	3,802	3,721	2,722	2,140
<u>PRO MEMORIAM: STAPLE FOODS</u>	489	359	422	289

* Preliminary

Source: Central Reserve Bank of Peru, External Sector Department

B. Balance of services

As in previous years this balance-of-payments account increased its deficit, between the 1981-1982 biennium and the 1983-1984 biennium, by 4.4 per cent, i.e. by an average of US\$59 million. This deficit is due essentially to the payment of interest on the public debt.

On the other hand it should be noted that for the item "Private investment earnings" and, under the heading of Non-financial services, the items "Freight", "Travel" and "Miscellaneous services", the net outflow declined.

The reduction in the outflow for private financial services was due partly to a fall in short-term and long-term indebtedness in that sector and partly to a drop in the level of profits earned and sent abroad.

Under the heading of non-financial services, the fall in imports was due to a reduction in freight payments and smaller expenditure on miscellaneous services. For the item "Travel" there was a slight rally in 1984, but the results for the 1983-1984 biennium were nevertheless 65.1 per cent short of those for 1981-1982. The performance of this service account was adversely affected by the distorted publicity given internationally to acts of terrorism perpetrated in Peru, which prevented any increase in the incoming tourist traffic, with the result that earnings from tourism failed to reach the levels of previous years.

Balance of Services*
(millions of US dollars)

	1981	1982	1983	1984
I. <u>Financial services</u>	-1,019	-1,034	-1,130	-1,196
1. Public investment earnings	- 456	- 549	- 636	- 837
2. Private investment earnings	- 563	- 485	- 494	- 359
II. <u>Non-financial services</u>	- 317	- 314	- 254	- 221
1. Freight	- 119	- 123	- 70	- 54
2. Travel	86	46	19	27
3. Miscellaneous services	- 124	- 118	- 77	- 60
4. Other	- 160	- 119	- 126	- 134
III. <u>Total balance of services</u>	-1,336	-1,348	-1,384	-1,417

*Preliminary

Source: Central Reserve Bank of Peru, External Sector Department.

C. Balance on current account

As a result of the levels recorded in the balance of trade and the balance of services, this indicator has been persistently in deficit since 1980 and there is no sign of any new trend in the near future because earnings on exports of goods and services are outweighed by expenditure on imports, especially services, where the consistently debtor balances have been partly due to the servicing of foreign debt. For 1984 the deficit on current account totalled US\$252 million: US\$20 million below the level recorded in 1983, when the adverse balance totalled US\$872 million.

For the first quarter of 1985, preliminary calculations showed a deficit of US\$88 million as compared with an adverse balance of US\$49 million in the corresponding period of 1984.

D. Balance of long-term capital

The movement of long-term capital showed an average increase of US\$384.5 million during the biennium 1983-1984, representing an increase of 41.6 per cent over the 1981-1982 level. This was due to an increase in net public-sector indebtedness of 107 per cent, far exceeding the net outflows of direct investment and private loans.

On the other hand, the increase in long-term capital not only helped to finance the deficit in the balance on current account but also offset the negative balance for the item "Short-term capital and errors and omissions", making possible a gain of the order of US\$207 million in international reserves for the biennium in question.

In the case of direct investment, the adverse net balance was due essentially to a decline in investment by oil companies and mining enterprises faced with the prospect of falling prices for oil and continued low prices for mining products.

In the case of private loans, the adverse net flow is explained by the fact that less use was made of medium-term and long-term lines of credit, a factor due in its turn to the reduction in private-sector imports of capital goods and to a decrease in the availability of foreign credit caused by the country's difficulties in repaying its foreign debt.

III. PRELIMINARY SITUATION REPORT ON THE FIRST QUARTER OF 1985

At the end of the first quarter of 1985 export earnings totalled approximately US\$680 million, representing a reduction of 18.4 per cent when compared with those for the third quarter of 1984 and of 13 per cent when compared with those for the fourth quarter of 1984.

The decline in export sales caused, in its turn, a decrease in the flow of imports, which were concentrated on the purchase of food, inputs and capital goods essential to the normal pursuit of productive activity.

Preliminary estimates of imports in the first quarter of 1985 put these at US\$496 million as compared with the US\$563 million recorded in the last quarter of 1984, representing a drop of 12 per cent in the level of imports.

Although in the first quarter of 1985 less was paid out by way of interest on the foreign public debt and the net outflow for non-financial services decreased, the balance of services showed a deficit of US\$307 million, with the result that the balance on current account was also in deficit, by US\$88 million. It has not proved possible to reverse the adverse trend in this balance-of-payments item at any time in the past five years.

It should be noted that, although the deterioration of the Peruvian economy has been affected by some domestic factors, the unfavourable external situation has played the decisive part in that process. The protectionism which, by imposing restrictions, prevented the earning of more foreign exchange; the worsening of the terms for international financing, and in particular the disproportionate rise in the real international interest rate; and the difficulties of access to foreign capital markets - all factors which largely depend on the industrialized economies - have severely affected the possibilities of attaining economic stability and of stimulating the Peruvian economy as a whole.

Again, the sum set aside for debt servicing has swallowed up a high proportion of export earnings, a fact which has seriously impaired the prospects for increasing the country's rate of economic growth.

Although the total Peruvian foreign debt is not so high in absolute terms (US\$13,430 million) as that of other countries in Latin America, the effect on the economy is significant, for this sum is the equivalent of 78 per cent of the gross national product and nearly five times the value of exports. Consequently, between 1980 and 1983, Peru had to earmark extensive resources for payments at high percentage rates on the foreign debt, with the result that the ratio of debt servicing to exports attained 33.8 per cent in 1980, 54.0 per cent in 1981 and 45.3 per cent in 1982.

Although, in the period 1983-1985, the coefficient representing actual payments to service the debt was at a lower level (24.7 per cent in 1983, 20.6 per cent in 1984 and 19.7 per cent in 1985), this was due partly to the refinancing operations performed in 1983 and 1984 and partly to the impossibility of meeting all the deadlines, especially from the second half of 1984 onwards, which led to cumulative arrears in servicing the foreign debt. Otherwise such servicing would have absorbed between 50 and 80 per cent of export earnings in 1983 and 1984, while the amount due for 1985 exceeded the total value of exports (by 20 per cent) and debt servicing for 1986 would total US\$2,456 million plus US\$3,109 million in payments outstanding from previous years, representing a total commitment of US\$5,565 million or 160 per cent of the total value of Peru's exports - an excessive level at which payment could not be made without bringing the country to economic collapse.

In response to the problems faced externally, Peru has proposed a political dialogue between debtors and creditors and direct negotiations with the Governments of the creditor countries, international agencies and private banks with regard to its debts. In addition, in view of the emergency, the Peruvian Government has decided to earmark a maximum of 10 per cent of the value of exports for servicing the debt: a decision which shows willingness to pay, albeit on a limited scale, the debts contracted, on the understanding that if the value of exports increases the proportion earmarked for payment will be increased accordingly.

In all four quarters of 1984 the balance of services showed deficits due among other factors to increased payments for financial services. In the first quarter of 1985 this balance shows a deficit of US\$307 million following one of US\$419 million the previous quarter.

Similarly in all four quarters of 1984 the balance on current account was continuously in deficit owing to the negative balance of services and the decrease in the surplus on the balance of trade.

IV. IMPORT REGIME

A. Tariff and para-tariff policy, 1980-1984

In the context of a favourable external situation, the process of liberalizing imports which had begun in 1979 continued in 1980 with the elimination of virtually all restrictions and prohibitions of imports; administrative procedures were simplified and the level and range of tariffs gradually reduced.

The maximum nominal tariff was cut by 40 per cent, so that certain tariffs which had been prohibitive ceased to be so.

From 1982 onwards, in view of the need to increase fiscal revenue and to offset the adverse balance of payments and the slowdown in foreign exchange earnings since 1980, a surcharge of 15 per cent was applied to the f.o.b. value of imports, the average tariff was increased from 32 per cent to 36 per cent and commodities in the higher tariff brackets were taxed more heavily, thus helping to increase the tax revenues.

In 1983 this surcharge was replaced by one of 10 per cent applicable to the c.i.f. value of imports and the average tariff was increased to 41 per cent.

In 1984 the surcharge was increased to 15 per cent; tax revenues were increased and the balance of the external accounts strengthened by an increase in ad valorem tariffs in July of that year.

At the same time, consistently with the flexible conduct of trade policy, temporary reductions were granted in 1983 on certain foodstuffs - sugar and edible oils among others - with the aim of supplementing the domestic supply, which had been adversely affected by natural disasters. Similarly, in accordance with the Agricultural Promotion Act, imports of various commodities for agricultural use were exempted from duty altogether and the licence requirement was suspended for imports of inputs and fertilizers.

At the same time sugar and edible oils were added to the list of commodities subject to import licensing in view of the need to keep imports of these items under close supervision and guarantee a normal supply to the domestic market.

Lastly, the tariff duties on equipment and supplies for the Peruvian fishing fleet were reduced temporarily for a period of two years (GATT document L/5798).

The tariff situation in the period of report was as follows:

Composition of the Tariff Universe, December 1981-December 1984

(number of items)

	December 1981	December 1982	December 1983	December 1984
Freely importable items	5,088	5,075	5,136	4,996
Items imported under restrictions (under observation)	112	144	118	126
Items of which import is prohibited	7	7	8	7
Items of which import is temporarily prohibited	-	-	-	172
Tariff universe (approximately)	<u>5,027</u>	<u>5,226</u>	<u>5,262</u>	<u>5,301</u>

Source: Ministry of Economy and Finance;
Central Reserve Bank of Peru, External Sector Department.

B. Tariff and para-tariff policy in 1985

In pursuit of the policy of economic reactivation which has been in effect since August 1985 and with a view to improving the external accounts by rationalizing the use of the country's scarce resources of foreign exchange and giving priority to imports of essential commodities, a list of prohibited imports has been drawn up (L/5889/Add.1) and the list of products subject to import licensing has been consolidated and expanded (L/5889).

As of October 1985, out of a total of 5,320 tariff items, 1,547 are subject to import licensing and 531 have been prohibited. Altogether the items subject to import restrictions represent 39 per cent of the tariff universe and a roughly similar proportion of the import trade. Import operations are carried out directly between the importer, the commercial bank and the customs officer.

Commodities to be imported must be new and must not be on the list of those banned or subject to import licensing.

The list of prohibited imports includes fruit products, fishery products, textiles, household articles, toys, building materials, transport vehicles and other items.

The list of products subject to import licensing has been expanded to include iron and steel products, chemicals and foodstuffs among other things. The import licence is granted by the Ministry of Industry, Trade, Tourism and Integration through the Directorate-General of Foreign Trade. To obtain a licence, the importer must submit an application accompanied by documentary evidence of the commercial transaction. The Directorate-General of Foreign Trade will approve or disapprove the issue of a licence, providing the necessary co-ordination and taking into consideration conditions in the national economy and the need to keep the domestic market supplied and the various branches of production in operation. Applications for licences must be processed within ten working days at the most. Once an import licence has been issued, the procedure is similar to that applicable to freely importable goods.

Lastly, it should be mentioned that a whole range of inputs, items of equipment, spare parts and capital goods have been exempted from tariff duties on importation by newspaper concerns, television networks, publishing houses and the like, or for use in manufacturing industry or electric power generation.

In addition, tariff duties were recently lifted on a range of agricultural produce and in favour of the fishing industry, while a five-point reduction was made in the tariff surcharge on 168 items which together represent almost half the total imports of industrial inputs. Reductions have also been made in the ad valorem duties on potatoes, poultry meat, knocked-down tractors, fertilizers and pesticides, lorries and public transport vehicles, cattle hides and calfskins, and polyamide and polyester thread.

C. Special import cases

With a view to the protection of the consumer and because of the need to regulate the marketing of certain products, there are six cases in which imports require a prior report from the sector concerned, namely: imports of used goods (generally capital equipment) which require certification of non-competitiveness with national products by the sector in question; imports of periodicals, which require prior evaluation by the Ministry of Education; imports of pharmaceutical products, cosmetics and perfumery for human use, which require prior enrolment of the importer and registration of the product with the Directorate-General of Pharmacy of the Ministry of Health; imports of veterinary products, which require enrolment of the importer and registration of the product with the Directorate-General of Agriculture and Animal Husbandry of the Ministry of Agriculture; and imports of pesticides for agricultural use, which require enrolment of the importer and registration of the product with the Directorate of Agricultural Promotion of the Ministry of Agriculture.

D. Tariffs and additional duties

Imports are subject to the application of the following duties:

- C.1 Ad valorem duties, c.i.f., with a maximum, according to the circumstances, of 84 per cent.
- C.2 The import surcharge imposed by Article 18 of Act 23337 as amended by Supreme Decree No. 153-84-EFC of 13 April 1984 and Supreme Decree No. 177-85-EFC of 3 May 1985 and extended by Article 78 of Act 24030, which is equivalent to 17 per cent of the c.i.f. value of the goods imported. Exceptions are made for imports by the State and for gifts covered by a franchise deriving from international commitments.

This surcharge was recently reduced to 12 per cent on imports of industrial inputs.
- C.3 The tax benefiting the Fund for the Promotion of Non-Traditional Exports set up by Decree-Law 22342 of 21 November 1978, amounting to 1 per cent ad valorem c.i.f. and applied to all imports of goods except foodstuffs; insecticides; petroleum and derivatives; medicines; raw materials for the preparation of medicines; medical and surgical materials; imports by the State; gifts; imports of goods under franchises deriving from international commitments; and imports of products totally exempted by the Customs Tariff.
- C.4 The tax on sea-going freight imposed by Decree-Law 22202 of 6 June 1978 as amended by Article 1 of Decree-Law 22448 of 13 February 1979 and Article 40 of Act 24030 of 14 December 1984, which levies a charge of 20 per cent on the transport of goods imported into the country. In this case the same exceptions are applied as under sub-paragraph D.3 of this paragraph.

E. Entrepreneurial activities of the State

In accordance with Legislative Decree 216 of 13 July 1981, economic activities reserved to the State, whether exclusively or in association, may be carried on solely on grounds of social interest or national security as specified by law. In recent years there has been no change in the rules governing this activity except in relation to the National Input Marketing Enterprise (ENCI), which was set up by Supreme Decree No. 477-85-EF of 17 October 1985 to import soya cake on an exclusive basis.

ANNEX 1

Peru's Balance of Payments, 1981-1984*
(millions of US dollars)

	1981	1982	1983	1984
I. Goods and services				
1. Exports f.o.b.	3,249	3,293	3,015	3,147
2. Imports f.o.b.	-3,802	-3,721	-2,722	-2,140
A. <u>Balance of trade</u>	<u>- 553</u>	<u>- 428</u>	<u>293</u>	<u>1,007</u>
3. Freight	- 119	- 123	- 70	- 54
4. Investment revenue	-1,019	-1,034	-1,130	-1,196
(Public)	- 456	- 549	- 636	- 837
(Private)	- 563	- 485	- 494	- 359
5. Government transactions	- 7	- 9	- 11	- 15
6. Miscellaneous transport	- 153	- 110	- 115	- 119
7. Travel	86	46	19	27
8. Miscellaneous services	- 124	- 118	- 77	- 60
B. <u>Balance of services</u>	<u>-1,336</u>	<u>-1,348</u>	<u>-1,384</u>	<u>-1,417</u>
9. Transfers	161	167	219	158
C. <u>Balance on current account</u> (A+B+9)	<u>-1,728</u>	<u>-1,609</u>	<u>- 872</u>	<u>- 252</u>
II. Capital				
10. Direct investment	125	48	38	- 89
11. Private loans	135	157	- 85	- 114
12. Official loans	388	995	1,431	1,436
D. <u>Total long-term capital</u>	<u>648</u>	<u>1,200</u>	<u>1,384</u>	<u>1,233</u>
E. <u>Basic net balance (C+D)</u>	<u>-1,080</u>	<u>- 409</u>	<u>512</u>	<u>981</u>
14. SDR assignment	21	-.-	-.-	-.-
15. Short-term capital and errors and omissions	555	533	- 552	- 734
GRAND TOTAL (E+14+15)	<u>- 504</u>	<u>124</u>	<u>- 40</u>	<u>247</u>

*Preliminary

Source: Central Reserve Bank of Peru, External Sector Department.

ANNEX 2

Exports by Principal Products*
(millions of US dollars f.o.b.)

	1981	1982	1983	1984
I. TRADITIONAL PRODUCTS	2,548	2,531	2,460	2,421
1. <u>Fish meal</u>	<u>141</u>	<u>202</u>	<u>79</u>	<u>137</u>
Volume ('000 metric tons)	315	616	205	401
Price (US\$/metric tons)	448.0	328.8	396.7	342.4
2. <u>Cotton</u>	<u>64</u>	<u>85</u>	<u>44</u>	<u>23</u>
Volume ('000 qq)	685	1,287	670	246
Price (US\$/qq)	92.8	66.1	66.4	92.5
3. <u>Sugar</u>	<u>-.</u>	<u>20</u>	<u>35</u>	<u>49</u>
Volume ('000 metric tons)	-.	60	89	116
Price (US\$/qq)	-.	15.2	17.9	19.4
4. <u>Coffee</u>	<u>106</u>	<u>113</u>	<u>117</u>	<u>126</u>
Volume ('000 metric tons)	46	44	56	51
Price (US\$/qq)	107.4	119.6	96.8	112.7
5. <u>Copper</u>	<u>529</u>	<u>460</u>	<u>443</u>	<u>442</u>
Volume ('000 metric tons)	324	335	292	337
Price (US cents/lb.)	74.1	62.3	68.8	59.4
6. <u>Iron</u>	<u>93</u>	<u>108</u>	<u>75</u>	<u>58</u>
Volume (M of long tons net)	5.3	5.7	4.3	4.1
Price (US\$/net long tons)	17.7	19.1	17.5	14.1
7. <u>Gold</u>	<u>74</u>	<u>56</u>	<u>69</u>	<u>67</u>
Volume ('000 troy oz.)	157	149	164	182
Price (US\$/troy oz.)	472.6	375.6	420.8	367.3
8. <u>Refined silver</u>	<u>312</u>	<u>205</u>	<u>391</u>	<u>227</u>
Volume (millions of troy oz.)	28.0	26.0	32.7	26.8
Price (US\$/troy oz.)	11.1	7.9	11.9	8.5
9. <u>Lead</u> ^{1/}	<u>219</u>	<u>216</u>	<u>293</u>	<u>233</u>
Volume ('000 metric tons)	146	177	191	180
Price (US cents/troy oz.)	68.0	55.2	69.6	58.7
10. <u>Zinc</u>	<u>267</u>	<u>268</u>	<u>307</u>	<u>341</u>
Volume ('000 metric tons)	477	491	522	512
Price (US cents/lb.)	25.4	24.8	26.7	30.2
11. <u>Petroleum and derivatives</u>	<u>689</u>	<u>719</u>	<u>544</u>	<u>618</u>
Volume (millions of barrels)	19.9	22.7	20.5	23.5
Price (US\$/barrel)	34.7	31.6	26.6	26.3
12. <u>Other</u> ^{2/}	<u>54</u>	<u>79</u>	<u>63</u>	<u>100</u>
II. NON-TRADITIONAL PRODUCTS	701	762	555	726
III. TOTAL VALUE (I+II)	<u>3,249</u>	<u>3,293</u>	<u>3,015</u>	<u>3,147</u>

*Preliminary

^{1/}Including silver content^{2/}Including mainly base metals

Source: Central Reserve Bank of Peru, External Sector Department.

ANNEX 3

Principal Economic Indicators

	1981	1982	1983	1984
1. Gross domestic product (GDP) (Real growth rate)	3.1	0.9	-12.0	4.5
2. Domestic inflation (Average)	75.4	64.5	111.1	110.2
3. Exchange rate (Average)	422.3	697.6	1,628.6	3,466.9
4. Rate of interest: prime rate (Average)	18.9	14.9	10.8	12.1

Source: Central Reserve Bank of Peru, External Sector Department.