

GATT/1616  
9 February 1994

## **TRADE POLICY REVIEW MECHANISM**

### **Review of Peru, 7-8 February 1994**

#### **GATT Council's Evaluation**

The GATT Council conducted its first review of Peru under the trade policy review mechanism (TPRM) on 7-8 February 1994. The text of the Chairman's concluding remarks is attached as a summary of the salient points which emerged during the 2-day discussion of the Council.

The TPRM enables the Council to conduct a collective review of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

The review is based on two reports which are prepared respectively by the GATT Secretariat and the government under review and which cover all aspects of the country's trade policies, including its domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment.

A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, will be published during 1994 as the complete trade policy review of Peru and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Canada (1990 and 1992), Chile (1991), Colombia (1990), Egypt (1992), the European Communities (1991 and 1993), Finland (1992), Ghana (1992), Hong Kong (1990), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991), Japan (1990 and 1992), Kenya (1993), Korea, Rep. of (1992), Malaysia (1993), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992), South Africa (1993), Sweden (1990), Switzerland (1991), Thailand (1991), Turkey (1994), the United States (1989 and 1992), and Uruguay (1992).

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CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. These concluding remarks are, as usual, made on my own responsibility. They reflect my understanding of the salient features of the Council discussion, which will be fully reflected in the Minutes of this meeting.

(1) Macroeconomic Situation and Reforms

2. Council members recognized that, since 1990, Peru's policy direction had changed, with the aim of restoring macroeconomic balance. Fiscal policies had been reformed with a rationalization of the tax structure, and monetary control reinforced; foreign exchange controls had been liberalized and the exchange rate floated. These reforms had borne fruit; inflation had fallen from 7,650 per cent in 1990 to 39 per cent in 1993, and was expected to decline further, while the budgetary balance had improved markedly. International reserves had risen dramatically, and economic growth had resumed, reaching an estimated 7 per cent in 1993.

3. Questions were raised concerning the scope of the informal sector in Peru's economy and the impact of fiscal and other measures on the development of the formal economy. Members also asked about measures taken by Peru to reduce the production and trafficking of illegal drugs.

4. The representative of Peru replied that dollarization of the economy was not a threat to the conduct of monetary policy, and had not interfered with the stabilization objective. The Government's principal aims were to reduce inflation and stabilize the economy. Positive real interest rates, financial sector reforms and the consolidation of the stabilization programme should result in the promotion of domestic savings.

5. Peru's policy was to promote the incorporation of informal activities into the formal economy; in this respect, the introduction of a simplified tax régime for small enterprises was expected to enlarge the tax base considerably. The approach to the drugs problem relied on pacification, where considerable success was being achieved, and on the promotion of profitable substitute crops. In this area, active support from the international community, including access to markets, was essential.

(2) Structural Reforms

6. Members recognized that the structural reforms undertaken by Peru were closely linked to its macroeconomic policies. Progressive withdrawal of State involvement in production and trading activities and a liberal foreign investment framework were central to the reform package. Members sought further information on the timetable for remaining privatizations and on the response of the private sector to the overall reforms.

7. The representative of Peru stated that the aim was to privatize all public enterprises by 1995, without exception. Foreign and domestic investors would be treated equally. Ports and airports would be covered and measures would be taken to ensure competition. There was already a positive response to the reform package from the private sector, with significant capital repatriation and imports of capital

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goods; gross investment had reached some 24 per cent of GDP in the period August-October 1993. There were no restrictions on foreign investment except in border zones; no prior authorization was required, but advantages exist for registration of investments.

(3) Trade Policy Measures

8. Council members commended Peru for its impressive trade liberalization efforts in such a short period. The tariff structure had been simplified and rates had been considerably reduced. Import licensing had been eliminated. Predictability and transparency of the trade régime had thus increased significantly.

9. Concern was expressed over the operation, and GATT consistency, of variable import levies on certain agricultural items, and the use of such levies on an m.f.n. basis as a possible substitute for countervailing measures. Information was sought on the new anti-dumping and countervailing regulations introduced by Peru and their consistency with the General Agreement or the appropriate MTN Codes. The differential structure of cargo handling charges was a source of concern. More information was requested on Peru's customs valuation methods, including the use of reference prices, and on procedures for government procurement. In this connection, participants asked whether Peru would join the new Government Procurement Agreement.

10. Questions were raised over the terms of Peru's renewed active participation in the Andean Group and, in particular, the compatibility of its tariff reduction plans with the group's Common External Tariff. Information was sought on the status of bilateral agreements recently concluded with other Latin American countries. The network of varying preferences among Latin American countries was seen by some as likely to cause trade diversion.

11. The representative of Peru replied that regional agreements should be seen in the light of market-oriented programmes being undertaken throughout Latin America. It was hoped to find a solution to the question of compatibility between Peru's 15 per cent tariff objective and the Andean Group Common External Tariff. A bilateral agreement had recently been signed with Brazil, in the framework of LAIA, and agreements were foreseen with Mexico and Chile. It was believed that NAFTA would also benefit other countries in Latin America and beyond.

12. There were no plans to expand the scope of free zones. Import restrictions were limited to fertilizers which could be used in the manufacture of explosives, as well as goods prohibited for public health reasons. Peru had indicated its intention to sign the Customs Valuation Code but thought it premature to join the Government Procurement Code at this time. However, Government procurement procedures in Peru were non-discriminatory, neutral and transparent. Peru was ready to assume its full obligations under the Final Act of the Uruguay Round, including on Technical Barriers, Subsidies, Anti-dumping and Import Licensing Procedures as well as Customs Valuation.

13. Variable import levies, calculated on the basis of world market prices, were not countervailing duties. In July 1993, the Government had set a timetable for the reduction of such levies by July 1997, when the whole system would be reviewed. Expansion of the agro-industrial sector would, in part, depend on export market opportunities.

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(4) Other Questions

14. Questions were asked concerning the cumulative effects of indirect taxation; aspects of drawback, export support and promotion policies; and local content requirements for milk used in processing. Certain Council members noted with satisfaction that Peru had introduced legislation in the areas of competition policy and intellectual property rights.

15. The representative of Peru replied that export policy was intended to improve the competitiveness of Peruvian enterprises through elimination of excessive costs and suppression of export subsidies. Export credit insurance was largely in the hands of the private sector, while export promotion and marketing were fully privatized and no subsidies were involved. The drawback scheme completely rebated the IGV tax but the rebate of the Selective Consumption Tax (ISC) on fuels had been eliminated in December 1993. IGV and ISC applied equally to imports and domestic production. Despite these changes, one important trading partner was still applying countervailing duties to certain Peruvian exports.

16. In relation to intellectual property, the relevant Decisions of the Cartagena Agreement were fully enforced in Peru. INDECOPI was the implementing agency and its decisions could be appealed in the Supreme Court. The only local content provision now in force was that on milk used in reconstituted milk; in this respect, recommendations on the measure, including consistency with Uruguay Round Agreements, would emerge from a study to be made in 1995.

(5) Policy Outlook

17. Participants noted that the reforms had created a more stable, transparent constitutional and legal framework for the conduct of Peru's trade, on the basis of the objectives set in 1990. Peru's active contribution and commitments in the Uruguay Round were praised, although the gap between bound and applied tariffs was also noted. Some participants asked what problems might arise for Peru in adapting its legislation to the new multilateral rules.

18. In reply, the representative of Peru noted that, although radical changes had already been made in macroeconomic and trade policies, much remained to be done, especially in social fields such as health, education and justice. The constitutional provision allowing Peru to retaliate against the protective practices of other countries would be used in the framework of Peru's multilateral obligations. Support for Peru's efforts via liberal access to its trading partners was essential.

19. Peru is in the middle of a very ambitious liberalization and deregulation programme which represents a radical reversal of the policies pursued in the past twenty years. The Council looks forward to the completion of the trade liberalization package. Peru's offer in the Uruguay Round is evidence of its serious participation in the international trading system and we have taken note of Peru's remarks concerning the possibility of further market access negotiations. As Peru's own market opens to world trade, I hope that other contracting parties will be able to support Peru's efforts by extending open access for Peruvian exports.

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