

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

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TRADE POLICY REVIEW MECHANISM

THE REPUBLIC OF PERU

MINUTES OF MEETING

Chairman: Dr. M. Zahran (Egypt)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Trade Policy Review of Peru was held on 7 and 8 February 1994. The Chairman introduced the review, welcomed members of the Council, Ambassador Urrutia and his colleagues from Lima and Geneva and the discussants, Ambassador Christer Manhusen of Sweden and Mr Ricardo Barba from Mexico. The Peruvian delegation was headed by Mrs. Rosario Almenara, Vice Minister of Economy, Ministry of Economy and Finance, and Miss Ana Maria Deustua, Vice Minister of International Economy, Ministry of External Relations.
2. The Chairman recalled that the purpose of the Trade Policy Review Mechanism was "to contribute to improved adherence by all contracting parties to GATT rules, disciplines and commitments, and hence to the smoother functioning of the multilateral trading system, by achieving greater transparency in, and understanding of, the trade policies and practices of contracting parties" (BISD 36S/403).
3. According to the Decision taken on 12 April 1989, the Council was to base its work on two reports. The report by the Government of Peru for this review was contained in document C/RM/G/46 and Addendum 1 and the report by the Secretariat, drawn up on its own responsibility, in document C/RM/S/46. Outlines of the main issues the discussants intended to address were contained in document C/RM/W/15. Copies of written questions submitted by the delegation of Canada were available.
4. The Chairman then offered the floor to the representative of Peru.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF PERU

5. It is a pleasure for our delegation, on behalf of the Government of Peru, to describe for the first time Peru's trade policy within the framework of the Trade Policy Review Mechanism.

6. Before doing so, allow me to explain briefly Peru's situation in the context of past policies.

7. Between 1985 and 1990, Peru based its economic growth mainly on reactivating idle installed capacity, price controls and increased public spending, with the aim of promoting production through increased consumption within the context of an expansionist monetary policy.

8. However, this model could not be sustained beyond the short term. In 1990, Peru experienced the worst crisis in its history as a republic and its viability as a country was under threat.

9. An overgrown and inefficient State held the reins of production and presided over decline of almost 20 per cent in the gross domestic product during the period 1988-1989. Cumulative inflation during the period 1985-1990 reached astronomical levels: 2,000,000 per cent. The terrorism of the Shining Path (Sendero Luminoso), which accounted for more than 25,000 lives and US\$25 billion of damage - more than Peru's entire external debt - made it necessary to govern one third of the country under a state of emergency. Per capita income declined to the levels of the 1960s; absolute poverty affected half the population and extreme poverty almost one quarter. Tax receipts fell from 14 per cent of GDP in 1985 to less than 5 per cent during the first quarter of 1990 and were unable to cover the pay of central Government employees. Corruption became generalized and Peru, isolated at the international level, saw its external debt increase five times as fast as that of other Latin American countries.

10. Under such conditions, the world lost faith in Peru and Peruvians lost confidence in their ability to put their own house in order.

11. Over the past three and a half years, Peru has undergone a radical transformation which has led to the restoration of optimism at home and abroad regarding our future as a nation.

12. Peru's trade policy is one of far-reaching structural reforms based on a free market economy, the implementation of a prudent fiscal and monetary policy, a redefinition of the role of the State, opening up to international trade, institutional modernization and liberalization of the economy.

13. We shall make some brief comments on these changes in order to give an overall picture of the Peruvian programme and to underline our forceful contribution to the multilateral trade system.

Economic stabilization:

- (a) **Fiscal policy:** As part of the austerity policy and a strict fiscal system, spending is restricted to the level of fiscal revenue and external financing. It is not permitted to cover the fiscal deficit through unlimited issue of money or loans from the Central Reserve Bank. The Peruvian Government closely adheres to the precept that one cannot spend more than one earns. Furthermore, in order to increase fiscal revenue, it was necessary to strengthen the tax administration and enhance the efficiency of the tax system, abolishing many taxes that were difficult to collect or distorted the economy, and narrowing tax revenue down to four main taxes: income tax, general sales tax, selective consumption tax and tariffs.

- (b) Exchange rate and monetary policy: since the monetary authority is not empowered to authorize financing in the public sector or to grant financial or foreign exchange subsidies, monetary creation under the present Government has mainly been of external origin and this has allowed the net international reserves to recover. In addition, the multiple exchange rate system which previously existed has been replaced by a free floating system based on the free play of supply and demand. In Peru, there is total freedom to sell, buy and possess foreign currency, both within and outside the financial system. This is confirmed in Article 64 of Peru's new Constitution in force since 31 December 1993.

Structural reform:

- (a) The rôle of the State: The central axis of the Peruvian development programme is that the State should transfer the initiative for production to the private sector and eliminate all forms of privilege, preferential systems and discriminatory mechanisms such as monopolies, subsidies and artificial prices, in order to create efficiency, healthy competition and the universal rule of law. In order to do so, the aim has been to develop a reduced but solid State, with modern and efficient institutions which allow a suitably adapted fiscal system and enable the State to meet its imperative obligation to provide basic educational, health and judicial services and to maintain and build up the infrastructure, provide security and guarantee the transparency of markets.
- (b) Privatization: Peru has pursued a dynamic and accelerated privatization programme which aims to transfer all State enterprises - around 140 - to the private sector by 1995, involving sales and investment amounting to billions of dollars. During the current year, it is planned to privatize the major mining, petroleum, insurance and financial services, telecommunications, and electric power companies, including those which provide public services and contribute to the infrastructure.

14. Encouraged by the dynamism of the privatization process and attracted by the vast opportunities for investment, major corporations have bought State enterprises, invested in the capital of enterprises already established or set up interesting joint ventures with Peruvian companies. Among them are Anglo-American from South Africa, Newmont Mining, National Biscuit Company, American Insurance Group of the United States, Assicurazioni Generali from Italy, Credit Lyonnais from France, Tricolor from Chile, and Aeromexico and Televisa from Mexico. Moreover, eight of the ten largest telecommunications enterprises in the world are taking part in the privatization of Entel Perú and the Peruvian Telephone Company.

- (c) Capital markets and the financial system: International flow of capital has been deregulated and all restrictions on financial operations at the international level have been eliminated. Interest rates and insurance premiums are regulated by the market and banking and financial operations in general have been internationalized and adapted to the new trends in international finance. In addition, a new banking law has been approved which gives foreign investors the same treatment as local investors. The law also provides for new mechanisms in the capital market and these have resulted in a series of highly profitable operations, especially with regard to long-term credit and financial instruments.

15. In addition to privatization and the institution of pension fund administrators, reforms in the capital market have given new impetus to the stock market and the Lima Stock Exchange - which is now managed by the private sector - became the second most profitable in the world and the one which experienced the greatest growth in Latin America in 1992.

- (d) Foreign investment: Peru's investment legislation is probably the most advanced in Latin America. The new regulatory framework guarantees non-discriminatory treatment which places the State, the national private sector and the foreign private sector on an equal footing. This framework has eliminated all types of barriers preventing access by the private sector to the market and to ownership. There is total economic openness and it extends to all forms of ownership, enterprises or economic activity. There are no strategic sectors reserved for the State or local investors. Moreover, there are no restrictions on the repatriation of capital, dividends and royalties, which can be transferred at a time and in the currency which the investor deems appropriate without prior authorization by the State.
16. There can be no doubt that growth through private investment is the cornerstone of Peru's development model. The new legislation does not only provide security at the domestic level, but also equality of treatment, economic freedom and legal stability.
17. The underlying theme of the reforms is to give the development of investment and foreign trade - the central axes of the development model being implemented a stable regulatory framework.
18. I can assure you that Peru offers the maximum security for investment in the country.
19. An investor may take out insurance, both within and outside Peru, to cover his investment against commercial and non-commercial risks. Investors may also obtain coverage for their investment through the Multilateral Investment Agency Guarantee (MIGA) or the Investment Guarantee Agreement of the Overseas Private Investment Corporation (OPIC). They can submit any contractual disputes to international arbitration bodies such as the International Centre for the Settlement of Investment Disputes between States and Nationals of other States (ICSID). Peru has signed or is negotiating a number of bilateral agreements on the promotion and protection of investment that are in conformity with GATT and other international treaties signed by Peru.
- (e) Deregulation of the labour market: In the past, the labour market was excessively protectionist and it has been reformed with a view to making labour relations more flexible. Freedom of recruitment and freedom to negotiate labour contracts are among some of the guarantees. The purpose of these measures is to decrease costs and the risks of recruitment so as to promote long-term employment.
- (f) Free trade: The first major structural measure implemented in Peru was to liberalize foreign trade and make it more flexible. The Peruvian economy has opened up to international competition through the simplification of the tariff regime and the reduction of tariffs to two levels: one of 25 per cent and the other of 15 per cent ad valorem. The latter covers 87 per cent of the tariff headings and 97 per cent of the value of Peruvian imports. As a result of this measure, since July 1990 the average tariff has fallen from 66 per cent to 16 per cent ad valorem, revenue from import taxes has risen from US\$600 million to US\$1,500 million. It is envisaged that a single tariff of 15 per cent will be imposed as soon as possible.
20. The exception to the above is the special and temporary application of specific variable levies on 20 agricultural tariff lines in order to compensate for the instability of international prices for these products.
21. At present, legislation only allows for the possibility of prohibiting certain imports in exceptional cases, and only in respect of products which are harmful to the population's health or public security.

22. All para-tariff barriers have been eliminated: prior licences, controls, public or private registration requirements, quotas and preferential tariffs which obstruct foreign trade and hamper the free flow of goods and services.
23. At the same time, air and maritime transport has been largely deregulated and the cost of loading and unloading at ports has been reduced to international levels.
24. In addition, measures have been adopted to protect free competition, punish unfair competition in domestic and foreign trade, and protect all forms of intellectual property rights. The National Institute for the Defence of Competition and the Protection of Intellectual Property (INDECOPI) has been set up to monitor the fair application of the relevant laws and regulations.
25. Peru guarantees the transparency of markets and defends both markets and consumers against dominant positions, unfair competition and practices which restrict free competition. Peru has laws and regulations to prevent the distortion of competition in the market through dumping and subsidies based on GATT principles. Over the last three years, anti-dumping duties have only been imposed on two occasions.
- (g) Customs: One essential precondition for genuine trade reform was the reorganization of the customs authorities and certain responsibilities have been delegated to the private sector so that it operates as highly specialized and professional entities. The customs have been modernized and given the most modern technology and equipment. Personnel has been rationalized and customs officials have been trained in techniques appropriate to the opening up of trade taking place. Their scope of control and their discretionary authority has been limited in order to prevent corruption. As mentioned in the Report by the GATT Secretariat, customs formalities and procedures have been rationalized and are based on the principles of good faith and presumption of truthfulness.
- (h) The new Constitution: All these economic changes now have coherent and explicit support in the new Constitution, which helps to consolidate the system of reforms implemented, giving legal stability that guarantees their perpetuity. The economic system embodies the consensus which exists in Peru regarding the State's role in the economy and the relationship between the public and private sectors. The Constitution reaffirms the principles of free trade, equal conditions, freedom of enterprises, inviolability of property rights, free competition and market transparency. It abolishes all systems of preferences and prohibits State enterprises from receiving funds from the Treasury. In other words, the new Constitution guarantees real economic freedom and at the same time provides a regulatory framework for the operation of a dynamic and competitive economy.
26. The ratification of the Constitution in a popular referendum and the holding of municipal elections, as well as elections to the Democratic Constituent Congress, show that Peruvian democracy has continued along the path to consolidation, impelling the economic system towards development.
27. Peru's achievements during the period of stabilization and reform have been significant:
- Due to the expansion of sectors such as fisheries, electric power, construction and mining, in 1993 the increase in Peru's gross domestic product - the highest recorded in Latin America - approached 7 per cent, three times the rate of population growth. Growth of around 5 per cent is expected in 1994.

- As a result of strict fiscal and monetary policy, inflation continued its gradual decline from 7,650 per cent in 1990 to 39.5 per cent in 1993. Inflation of approximately 20 per cent is forecast for 1994 and 10 per cent for 1995.
- The fiscal deficit fell from more than 13 per cent of GDP in the first half of 1990 to less than 1.4 per cent in 1993, and for the first time a surplus is predicted for 1994.
- Tax revenue in the first half of 1990 had fallen to below 5 per cent of GDP, but it is now around 10 per cent of GDP.
- Net international reserves had fallen to negative levels of US\$150 million in July 1990, while in December 1993 they exceeded US\$2,900 million.
- Foreign currency deposits increased fivefold during the first 30 months after the present Government took over, as a result of the remonetization of the economy and the restoration of confidence within and outside Peru.
- The struggle against terrorism is undoubtedly being won by the Peruvian State. Thousands of terrorists, including 90 per cent of the leaders of the Shining Path (Sendero Luminoso) have been captured and hundreds of others have taken advantage of the Law on Repentance (Ley de Arrepentimiento). One reflection of this progress has been that the amounts of terrorism-related claims against insurance companies fell to one eighth of those in 1992 and the number of tourists in Peru increased by 37 per cent during the last eight months of 1993. Terrorism, the scourge of other Latin American and Andean countries, will have disappeared from Peru by 1995.
- Job creation through programmes to improve the basic infrastructure, food, nutrition and health care, with the participation of organized sectors of the population has meant that the State is once more present all over the country and has thus contributed towards pacification. Through the Social and Development Compensation Fund (FONCODES), the State implements some 10 thousand projects to relieve extreme poverty, as well as to restructure and provide technical and financial support for small family enterprises, for a total of around US\$350 million. In addition, financial reintegration has led to the establishment of the Group for Social Support to Peru, made up of around a dozen countries and the same number of international organizations, which has committed funds for social programmes up to 1995.
- Peru is once again seen as a country which fulfils its obligations and it is accepted as creditworthy by the international financial community. It has fully normalized its relations with the International Monetary Fund, the World Bank and the Inter-American Development Bank. It has also regularized its situation with the Paris Club and a number of creditor countries. After 10 years of silence, Peruvian representatives have recommenced talks with international commercial banks.

28. The Peruvian authorities have signed an Extended Fund Facility for 1993-95. The 1993 objectives were largely accomplished and we are now on the point of establishing the 1994 programme. Our dialogue with the IMF is still on course in the framework of the Reinsertion Programme. We would be pleased to give any kind of information on the Peruvian programme to countries which may wish to contact us bilaterally.

29. In addition, the stabilization programme is in part aimed at achieving a viable balance of payments which will allow Peru's full reintegration into the international financial community.

30. Today, we are experiencing a period of transition between the end of the phase of pacification, economic stabilization and restoration of credibility, and the beginning of an auspicious phase of development.

31. In the medium term, we are faced with the challenge of achieving sustainable growth, one based not on uncontrolled increase in public spending to be financed by unlimited issue of money, but on solid and permanent principles of labour, investment, saving and efficiency. The framework will not be that of a controlled economy, but openness in a free market and international trade.

32. In a globalized and interdependent economy, whose principal instrument is foreign trade, Peru wishes once more to occupy its place as a predominantly exporting country. We hope that GATT, its current provisions and in particular the implementation of the Uruguay Round Agreements, will help Peru to progress in that direction, enhancing our possibilities for international investment and trade with the Contracting Parties, reinforcing our openness and increasing our participation in an expanded international market.

33. The process of modernization and openness in Peru has gone hand in hand with the continuation of the final Uruguay Round negotiations so that Peru's legislation on trade in goods and services, intellectual property and investment is compatible with the agreements reached in the Round.

34. In this connection, I should like to thank the GATT Secretariat for having prepared its valuable report on Peru's trade policy and also Ambassador Manhusen and Mr. Barba for having agreed to present the report.

35. I should also like to underline the importance which Peru attaches to participation in this review mechanism, which helps to strengthen the multilateral trade system represented by GATT.

36. A demonstration of the importance which Peru attaches to this system is the composition of the Peruvian delegation today. It is present here to stress that Peru will continue to pursue its current policy to modernize its structures and advance towards the economic and social progress of the country.

37. You can rest assured that the Peruvian people and State are determined to pursue the policies adopted and will continue to promote the productive potential of the Peruvian people, until recently repressed by a decidedly interventionist State and an exaggeratedly over-regulated market.

38. The effort and the speed that Peru put to apply the structural reforms clearly reflect our belief in the free market economy, for implementing our development through an export-oriented model. Thus, Peru and Latin America in general, need a truly free and transparent access to the markets, particularly those of our developed partners.

39. The Peruvian delegation also added a number of written points of clarification and updating to the Secretariat report. These are presented in the Annex.

III. STATEMENT BY THE FIRST DISCUSSANT

40. The first discussant (Mr. Barba) noted that Peru should be congratulated for its ambitious programme of macroeconomic and structural reform, complemented with deregulation, privatization and trade liberalization. These were taking place under difficult internal circumstances and in an unfavourable international context. Positive developments in the last few years included the reduction in inflation to 39.5 per cent, GDP growth of 6.6 per cent and the increase in reserves to US\$3 billion in 1993. The fall in inflation could be attributed to reductions in the public sector deficit and the growth of money supply.

41. To reach single digit inflation, it would be necessary to continue to improve public finances, including through tax reform intended to bring the informal sector into the tax base. Unification of the exchange rate and exchange rate policy had contributed to the control of inflation. However, the degree of dollarization of the economy, estimated at 70 per cent, was of concern.

42. Privatization would also help to reduce the public sector deficit and, hence, inflation. He asked if more information could be provided on the timetable and sectoral scope of future privatizations.

43. Peru's external debt had reached some US\$19 billion. Normalization of Peru's relations with its creditors was underway: he was confident that the international community would continue to support Peru's reforms. The recent increase in foreign investment, helped by the new foreign investment régime, also demonstrated increased confidence. However, there were risks attached to relying mainly on foreign investment, and it would be interesting to learn what the authorities were doing to increase the level of domestic savings.

44. Peru's trade liberalization made a significant contribution to the international trading system. Tariffs had been cut from 66 per cent in 1989 to 16 per cent in 1993, and the intention to proceed to a uniform 15 per cent. Partly due to these changes, Peru's exports had grown, despite barriers in overseas markets. However, it was a matter of some concern that some sectors had obtained additional protection, in particular through variable levies as anti-dumping or countervailing measures and through the suspension of preferential treatment. This ran counter to actions to increase competition in the domestic economy. It was moreover, not clear how the planned uniform tariff would be compatible with the Andean Group four-tier tariff structure. He also asked if Peru was planning to join the Government Procurement Code. He hoped Peru would continue to deepen its reforms, but noted that the reform process would also benefit from a more favourable external environment.

IV. STATEMENT BY THE SECOND DISCUSSANT

45. The second discussant (Ambassador Manhusen) noted that the documents bore out a recent comment in the Financial Times that "... a fragile confidence is returning to Peru after a decade of violence and economic collapse". Trade policy was an essential element of an ambitious stabilization and structural reform programme.

46. The informal sector accounted for 40 per cent of GDP in 1986, with large production of coca, related dollarization and terrorism. He asked whether current estimates of the size of the informal sector could be given; through what measures the Government was getting to grips with the problem; and how, and to what extent the reform programme was affected by such factors as informal activities and terrorism. He also asked about the relationship between the drug interception programme and eradication or substitution programmes.

47. Promotion of the private sector was a key component of Peru's economic strategy. He asked for comments on reports of limited private sector response to the changed economic environment and whether opportunities for foreign investors in privatization were subject to any limitations.

48. Regional integration in Latin America consisted largely of a complicated web of often bilateral preferences under an equally complex set of agreements and sub-agreements. Peru's relations with the LAIA and the Andean Group were examples. This could lead to trade diversion. He noted with interest that Peru was reviewing the economic integration activities in which it participated and wondered if an assessment could be given at this stage. He asked what further integration in the Americas would be most in the interest of the country.

49. Many of Peru's specific trade policy measures were consistent with the objectives of integrating the domestic economy into the world economy and eliminating anti-export bias. They were being applied in a horizontal and non-interventionist manner. The Government deserved credit for action on tariffs, non-tariff measures and lifting exchange controls. However, he asked how the local content requirement on fresh milk, anti-dumping and countervailing measures and the suspension of preferential treatment were consistent with the stated policy objectives; moreover, how did handling charges twice as high for imports, or the fact that unloading containers was more expensive than loading, square with the overall goals? How did the Government view these measures in relation to its obligations under Article VIII of GATT? In addition, the gap between bound and applied rates did not seem consistent with Peru's trade policy objectives. He asked what would happen to the uniform tariff objective when Peru resumed full membership of the Andean Group with its four-tier tariff structure.

50. He also asked to what extent government procedures were neutral between domestic and foreign goods and services, and whether Peru would join the new Government Procurement Code.

51. Peru was to be commended for its constructive involvement in the Uruguay Round. In this context, it would be interesting to know how far this would make it possible to dismantle variable levies on agricultural products, and how the single undertaking would affect Peru's trade policy. Finally, he asked if it could be explained why there was overcapacity in the fishmeal sector.

V. STATEMENTS BY MEMBERS OF THE COUNCIL

52. The representative of Bolivia welcomed Peru's progress towards political stability, economic growth and participation in the international community. Peru's credit-worthiness in the international financial institutions had been restored; inflation had been significantly reduced; GDP was growing; and efforts were being undertaken to minimize the social costs of its adjustment reforms. Despite unfavourable climatic and economic conditions, exports had diversified. The introduction of new investment laws created a favourable environment for foreign investors and domestic entrepreneurs.

53. Trade reforms had been consolidated under the new Constitution. Peru's active participation in the Uruguay Round confirmed its attachment to the multilateral trading system. Its efforts and initiatives deserved the support of the international community.

54. In 1992, Bolivia had concluded a free trade agreement with Peru, eliminating all border measures for almost all traded goods. Peru had offered Bolivia access to the seaport of Ilo by means of a free zone, while Bolivia was planning to grant a free port zone at Puerto Suarez that would link Peru with the Atlantic Ocean. A number of projects accompanied these agreements.

55. The representative of Argentina stated that development limitations should not be confused with deliberate policies. Concerning the informal economy and, in particular, the illicit drug trade, his country had reiterated in all relevant fora that international solidarity and cooperation were required to eliminate this problem. He also thought that there was no direct causal link between indirect taxes and informal activities.

56. He expressed support for Peru's economic reform, which had already shown positive signs. Previous policies had led to hyper-inflation and the suspension of international financial commitments. The stabilization programme, introduced in the mid-1990s, had already brought results in a number of areas, namely the control of inflation, reduction in the public sector deficit, increased tax collection and the growth of international monetary reserves. In addition, the share of foreign trade in GDP was growing. Public sector reforms, such the suppression of monopoly rights and the privatization programme, should strengthen fiscal discipline and increase the competitiveness of domestic industry. Despite positive signals given by macroeconomic indicators, Peru's share in world trade was stagnating because of barriers to access in its main export markets.

57. Peru's trade policy reforms were being undertaken in an unfavourable environment, dominated by market access difficulties, falling international commodity prices and adverse climatic conditions. Peru's tariffs were moderate; few non-tariff measures remained in place; import licensing requirements were eliminated; and quantitative restrictions were no longer being applied. Despite their high cost, the adjustment efforts should now bring concrete results in the area of exports.

58. The representative of Australia complimented Peru for its macroeconomic and structural reforms since 1990, including in exchange rate and foreign investment policies. These should assist Peru in stabilizing its economy and strengthening its export sector.

59. Major trade policy changes, including the introduction of anti-dumping and countervailing legislation, would open the domestic market to foreign trade and increase competition. She noted that Peru was in the process of accession to the Customs Valuation Code, and encouraged its accession to other MTN Agreements such as those on Technical Barriers to Trade, Subsidies, Anti-dumping and Import Licensing.

60. Variable import levies and fixed surcharges were imposed on certain agricultural items to provide price stabilization and protection against export subsidies. In this respect, she asked whether Peru had considered having recourse to its 1991 countervailing legislation, rather than to variable import levies. Fees charged by specialized inspection companies were calculated on an ad valorem basis and might therefore be in excess of the approximate cost of the service. She enquired whether Peru planned to reduce its tariffs below the projected level of 15 per cent. The representative of Australia also sought comments from the Peruvian delegation on how informal and smuggling activities were related to the level of internal taxes and the influx of migrants from rural areas to the cities.

61. The representative of India said that Peru deserved praise as a shining example of unilateral liberalization. Regional trade arrangements could have a positive impact on the multilateral trading system, provided that regional markets remained open, non-discriminatory, secure and predictable.

62. The representative of the European Communities recognized that in 1990, after two decades of political and economic chaos, Peru had made a policy shift aimed at its re-insertion into the global economy and the re-establishment of links with the international financial system. Its stabilization programme, comprising strict budgetary and monetary discipline, as well structural reforms aimed at opening the market and increasing competition and trade liberalization measures pointed in the right direction and were supported by the EC. Foreign investment was encouraged and monopolies or state involvement in the economy were being eliminated.

63. Nevertheless, he was concerned by the limited response of the private sector to these reforms. Structural barriers such as high interest and tax rates, infrastructure deficiencies and an overvalued currency remained. He wondered whether the reform process would succeed, during the transition period, in reducing the size of the informal sector, including cocaine production and exports. In this respect, it was important that the Uruguay Round resulted in gains for Peru's traditional and non-traditional exports. The EC's first Uruguay Round market access agreement had been with Peru. The success of Peru's reforms depended on how inflation and the dollarization of the economy, strictly related to cocaine trade, were to be handled.

64. The European Communities were pleased that the anti-export bias in the tariff structure had been eliminated. Duties were to be bound at 30 per cent, except on some 20 agricultural items. However, discriminatory aspects of cargo handling charges seemed inconsistent with GATT Article VIII. Prompt accession to all Tokyo Round Codes, in particular those on Customs Valuation and Government Procurement, would facilitate Peru's participation in the WTO. Reference prices for customs valuation purposes should also be eliminated upon accession to the Customs Valuation Agreement.

65. He noted that Peru's observer status in the Andean Group had been extended until 30 April 1994. The present arrangement created a complicated situation. He sought more information about the short-term prospects for Peru's participation in this regional group, and on how Peru's plan for attaining a 15 per cent flat tariff rate could be reconciled with the group's four-tier Common External Tariff.

66. The representative of the European Communities asked that all recent modifications to preferential agreements where Peru was a signatory should be notified and examined promptly. It seemed that, since 1991, certain EC exports of printed material (HS items 4901 and 4902) to Peru had declined substantially as a result of duty-free treatment applied to similar goods from non-Andean Group countries.

67. The representative of Canada congratulated Peru for the progress of its macroeconomic and structural reforms, including liberalization of the trade régime. The introduction of Legislative

Decree 668 was a significant step in increasing the transparency and GATT-consistency of the régime. The recently established trade dispute settlement mechanisms were another positive step.

68. The implementation of variable import levies on some agricultural items, including Canadian dried milk products, was of particular concern. This was an inappropriate and GATT-inconsistent substitute for the countervailing procedures available under Article VI of the General Agreement.

69. Canada supported Peru's planned elimination of protectionist elements in the area of standards including those contained in its sanitary and phytosanitary régime, and welcomed the intention to bring them into line with internationally agreed rules. He therefore urged Peru to adhere to the Tokyo Round Codes in which it maintained observer status, and to ratify and implement the Uruguay Round Agreements, including on Technical Barriers to Trade and Sanitary and Phytosanitary Measures.

70. The representative of the United States also commended Peru for the steps taken to liberalize its trade and investment régimes. Almost all non-tariff barriers had been eliminated, while reference prices and sanitary regulations were not used as protectionist measures.

71. He noted that the method used for calculating taxes and charges might inadvertently discriminate against imports. Two taxes assessed directly on domestic goods, appeared to be levied on top of tariffs and other taxes on imports. He asked whether Peru also assessed the sales, consumption and municipal taxes consecutively on domestic goods.

72. The level of air freight charges for handling imported merchandise was twice that levied on domestically traded goods. Charges for off-loading ships were also nearly twice as expensive as those for on-loading. The United States were concerned about the discriminatory aspects of Peru's freight handling charges and sought to know Peru's plans for changes in the light of its obligations under Article III, paragraph 2 of the General Agreement.

73. Despite significant progress in eliminating corruption and streamlining procedures, certain customs procedures were outdated and had resulted in the overvaluation of high technology items. In view of Peru's forthcoming accession to the Tokyo Round Customs Valuation Agreement, he was interested in knowing how far the rules of the agreement would be incorporated into domestic legislation. Since August 1993, Peru had been a beneficiary of the Andean Trade Preference Act, which was an extension of the GSP programme of the United States, covering 6,000 items.

74. Export measures such as the reduction of the ISC tax on fuels, the SECUREX export finance programme, and export promotion and marketing assistance appeared to be limited to Peruvian companies and to fall within the meaning of subsidies under Article XVI:1 of the General Agreement. He sought explanations by the Peruvian authorities on this matter.

75. Peru's tariff binding commitments under the Uruguay Round were set at commercially meaningful rates. Nevertheless, local content requirements on agricultural items should be frozen or phased-out, as agreed under the Uruguay Round Agreement on TRIMs. He praised Peru's active and positive participation in the bilateral negotiations on services, as well as its commitments, which were of particular interest to the United States.

76. He urged the Andean Group members to submit their Customs Union for review to the GATT, as MERCOSUR had done. He sought information regarding Peru's status in the Group; in particular whether the temporary trade agreements concluded between Peru and its Andean Group partners were still in force. He also wondered how the implementation of a single 15 per cent tariff rate by 1995

could be reconciled with the Andean Group's four-tier Common External tariff. He asked what progress had been made in prospective agreements with Brazil, Mexico and Chile.

77. Improvement of intellectual property rights in Peru, similar to measures taken by the Andean Group, could assist in attracting foreign capital. Despite the fact that, from 1 January 1994, Peru had begun granting patent protection to most pharmaceuticals, he expressed concern about the lack of protection in Peru's new industrial property law for pharmaceuticals awaiting marketing approval in other GATT member countries.

78. The representative of Hong Kong complimented Peru for abandoning its long-standing import-substitution policy and adopting measures aimed at integration into the world economy. Peru's unilateral trade liberalization, an essential component of its macroeconomic and structural reforms programme, included a significant reduction in average tariffs; the removal of quantitative restrictions, subsidies and price controls; and the phasing-out of State ownership. In view of its long GATT membership and its observer status in certain Tokyo Round Agreements, Peru should join such agreements. The submission of data on procurement by central, regional and local governments, as well as by public enterprises was important to ensure a high degree of transparency. Despite its strong regional trade priorities, Peru's main trading partners were not the LAIA or Andean Group countries. Therefore a strong multilateral trading system was of great importance to Peru.

79. The representative of Cyprus believed that the Trade Policy Review of Peru constituted a transparent and constructive appraisal exercise that could strengthen the multilateral system. The mechanism would gain more importance in the context of the WTO by covering all significant trade-related aspects of domestic policy that are subject to international competition. Peru's stabilization programme was reducing inflation. Structural reforms aimed at modernizing the productive structure, rationalizing resource allocation and promoting investment. Reforms also included a strategy for reintegration in the international financial system; a trade liberalization programme based on the objectives and rules of the General Agreement; and the development of foreign trade. Despite the high social costs arising from its status as a developing country, Peru, by opening its market, confirmed its belief in the advantages of international trade.

80. The representative of Mexico commended Peru for its economic reforms which, despite their social costs, were having positive results. Its unilateral trade liberalization should be recognized by the international community. Peru's offer in the Uruguay Round reflected the credibility of the programme of reforms and constituted another element in its liberalization process. However, it maintained certain elements of exceptional protection. He wanted to know the reasons for such measures.

81. Bilateral trade between Peru and Mexico had increased considerably under an Economic Complementarity Agreement, concluded in 1991. He was interested in knowing how Peru was reconciled its regional agreements with the multilateral trading system.

82. The representative of Finland, speaking on behalf of the Nordic countries, recognized the remarkable progress that Peru had made under the new economic programme. Peru's economic situation remained fragile and further action needed to be taken. Social sacrifices were reflected in the rise of the share of the population living in conditions of extreme poverty. These should not be ignored when the fulfilment of Peru's external debt obligations was discussed. Foreign investment could stimulate the economy, but could not be the sole source of development. It was important to integrate the informal sector into the economy, in order to reduce tax rates and decrease the competition between the formal and informal sectors.

83. Despite the reforms, the mining sector still accounted for half of the country's exports. A further decline in world prices of copper and zinc, expected through the mid-1990s, and increases in international interest rates constituted threats to Peru's balance of payments, given the share of variable-rate debt in the total. Peru deserved international support to combat drug trafficking. She was interested in knowing Peru's intentions on further regional integration. The modest level of trade flows between the Nordic countries and Peru should increase following the successful conclusion of the Uruguay Round.

84. The representative of Japan congratulated Peru for the initiatives taken since July 1990. The domestic economy had shown considerable development and was being integrated with the world economy. Liberal, non-discriminatory foreign investment legislation helped in attracting investors, but still more had to be accomplished before complete confidence would be restored in the Peruvian economy. He sought more information on the time frame and priority sectors for privatization.

85. Substantial efforts had been made by Peru to simplify and reduce tariff rates and to eliminate non-tariff barriers. He hoped that measures such as variable import levies, reference prices and local content requirements were being applied in a GATT-consistent manner. Although no anti-dumping duties had been imposed on products from Japan, he sought clarification on the implementation of Peruvian anti-dumping legislation. How were the provisions in question related to GATT Article VI criteria applying to cases where dumping "materially retards the establishment of a domestic industry"?

86. Japan was among Peru's main trade partners. Peru, a beneficiary of his country's GSP scheme, was also an important supplier of minerals. In the Uruguay Round, Japan made considerable offers to Peru on textiles and non-ferrous metals.

87. The representative of Switzerland commended the efforts of the Peruvian Government to control inflation and abandon import substitution policies. The trade and foreign exchange régimes had been liberalized. She was particularly pleased with Peru's commitment to bind tariffs at 30 per cent.

88. She asked whether Peru had considered suppressing or reducing the level of internal taxes, which constituted an incentive for informal or smuggling activities. She requested a detailed list of goods subject to import prohibition. She also asked whether plans existed for early adherence to the Government Procurement Code negotiated in the Uruguay Round, and wondered whether Peru could indicate the share of the existing free zones in Peru's foreign trade.

89. Her delegation encouraged Peru's regional initiatives and hoped that these conformed to the spirit of GATT Article XXIV, favouring trade growth within the multilateral trading system rather than raising barriers between regional blocks. Regarding Peru's resumption of status in the Andean Group and its four-tier Common External Tariff, she was interested in knowing how Peru was planning to pursue its plan for a 15 per cent tariff rate. She asked whether the Andean Common External Tariff covered all tariff lines.

90. Switzerland encouraged the Peruvian authorities to continue with their reforms in particular with regard to public finance, privatization and foreign trade. Improved world markets for agricultural and natural-resource goods would greatly assist the transformation of the Peruvian economy and the diversification of its export structure. The conclusion of the Uruguay Round should lead to a better functioning of markets of key importance for Peru.

91. The representative of Turkey recognized the positive and significant steps toward trade liberalization and increased competition taken by Peru. After 1990, average tariff levels had been

reduced; import prohibitions, quantitative restrictions, import licensing and price controls had been abolished. Nevertheless, variable import levies, which might have a substantial trade restrictive effect, were applied. She sought information on their implementation and GATT consistency as well as on plans to reduce or abolish them. She wished to know more about Peru's long-term objectives in pursuing regional, interregional and bilateral integration efforts, including the possibility of NAFTA membership.

92. The representative of Uruguay noted that Peru had made an important shift in its economic and trade policies in a very short period. Despite social sacrifices, the macroeconomic and structural reforms had encouraged more efficient resource allocation and set the basis for sustainable development. Trade liberalization under the Uruguay Round would assist Peru to consolidate its own reforms.

93. Uruguay, an exporter of agricultural products, although worried by the implementation of variable import levies on certain items like grains and dairy, considered such measures a logical response to the heavy export subsidization policies of major developed countries. The Uruguay Round Agreement on Agriculture was a first step towards the elimination of the latter policies.

94. The representative of Chile commended Peru's reforms, which opened the way to economic growth and stability. Trade policy reforms would permit the strengthening of their bilateral trade. Chile had taken advantage of the privatization programme and was now one of the main foreign investors in Peru. Regional investment flows were establishing new links between Latin American countries. He sought more information on investment regulations and future privatizations.

95. The representative of Venezuela recognized the efforts made by the people and Government of Peru to establish a solid basis for economic growth and social development. He shared the views of previous speakers on the relationship between the plans for the single tariff rate of 15 per cent by 1995 and the Common External Tariff of the Andean Group. He also sought Peru's comments on the introduction of a range of agricultural prices in the context of the Andean Group.

96. The representative of Poland sought information on the level of GDP per capita, the inclusion of informal activities in the GDP statistics, the new drawback scheme and the conditionality of Peru's offer in the Uruguay Round.

97. The representative of Colombia recalled the distortive effects of past policies and praised the wide-ranging achievements resulting from the Peruvian Government's policy change since July 1990. The rate of inflation and the share of the public deficit in the GDP had been reduced. GDP growth and the international reserves position were recovering. The rôle and scope of the public sector had been redefined and a large share of State entities had been privatized. Free market policies had been introduced and foreign trade had been liberalized. She was confident that Peru would soon fully resume its position in the Andean Group, and contribute actively to the regional integration process. The success of Peru's reforms depended on the support of the international community and, in particular, on the liberalization of world markets.

98. The representative of Paraguay stated that Peru had set an example to be followed by other countries. Peru had been an active participant in the Uruguay Round negotiations and deserved effective international support through improved market access and better support for its needs in the economic, monetary and financial areas.

99. The observer from the International Monetary Fund noted that Peru had normalized its relations with the Fund in March 1993, when a three-year arrangement was approved for Peru. The IMF believed that single-digit inflation was achievable in 1995. She could not see any generic threats to the authorities'

anti-inflation policies, including those related to the dollarization of the economy. Peru's Central Bank sterilized 50 per cent of U.S. dollar deposits through a marginal reserve requirement. Such a requirement could be fully effective to the extent the Bank did not allow positive price differentials to arise between its remuneration of foreign currency deposits and the international short-term interest rate level. Although the level of indirect taxes did not constitute an incentive to behaviour undercutting the tax base, no attempt should be made to use the import tariff system for revenue purposes.

VI. REPLIES BY THE REPRESENTATIVE OF PERU AND FURTHER COMMENTS AND QUESTIONS

(1) Macroeconomic Policies

100. The representative of Peru said that dollarization did not constitute a risk for the management of monetary policy and therefore did not interfere with the objective of stabilization. The inflow of foreign currency mainly reflected confidence in the stabilization policy, a return of capital and receipts from privatization. It was hoped that the consolidation of the stabilization programme, Together with positive real interest rates, would encourage domestic savings. These would also benefit from capital market developments such as privatization of the pension system, and from changes in tax policy.

101. The informal sector should not be confused with illicit drugs trafficking. Governmental policy was to bring the informal sector into the formal sector. This would be facilitated by the rationalization and simplification of the tax system. The new single simplified régime (RUS) establishing a special tax system for small- and medium-sized businesses would help extend tax coverage. The reform of the State was also intended to eliminate bureaucratic obstacles facing business and reduce the costs of participation in the formal sector. An estimate of value added by the informal sector was included in the national accounts.

102. The expansion of coca production in the last 15 years could be attributed to strong external demand and the lack of viable alternatives. A major advance in pacification had been made with the capture, in the last year, of 90 per cent of the leadership of the terrorists. Efforts were being made to create an infrastructure which would allow coca-growing areas to become more closely integrated with the rest of the country and hence provide markets for alternative products. This stage required international support and solidarity, including access to foreign markets. In this respect, Peru called on the European Union to prolong and extend the coverage of its programme of support for Andean countries affected by the drug problem.

103. The first discussant asked how the Peruvian authorities would co-ordinate the various elements of macroeconomic policy and what were the major challenges in this respect. Would Peru give priority to controlling inflation or to restoring economic growth? Perhaps there was sufficient room for manoeuvre to advance on all fronts at the same time.

104. The second discussant asked for a clarification on the working of the new simplified single tax régime (RUS) and emphasized the importance of the crop substitution programme.

105. The representative of Peru responded that control of inflation and the implementation of the stabilization programme were the main aims of macroeconomic policy. The implementation of monetary and fiscal policies would continue to follow strict discipline. While Peru would like to re-activate production and improve other macroeconomic variables, the main aim was still the control of inflation. The new tax régime contained five different brackets, with a minimum and maximum in each tax bracket. Operational details would shortly be released. It was hoped that the new system would bring in some 350,000 new taxpayers. The crop substitution programme was ambitious but Peru needed substitute crops and the infrastructure programme being implemented was also expected to help.

(2) Structural Reforms

106. The representative of Peru said that privatization plans were to be completed in 1995. A list of companies to be privatized, with a timetable, was circulated at the meeting. No sectors were excluded;

the programme was ambitious in both scope and speed. The programme would also cover ports and airports; thus, past differentials in the treatment of exports and imports, already much reduced, would disappear. Foreign capital received the same treatment as domestic capital in all sectors.

107. The private sector had responded positively to structural reforms, significantly increasing investment in recent periods. The ratio of investment to GDP had reached 24.3 per cent in the August-October period of 1993, compared with 16 and 18 per cent in previous years. Private business had undertaken modernization and restructuring to prepare itself for increased competition in the internal market and to compete on foreign markets. Between 1991 and September 1993 there had been capital goods imports worth US\$2.5 billion, capital repatriation of some US\$2 billion, growth of the stock of foreign direct investment by US\$385 million and future investment commitments of US\$1.3 billion.

108. The second discussant sought clarification on equality of opportunities for foreign and domestic investors. He also asked for an indication of the sectors which were attracting new foreign investment.

109. The first discussant noted that new investment was a sign of growing confidence in the economy. New investment had been assisted by removing uncertainties. He asked whether Peru could confirm that most of the State-owned enterprises had been purchased by foreign investors. Was there an imbalance between foreign and Peruvian investment, and was it a goal of the Peruvian Government to ensure such a balance?

110. The representative of Canada asked if there were any sectors where Peruvian or Andean Group ownership must exceed 50 per cent. Which privatized sectors would retain or be granted monopoly rights in the Peruvian market? If port services were granted such a monopoly, how could it be guaranteed that the differential between on-loading and off-loading charges would be eliminated? What was the regulatory mechanism to ensure that these charges would reflect the true cost of the services, as required under GATT Article VIII?

111. The representative of the European Communities asked if the figures on foreign investment which had been provided related to actual or promised investments.

112. The representative of the United States asked if companies established under Andean Group investment rules would still benefit from Andean Group preferences even if they no longer met percentage criteria with respect to ownership.

113. The representative of Peru said the aim of privatization was to open all sectors. The only restriction related to the purchase of assets within 50 kilometres of the frontier. Details on investment and investment offers by specific companies were provided. Only HIERROPERU had been purchased by 100 per cent foreign capital. Other investments were by consortia with a high participation of national capital. The position of monopolies was treated on a case by case basis, depending on market conditions. For example, the telecommunications monopoly was based on the perceived need to maintain a single unit, in order to ensure the investment took place; while, for ports, it was intended that there be more than one operator, to try to keep ports competitive; and there would be no need to impose restrictions on investment. There were certain advantages given to investments registered in advance. Data on investment stocks were lower than actual investment because some investment had not been registered. At present in the Andean Group there was no limitation on foreign investment; but Peru did not participate in the Andean programme of liberalization.

(3) Trade Policy

114. The representative of Peru said that policies throughout Latin America in the 1960s and 1970s had been based on national import substitution. In the region today, national policies were generally market-oriented. Thus, regional liberalization had revitalized the interest in regional integration. Not everyone was moving at the same speed but the different accords would likely converge. Peru would participate in such agreements to the extent that they were compatible with national policy objectives.

115. The question of Peru resuming membership of the Andean Group had been postponed until April 1994. It was hoped to find a solution to the question of compatibility between Peru's goal of a 15 per cent uniform tariff and the four-tier system of the Andean Group.

116. Peru's final offer in the Uruguay Round was to bind its tariff at a level of 30 per cent, an improvement over the conditional offer of 35 per cent reported in the Secretariat document. This was the second lowest bound tariff level in Latin America, after Chile. Bindings had risen from 500 to 6000 items, or the entire tariff. Peru was ready to negotiate a lower bound rate in return for equivalent concessions from its trading partners.

117. On 31 December 1993, Peru had signed an economic complementarity agreement with Brazil in the framework of the LAIA. In 1994 Peru would negotiate a trade and investment agreement with Mexico and an economic complementarity agreement with Chile, both under the LAIA. Peru had also followed the NAFTA negotiations with great interest and believed that the agreement would primarily benefit its three members, but so far as it was outward-looking, it would also benefit other parties within Latin America and beyond.

118. Peru had no plans to increase the number of free trade zones.

119. Under Legislative Decree 668 on foreign trade, import restrictions could only be used in exceptional circumstances for reasons of public health or public order. Thus, restrictions had been imposed on the import of fertilizers which could be used in the manufacture of explosives. Additionally, there was a list of products restricted for public health reasons, including radioactive waste, certain used goods, and pesticides. These measures were taken under Article XX(b) of the General Agreement.

120. Peru had already notified its intention to adhere to the Customs Valuation Code shortly. However, membership of the Government Procurement Code would be premature at this time, given its limited membership. Nevertheless, there was no discrimination in Peru's current, transparent procedures. Legislative Decree 25565 allowed the contracting of international organizations to carry out such processes for State-owned enterprises to guarantee impartiality, and UNDP had handled tenders worth US\$130 million.

121. Peru was ready to assume its full responsibilities arising from its signature and ratification of the Final Act of the Uruguay Round. Peru would therefore be a full member of the World Trade Organization, including the Multilateral Agreements on Technical Barriers to Trade, Subsidies, Anti-dumping, Import Licensing and Customs Valuation.

122. Export policy was intended to improve the competitiveness of Peruvian enterprises so that future growth would be based on external markets. To achieve this, export subsidies had been eliminated and efforts were being made to eliminate excessive costs facing exporters. Export credit insurance (SECREX) was 90 per cent privately owned, while export promotion and marketing were fully privatized and there was no assistance to marketing or export promotion. The drawback scheme completely

refunded 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 had been applying countervailing duties for over ten years to Peruvian exports of textiles, clothing, some flowers and steel bars, although the rationale for this had been eliminated three years previously.

123. In the past, the agricultural sector had been subject to discrimination through the operation of macroeconomic and sectoral policies. Variable levies now applying in the sector covered only six products: wheat, maize, sorghum, rice, sugar and milk powder or milk fat, covering a total of 20 tariff items. Variable import levies were calculated on the basis of world market prices, as described in the Secretariat report. This was the only protection in the sector. Imports were otherwise free; para-tariff measures, preferential interest rates, guaranteed prices and price controls had been eliminated, and the development bank had been dissolved. The objectives of the mechanism were to reduce the effects on domestic prices of fluctuations in world prices, and to protect the sector against falls in world prices when they went below the long-term trend. They were not countervailing measures. 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 considering the development of the world food market and progress in the completion of the Uruguay Round obligations. Expansion of the agro-industrial sector would, in part, depend on export market opportunities from obligations undertaken in the Uruguay Round.

124. The second discussant noted that Peruvian legislation on Government procurement allowed transparency without discrimination. How did Peru assure that it benefited from competitive procurement procedures and ensure impartiality in the processes?

125. The first discussant asked if Peru had become a net importer of certain agricultural products of which it had traditionally been an exporter. How could Peru benefit more from its comparative advantage in the sector? Did it contemplate greater participation in agro-industrial production with higher levels of value added?

126. The representative of Egypt asked for information on the new drawback system and its usefulness in promoting exports.

127. The representative of Canada asked whether any production from the free zones found its way into the national market and, if so, how was it treated. The new Constitution apparently provided that, if other countries adopted protective measures affecting Peru, similar measures could be adopted by Peru on a reciprocal basis. How would this be determined? Had this provision been used or was its use contemplated?

128. The representative of the European Communities asked for the notification of recent agreements concluded in the framework of the LAIA. He also asked how sales tax was applied on items imported duty free under preferential arrangements in the Latin American region.

129. The representative of Peru said that government procurement procedures had to be neutral and transparent. Peru had indeed become a net food importer over the last 30 years, having previously been an exporter. This was partly due to economic policies with a negative direct or indirect impact on agriculture. Preferential tariffs had been established to facilitate the import of lower priced foodstuffs, as part of the low-wage import substitution strategy. This trend was being reversed to allow agriculture to tie in better with the agro-industrial sector where Peru had great potential, but better access to overseas markets was required. The general sales tax drawback had applied only since January 1993, but the drawback of the selective consumption tax on fuels had been eliminated in November 1993. The sales

tax (IGV) applied equally to all imported and domestic products, even where the imported good benefited from a tariff exemption. Imports from free zones were treated in the same as other imports. Response to protective action taken against Peru could only take place under international conventions or treaties such as the General Agreement. The regional agreement with Brazil and those being negotiated with Mexico and Chile had yet to be signed; therefore it was not possible to notify them at present. Agreements concluded under the LAIA were notified to the Committee on Trade and Development under the provisions of the Enabling Clause.

(4) Other Themes

130. The representative of Peru said that the relevant Decisions of the Cartagena Agreement in relation to intellectual property were fully enforced in Peru. The Government was acting against the piracy of intellectual property rights in all its forms. INDECOPI was the implementing agency and its decisions could be appealed in the Supreme Court.

131. Peruvian legislation prohibited any setting of minimum percentages for the use of local components in goods produced in the country. The only exception, under Decree Law 668 concerned the use of milk products as inputs into reconstituted milk. The Government was committed to studying this question during 1995. Recommendations arising from the study would be implemented in keeping with Peru's Uruguay Round commitments.

132. In response to a question on the level of national income, the representative said that GDP per capita had risen from US\$1,551 in 1990 to US\$1,977 in 1991 and US\$2,017 in 1992, according to the International Financial Statistics of the IMF. Purchasing power parity was a new concept, introduced by the IMF in its World Economic Outlook of May 1993, but there were no general statistics prepared on this basis for Peru.

(5) Outlook

133. The representative of Peru said that in the three years since the present Government had taken office there had been a radical change in macroeconomic indicators, state intervention in the economy and trade policy. While a series of simultaneous structural reforms had produced the results discussed, there still remained much to be done in other areas. In 1994, social development programmes in health and education would be pursued; at the same time, it would be fundamental to keep to the basic macroeconomic values, and to ensure no slippage in deregulation of the economy. Promotion of private foreign and domestic investment would also continue. The main objective would be to pursue the fight against inflation to achieve the goals of 20 per cent in 1994 and 10 per cent in 1995.

134. The success of Peru's programme of economic liberalization required access to developed country markets. Similarly, the support of member countries and agencies in the Paris Consultative Group was essential to ensure that an adequate social emergency programme could assist the poorest in the population over the effects of the adjustment programme. In this respect, Peru was particularly grateful for the recent forgiveness of some US\$130 million of debt by Switzerland, provided 25 per cent of that amount was used for social support in Peru.

135. In response to a question from the second discussant, the representative of Peru said that overcapacity in the fishing sector related to fishmeal whereas encouragement was being given to small fishing activities for the production of fish for food. The Government was managing fishing stocks to ensure sustainability of fishing in the medium term.

VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

136. 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

137. 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.

138. 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.

139. 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.

140. 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

141. 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.

142. 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 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

143. 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.

144. 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.

145. 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 distortion.

146. 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.

147. 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.

148. 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.

(4) Other Questions

149. 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.

150. 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.

151. 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

152. 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.

153. 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.

154. 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.

ANNEX

ADDITIONAL COMMENTS BY THE REPRESENTATIVE OF PERU

The Government of Peru submits herewith the following clarification and updated information concerning the report by the GATT Secretariat. The Government reiterates that the consolidation of the economic stabilization programme, together with the structural reform process for the liberalization of all areas of the economy and Peruvian foreign trade, provide transparency, stability and predictability for Peru's economy.

SUMMARY OBSERVATIONS

Paragraph:

2. The inflation of 7,650 per cent applied to 1990 and not to 1991 as stated. Moreover, in order to show the declining trend in inflation, it should be added that in 1993 inflation was 39.5 per cent and it is estimated that in 1993 GDP will increase in real terms by 6.6 per cent compared with 1992.
3. It is inaccurate to state that new taxes have been created; on the contrary, the fiscal system has been rationalized and 74 taxes and surtaxes have been eliminated, including export taxes. Fiscal policy is based on income tax, general sales tax (IGV), selective consumption tax (ISC) and import tariffs.
4. The exchange rate system is not that of a controlled floating rate; it is completely free and is subject to supply and demand. There is no official exchange rate; the figures given are averages for operations on the financial system's foreign exchange market. There is total freedom to buy and sell foreign currency within and outside the financial system and Article 64 of Peru's new Political Constitution confirms the freedom to possess and dispose of foreign currency.
5. The level of indirect taxes (IGV and ISC) does not constitute an incentive to carry out smuggling or informal activities.

The level of IGV is similar to that in other countries, for example, Chile and the United Kingdom, where it has not proved to be an incentive to smuggling. In the case of the ISC, the number of products affected and the taxes applicable to them decreased significantly in June 1993 with the aim of discouraging illegal entry of goods into Peru.

In addition, complementary measures were adopted for the same purpose and the tariff fell from 25 per cent to 15 per cent for a large number of products.

6. According to paragraph 6 of the Summary Observations, Peru applies variable import levies. On the contrary, surcharges are the exception, are decreasing and are temporary; they only apply to twenty tariff headings. In addition, there is only a local content requirement in one case (dairy products). It is important to reaffirm that Peru does not apply any protectionist measures.

Reference prices are not applied and it should be noted that the price used by the inspection enterprises as a mechanism for determining valuation is the normal competitive price (market price).

Concerning government procurement, it should be noted that it has decreased considerably in comparison with GDP as a result of the decline in the machinery of the State, the austerity policy to reduce expenditure, the elimination of monopolies and the privatization of public enterprises.

Furthermore, the Law provides that procurement should be subject to public procedures in an open and transparent manner, with freedom of access for national and foreign bidders and no form of restriction, except in the case of national security.

7. Promotion of investment in Peru is not biased towards certain sectors. There is a general policy and it is applied in a spirit of impartiality. Private participation in the economy as a whole is promoted through the reform and privatization programme.
8. There are clear signs of increased participation by the private sector in investment. It must be borne in mind that indicators show that foreign investment (to a large extent in the form of returned capital) over the past two years has been higher than that recorded over the whole of the past decade. The private sector's reaction, under the structural adjustment process as well, can therefore be termed favourable.
11. For alternative crops to be a viable substitute for Peru, it is important that there should be effective opening up of foreign markets.
12. Trade policies are established by means of rules that have the status of law and not through provisions of lesser status. For example, Legislative Decree 668 is a regulation that has force of law; it regulates and confirms the principles of free trade adopted by Peru and embodies in the Constitution in force. This shows stability and, as in any other country, regulations are approved by Supreme Decree.
16. Peru does not have nor apply export quotas. The existing limitations concern quotas fixed by the EEC for Peru within the framework of the Multifibre Arrangement (MFA).
17. The tariff offer was bound at 30 per cent and not 35 per cent in the light of the policy adopted on these matters, except for twenty tariff heading (agricultural products and products derived therefrom) which are temporarily subject to surcharges. Peru could improve its offer taking into account the differential margins between the offer and the levels in fact applied, provided that it obtains corresponding benefits from concessions by other countries.
18. The Commission of the Cartagena Agreement unanimously decided (Decision 347) to extend the time limit under Decision 321 and the trade agreements concluded under the Cartagena Agreement until 30 April 1994. During this period the member countries will co-ordinate with a view to defining Peru's status in the Andean Group.
23. All trade restrictions have been eliminated and it is thus not correct to describe the mechanisms as general and permanent when they are exceptional and temporary and only apply to a small sector of our foreign trade. With regard to anti-dumping and countervailing regulations, these

are founded on regulations based in the GATT so they are not applied according to protection criteria but as corrective measures.

25. The exemption mentioned in paragraph 25 has been extended to 30 June 1994.

The commitments assumed by Peru in the Uruguay Round will replaced the contents of the present Schedule XXXV.

27. It should be emphasized that the surcharge mechanism applies to a small number of headings and this protection is gradually being reduced with a timetable envisaged up to July 1997. If this is not mentioned, it implies that the mechanism is general and permanent although it is in fact exceptional and temporary, as explained in paragraph 23.

28. The general sales tax (IGV) and the municipal tax (IPM) are applied simultaneously and uniformly to all sectors. The only exceptions which still apply concern less than 100 tariff lines and they correspond solely to agricultural products whose system of marketing makes it difficult to apply the IGV.

In addition, in applying the IGV, there is no difference between foreign and domestic products.

29. The customs reform is fundamentally based on the delegation of responsibility to the private sector and decreasing the scope of the control and discretionary authority of customs officials so as to avoid corruption. Administrative procedures have been simplified on the principle of the presumption of truthfulness and good faith.

All sums are paid into the public treasury. The simplification and the tariff reduction, together with the elimination of para-tariff restrictions, have helped to ensure the success of this reform.

30. The National Ports Enterprise (ENAPU) is being privatized and the charges for loading and unloading will be subject to competition.

31. As mentioned in paragraph 6, in general reference prices are not applied in order to determine the import value of goods. The value is determined by private inspection enterprises using the normal competitive price (market price) and this appears on an Inspection Certificate.

Imports below US\$2,000, with the exception of vehicles, which are not subject to the requirement to present such a Certificate, are valued by the customs. This is normal customs practice worldwide.

32. The ISC (10 per cent) only applies to certain automobiles and trucks in two categories and, as its name indicates, it applies to the consumption of final consumer goods, whether imported vehicles or vehicles assembled locally. Moreover, the tariff is the same for spare parts and for the assembled vehicle so the conditions are the same.

35. The documentation sent to the GATT Secretariat in due time contains data on government procurement, but it can be completed with further detailed information on purchases by the public sector.

In addition, the obligation for State enterprises to purchase 10 per cent of their supplies from small enterprises no longer exists.

36. Since there is no exchange control nor any requirement to return foreign currency, no official authorization is required to approve countertrade operations. The State does not promote this type of operation and they are entirely subject to the decision of individuals.

With regard to the repayment of external debt in kind, this is no longer the case and there is a transparent reintegration programme which clearly shows that Peru is fulfilling its obligations.

37. Export of fresh milk is free, consequently there is no requirement that fresh milk can only be exported from the Tacna Milk Plant.

According to Supreme Decree 070-93-EF, which is referred to by the GATT Secretariat in paragraph 335 of its report, a limited list of products which require authorization for export has been approved in order to protect wild fauna and flora, as well as Peru's cultural and archaeological heritage.

38. In December 1993, the refund of the ISC for fuel, which had been suspended since December 1992 subject to regulation, was abolished.

39. The present policy is not to increase the number of free zones. At present only the Special Trade Treatment Zone in Tacna (ZOTAC) and the Free Zone in Ilo are operational.

41. Countervailing measures have not been applied against imports of milk powder and dehydrated milk fat from the EEC, New Zealand and the United States. The application of variable surcharges mentioned in paragraph 6 does not distinguish as to origin and they are not intended to be an alternative to the application of anti-dumping or countervailing measures.

As mentioned above, surcharges are exceptional, are decreasing and are temporary, and they only apply to twenty tariff headings.