GENERAL AGREEMENT ON TARIFFS AND TRADE

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Intersessional Committee

SUMMARY RECORD OF THE MEETINGS

Held at the Bâtiment Electoral, Geneva,
on 3 and 4 June 1958

Chairman: Mr. Garcia OLDINI (Chile)

Subject discussed: Peruvian Import Charges (GATT/AIR/130; L/827)

The CHAIRMAN stated that the meeting had been convened to consider a communication from the Government of Peru concerning certain action it proposed to take to meet the economic difficulties at present confronting Peru.

The representative of PERU[1] informed the Committee that from January 1957 to April 1958, Peru's foreign exchange reserves had declined from $42 million to $4 million. This adverse development was due mainly to a growing trade deficit which in 1957 had reached $70 million. The fall in world market prices of Peru's principal export commodities had led, in spite of an expansion in the volume of production, to a decline in foreign exchange receipts. Moreover, the situation had been aggravated by a severe drought in 1956 and 1957 in Southern Peru which had given rise to increased imports of foodstuffs. In consultations with the International Monetary Fund the Fund had recommended a series of corrective measures. In the view of the Peruvian Government some of the measures suggested by the Fund implied the need to increase customs receipts by a reasonable percentage, partly in order to check foreign currency spending on non-essentials. In spite of the adoption of some of the measures proposed by the Fund, Peru continued to be beset by serious difficulties which had recently been aggravated by a decline, exceeding 20 per cent, in the free-market rate of exchange of its currency. In considering means of restricting the volume and value of imports and of overcoming these temporary difficulties the Peruvian Government had decided not to resort to quantitative restrictions which, as experience showed, would be difficult to abolish once they were introduced. Having ruled out the use of direct import controls, as was in keeping with the liberal trade and exchange policy traditionally followed by Peru, the Government believed that the only practicable alternative was the imposition, on a provisional basis, of special surcharges to be collected by the customs authorities at the time of importation. The Peruvian Government intended to levy the surcharges generally on all commodities including the items on which tariff concessions had been granted under the General Agreement, though with the exception of some basic essentials, since only a uniform application of the measure

[1] The full text of this statement is reproduced in document L/827.

to all imports could avoid unjustified discrimination in the domestic economy and since the bound items accounted for more than 50 per cent of Peru's imports. It was considered that recourse to the procedures of Article XXVIII would not meet the needs of the situation as they envisaged only the modification or withdrawal of concessions on selected products to be negotiated with other contracting parties in exchange for equivalent concessions. It appeared to the Peruvian Government that Article XII provided the most appropriate basis for consideration of the problem by the CONTRACTING PARTIES as the need for action arose largely in connection with balance-of-payments difficulties.

The representative of the INTERNATIONAL MONETARY FUND stated that the Fund would direct the attention of the CONTRACTING PARTIES to the Fund's decision, in its latest consultation with Peru under Article XIV of the Fund Agreement, and particularly to paragraph 2, which pointed out that Peru was experiencing serious exchange difficulties, and that the Central Bank's disposable foreign exchange reserves had been reduced to a very low level. The Fund noted that inflationary pressures must be contained promptly. Subsequent to this consultation, Peru had approached the Fund with a stabilization programme on the basis of which a stand-by credit of $25 million was extended by the Fund. The Peruvian Government had informed the Fund that, as part of its stabilization programme, it was taking action to reduce Government expenditure and substantially to increase revenues; that one way in which it hoped to increase revenues was by increasing tariff rates and that it proposed negotiating with the other contracting parties to the GATT concerning such increases. The Fund was of the opinion that substantially increased revenues had been and were essential to the success of Peru's stabilization programme and to the protection of the country's reserves and exchange rate. Furthermore, the Fund was satisfied that the increase in revenue likely to result from the various measures proposed to the Fund by Peru was not more than was consistent with the success of that programme. In these discussions it had been made clear by the Fund that the question of obtaining approval to increase tariffs in order to raise revenue was a matter for Peru to take up with the CONTRACTING PARTIES.

In the discussion that followed the representatives of BRAZIL, CANADA, SWEDEN, the UNITED KINGDOM and the UNITED STATES expressed sympathy and understanding for the grave difficulties with which Peru was confronted and also appreciation of the Government's desire to avoid restrictive measures and to continue to adhere to traditional liberal trade and exchange policies. However, while recognizing the need to find a solution for the problem under consideration, they could not agree that a consultation in the context of Article XII would be an appropriate procedure; Article XII dealt only with the application or intensification of import restrictions, and the General Agreement contained no provision which would permit a contracting party unilaterally to increase bound rates of duty to meet balance-of-payments difficulties. But if the use of Article XII procedures were inappropriate and might create an unwise precedent, there was no reason why, in considering action that might be appropriate in the circumstances, due account should not be taken of Peru's balance-of-payments and monetary reserves problems. During the discussion it was pointed out that the choice of a remedial measure did not lie only between a unilateral increase of bound duties and the introduction of quantitative restrictions: other possible measures, consistent with the General Agreement, such as internal taxes levied on both domestic products and imports,

profit taxes, credit restrictions, etc., should be given consideration and some of these might be used effectively for the purposes referred to by the Peruvian representative.

The representative of the UNION OF SOUTH AFRICA considered that the Peruvian measure under discussion, like the French special temporary compensation tax on imports, was inconsistent with the provisions of the General Agreement. Although tariff adjustments affecting bound rates could not, under the Agreement, be accepted as a legitimate substitute for quantitative restrictions, he could not but feel sympathetic with the contention that a temporary increase in all duties might be not only a more efficient means than quantitative restrictions for dealing with balance-of-payments difficulties but also a less harmful one for the trade of other contracting parties. However, if the Peruvian Government were authorized to increase its bound duties for a limited period of time, it should be required to consult periodically. Consideration might be given to the desirability of clarifying the range of measures permissible under Article XII.

The representative of Peru reiterated the view of his Government that nothing in Article XII prevented its provisions from being interpreted as permitting the imposition of a surcharge on all imports to deal with balance-of-payments difficulties. The use of quantitative restrictions, apart from not being in line with Peru's traditional policy and GATT's philosophy, would have more damaging effects on the trade of other contracting parties. His Government, however, was prepared to consider any suggestions which the Committee might wish to make. In fact, though the law and regulation relating to the surcharges on imports were in force, his Government had suspended for the time being the application of the increases to items covered by Article II of the General Agreement.

At the meeting on 4 June the Committee considered and approved the following recommendation:

"TAKING NOTE that the Government of Peru, as part of its stabilization programme designed to overcome acute balance-of-payments difficulties, considers it necessary substantially to augment its fiscal revenues and to restrict the volume and value of its imports and has proposed to achieve these ends by the temporary imposition of supplementary charges on imports;

"NOTING further that in the view of the Peruvian Government such charges must apply generally to all tariff items including those which are the subject of concessions in GATT Schedule XXXV;

"HAVING BEEN INFORMED by the International Monetary Fund of the balance-of-payements and monetary reserve position of Peru and noting the Fund's opinion that substantially increased revenues are essential to the success of Peru's stabilization programme and to the protection of the country's reserves and exchange rate;

"The Intersessional Committee

"1. EXPRESSES the hope that the Government of Peru will reconsider the measures proposed with a view to levying these supplementary charges in a manner consistent with the provisions of the General Agreement;

"2. RECOMMENDS that the CONTRACTING PARTIES at the Thirteenth Session examine the situation, as it obtains at that time, with a view to arriving at a generally acceptable settlement;

"3. REQUESTS the Peruvian Government to furnish a detailed report to that Session; and

"4. URGES that, if in the meantime the Government of Peru should feel compelled to take action which other contracting parties consider inconsistent with the provisions of the General Agreement, these contracting parties, pending the examination referred to above, should, in view of the acute economic difficulties with which the Peruvian Government is confronted, refrain from seeking compensatory adjustments."

Several members of the Committee expressed the hope that the Government of Peru, in reconsidering the measures proposed, would explore the possibility of using measures consistent with the provisions of the General Agreement. Some members thought that the Government of Peru, while pursuing its programme of economic stabilization, should give due regard to the desirability of introducing suitable internal measures in the monetary and financial, including the fiscal and credit, fields.

With regard to paragraph 3 of the Recommendation, some members said that they wished to be informed as soon as possible and in full detail of the nature and extent of any measures which might be introduced, so as to avoid uncertainty for their exporters; the present meeting of the Committee was itself handicapped by the lack of exact information. The representative of the UNITED STATES pointed out that, whereas Article I of the General Agreement permitted the Peruvian Government to grant preferential tariff treatment to certain neighbouring countries, any increase beyond the preferential margin existing on 10 April 1947 would be inconsistent with the Agreement and would require sanction by a waiver which the present circumstances did not seem to warrant.

The representative of PERU undertook to convey the suggestions regarding alternative measures to the attention of his Government, and said that a detailed report would be submitted to the Thirteenth Session.

The meeting rose at 5 p.m. on 4 June.