REPORT ON THE CONSULTATIONS UNDER
ARTICLE XVIII:12(a) AND (b) WITH PERU

1. At its meeting on 16 December 1969, the Council was informed of certain action taken by the Government of Peru within the framework of its import restrictions applied for balance-of-payments reasons (L/3278). The Council considered that this action, which consisted in the addition of a number of products to the prohibited list, constituted a "substantial intensification" of the restrictions and initiated a consultation with Peru under paragraph 12(a) of Article XVIII. The Council further agreed that this consultation should be held as early as practicable in 1970 in conjunction with the regular biennial consultation with Peru under paragraph 12(b) of that Article.

2. These consultations were opened on 19 June and the Committee had before it a basic document supplied by the Peruvian authorities (BOP/104), the notification of 17 November 1969 (L/3278) and material supplied by the International Monetary Fund.

3. Pursuant to the provisions of Article XV of the General Agreement the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with these consultations with Peru. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement. The statement made was as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the background material dated December 31, 1969 and to the Executive Board decision of April 17, 1970 on Peru's multiple currency practice, taken at the conclusion of its most recent Article VIII consultation with Peru.

"After losses of $24 million and $74 million in the net foreign reserves of the banking system in 1966 and 1967, respectively, the level of reserves increased by $10 million in 1968 and by $42 million in 1969. At the end of 1969 net foreign reserves of the banking system were $163 million, corresponding to about three months of imports in 1969.

"On April 17, 1970 the Fund approved a stand-by arrangement with Peru authorizing the purchase of up to $35 million in foreign currencies over the subsequent twelve months. The stand-by arrangement was in support of a program in which the emphasis of economic policy was to shift from rebuilding external reserves to reactivation of the economy. The objectives and policies of the program were framed to achieve the maximum economic growth and employment compatible with a moderate balance of payments surplus and relative domestic price stability."
"At the present time, the general level of restrictions of Peru which are under reference does not go beyond the extent necessary to stop a serious decline in its reserves."

4. In an opening statement, the representative of Peru outlined the basic economic situation of the country, changes in economic and commercial policy in recent years, and current problems faced by his Government, including structural problems calling for fundamental adjustments as well as foreign exchange difficulties arising from mounting debt-servicing obligations. He described the circumstances which had necessitated the tightening of import restrictions in November 1969. However, all the calculations had now been upset and the situation had been unmeasureably aggravated by the serious natural disaster of last month. The damage that had been done to the economy by the earthquake was as yet to be assessed, but there could be no doubt that its impact on the Peruvian economy had been extremely extensive and profound. All efforts were being concentrated on meeting the emergency. The future was impregnated with uncertainty and the Government would have to formulate new policies and adopt new measures after the extent of the damage and the country's needs had been assessed. The full text of this opening statement is contained in an annex to this report.

5. Members of the Committee expressed deep sympathy for the plight of the Peruvian people and for the very serious problems faced by the Peruvian Government. They felt that at this juncture while the primary attention of the Peruvian authorities must be directed towards meeting the urgent needs of the economy it was hardly appropriate for the Committee to undertake a full examination. Although, in terms of the fairly satisfactory improvements in the country's foreign exchange reserve position during the past two years, the CONTRACTING PARTIES could legitimately have expressed concern over the successive extensions of the scope of the import restrictions had this consultation been held earlier in the year, no useful purpose would now be served by an examination of the situation which had been fundamentally altered by the events of last month. Any meaningful examination of the Peruvian restrictions would have to await the return of more settled circumstances. Some members of the Committee felt that, since it had not been possible to conduct a full consultation on Peru's economic and foreign trade policies on this occasion, it might be appropriate for the CONTRACTING PARTIES to seek further consultations with Peru at an earlier date than would otherwise be provided for under Article XVIII. In this regard they noted the view of the Peruvian delegation that, having regard to the magnitude of the problems, the situation was unlikely to become sufficiently clear to warrant a reopening of the discussion within the next few months, but felt that the possibility of some further discussion during 1971 should be left open at this stage. The Peruvian delegation reserved its position on this point and considered that further discussion should be deferred until the next regular consultation became due in 1972. The Government of Peru would, however, be disposed to submit prompt reports to the CONTRACTING PARTIES on any new assessment of the country's foreign exchange situation and any changes in commercial policy. Indeed, the Peruvian Government might well find itself anxious to engage the CONTRACTING PARTIES' attention and to seek their views and assistance with regard to the country's urgent foreign exchange requirements and the possibilities of improving access to foreign markets for its exports.
6. After an exchange of views, the Committee agreed that it should report to the CONTRACTING PARTIES through the Council that it had taken note of the information supplied by Peru and that it noted with satisfaction the undertaking given by Peru to keep the Council informed of developments, especially of any changes in commercial policy. The Committee recommends that the Council keep the situation under review and, in the light of any new developments, consider such action as might be appropriate in implementation of the relevant GATT provisions and procedures.
ANNEX

Opening Statement by the Representative of Peru

1. First of all, I should like to express my gratitude for the sympathy which you have just expressed concerning the disaster of unprecedented magnitude which my country has recently suffered. In an organization like GATT which is fundamentally concerned with the technical and political aspects of trade, my delegation has never been in the habit of making statements which departed from the customary procedures in our Committee. Nevertheless, the disaster which has just occurred in my country has catastrophic implications for our economy and our development and it inevitably affects the statistics and the arguments which we had intended to present (and which indeed we can still present if you wish) to justify the measures which our Government has taken over the past two years in the administrative sector. Prior to the tragedy, my delegation had intended to present its case, beginning by some general considerations of the close relationship between structural changes within the context of economic development and the short-term or long-term measures applied to safeguard my country's economy.

2. When our new Government came to power our country was in an extremely difficult economic situation and a particularly delicate situation in the social field and in regard to all basic structures. To give an example with which I am well acquainted, our external indebtedness which had been at the level of approximately $170 million in 1961, had by 1969 risen to $859 million. This debt has been restructured and the maturities for 1970, 1971 and 1972 have been postponed to 1977 to the extent of 75 per cent.

3. I must state that for a country in the process of development such as mine, before the restrictions referred to were introduced, imports were designed to meet the needs of a very small sector of the country and consisted of luxury articles and articles that could be replaced by domestic products. Even if consumer preference is an element which should be taken into account, it should nevertheless be subordinate to the national interest.

4. I think you will all agree that certain measures become essential in certain circumstances. There is a time lag of more than a hundred years between our development and that of other countries. All the representatives here are familiar with their own economic history and know how difficult, and in some cases how painful the development of their own country is or has been. That is why I ask for an understanding attitude on their part. Our countries can participate effectively in GATT only if major adjustments are made in our social structures. Where import restrictions are concerned, this is simply one of the manifestations attributable to an inadequately organized economic structure.

5. Now, for the first time in the history of Peru's economy, one can say that little by little we are succeeding in making far-reaching adjustments to those structures. The new tax system is changing certain sectors completely and will
enable a larger part of the population to participate in the country's development. Let us take, for example, the exchange control measures that were recently introduced. All countries, including our own, are reluctant to introduce such measures. The exchange control measures adopted are accompanied by penal provisions to ensure their effectiveness. For certain infringements, the penalty is more than five years' imprisonment. As a result of this measure, in only two weeks we have succeeded in recovering approximately $60 million which had been in banks and various funds. People queued up to hand over these dollars, because the measures were in conformity with the national interest and with their own conscience. Nevertheless, of course there are still large sums invested abroad, sums belonging to Peruvians who feel that their future is better assured if they have dollars. I believe that if the country succeeds in stabilizing its economy and if, thanks to structural reforms, it can offer a new attraction to Peruvian funds at present invested abroad, then it will truly have solved part of the problem because larger amounts of hard currency will move back into the country to contribute to its development. We hope that one day our reserves will represent a substantial percentage of our exports, when that time comes, our currency can become freely convertible and we will be able to avoid flight of capital.

6. We have also taken very substantial measures in the field of exploitation of our natural resources. I refer here in particular to the mining sector which is the most important potential sector in America. In future we shall be able to market our products through an organization which we have set up jointly with Zambia, the Congo and Chile. Furthermore, under agreements which we have concluded with various foreign companies, the refining of crude products within the country will become compulsory and this should yield substantial earnings for our economy.

7. I would also like to tell members of this Committee that I have here an eighteen-page report which, until 31 May, constituted our reply to your questions in accordance with the procedure followed in consultations with this Committee. As you know we have presented information in the basic document and I am of course fully prepared to make this lengthy statement if you so desire. I must tell you, however, that all the figures which it contains have now been completely altered as a result of the disaster. To give you an example indicating its magnitude, the area directly affected by the disaster is equivalent in size to the Netherlands, Belgium and half of Denmark put together. One million persons have been directly affected, and more than 3 million indirectly.

8. To give you another example, when I had to arrange for the financing of our external debt, I negotiated with the Government of the Federal Republic of Germany the debts which we were to reimburse to that Government. Of the more than $150 million involved, a large part was channelled into investments in the iron and steel works at Chimbote, situated at the very spot where the most severe damage occurred. From the human aspect, you know that there have been more than 50,000 victims and, in this same sector, the port of Chimbote was one
of the most active fishing centres. All these ports and the iron and steel works were severely damaged in the disaster. I can mention 100,000 children who are orphans, and economic losses which are greater than all the forecasts and will probably be in excess of $500 million.

9. This gives you some idea of the situation in which we are.

10. Some of the import restrictions introduced by my Government will, as we know, be important for a long time, but we wish to underline the qualitative character of our imports. For this year, imports had been forecast at $759 million, that is to say $104 million more than in 1969. Within these total imports, it was expected that $171 million would consist of capital goods, and $68 million of consumer goods. In relation to 1969, imports of consumer goods would diminish by 8 per cent and this is logical in the context of the development policy. Imports of raw materials, however, were expected to be 2 per cent above the preceding year's level, also a logical increase for a developing country. All of these figures, however, must be revised because of the disaster. It is our right to decide what we are going to import and what standard of quality we shall accept for the products which we import. I think that no one can claim to be able to force us to import luxury products that can easily be replaced from domestic production.

11. In a country like Peru, which has 13 million inhabitants and an economically active population of 3 million, it is difficult to see any solution without regional integration. We reached the conclusion that it was essential to bring closer together the economies of countries which had reached a comparable level of economic development and were in a comparable geographical position, and accordingly we set up the Andean group. This Andean group constitutes a reply to the fact that our domestic market is too small. Through an international distribution of labour, we hope to achieve better rationalization. This brings us to what we call complementarity agreements in the industrial sector. It is in this direction that we see our country's future development.

12. As regards import restrictions, we have applied the following method as regards product categories and percentage rates. The restrictions are applied only on the products listed in the annex to the documents which have been distributed to you. In order to protect consumers, the Ministry of Economy and Finance has been authorized to suspend the import prohibition on certain products as a temporary measure. All this is quite logical, because we want to allow sufficient time to producers of goods, imports of which have been reduced, so that they can produce articles that are competitive in regard to both quality and price. We must protect our domestic industry but in so doing we want to avoid affording undue protection to industries which have a certain standing in our domestic market but which supply goods of a quality that is not suitable for the Peruvian consumer. In some cases we give preference to foreign products if our domestic industries are not sufficiently aware of their responsibility and do not offer goods of a quality suited to the needs of the consumer population.
13. The structural disequilibrium of our balance of payments is a concrete expression of our dependence on other countries. This dependence will begin to change as a result of the implementation of the economic development plan covering the period 1971-77. The fundamental principle underlying this plan is to carry out a social reorganization of the country in order to attain the objective of speeding up the transfer of rural property in accordance with a new system. A few comments are necessary here: the agrarian reform which is looked on with some scepticism, as is only natural, has indeed resulted in a decline in output and in the quality of products. I think this is what happened forty years ago when Mexico embarked on agrarian reform. Mexico had the courage to carry out these measures which are so necessary from the point of view of social justice and for the country's economic development. Our agrarian reform is progressing in a positive way, because we have benefited from the experience of so many other countries which have gone through the same phase of development.

14. In Peru, which has a population of 13 million inhabitants, approximately 25 per cent of the national budget is earmarked for education. The percentage of young people in the overall population is extremely high in relation to other countries, and primary and secondary education is provided free of charge. We have more than 1½ million students and they constitute a tremendous obligation for the State.

15. We have modified the financial system and credit controls; we have introduced self-management of workers. We have adopted the principle of joint marketing. As you know, a Peruvian mission is at the present time concerned with the new policy on fish meal in order to see how we can rationalize production in this sector.

16. The external financing policy is of very great importance. We consider that capital coming from abroad contributes to national development. We believe that the time has come for us to enter into the system of mixed enterprises with a view to making the best possible use of our natural resources. In the context of our social reform, foreign investors will feel better assured than in the old system.

17. So far as the system of import restrictions is concerned, the decrees which had established these restrictions were revoked under the new Decree of 24 June 1968, supplemented by Decree No. 134. The restrictions were extended by a further decree until March 1970, and thereafter extended for an additional period. I do not know whether the Committee would wish me to give detailed information on these restrictions, but I also know that the Committee is aware of the extremely serious problems with which Peru is now faced and I know that it was even contemplated at one time, and most generously, not to hold the consultation or in any case to give us a more or less long postponement so as to allow us to determine the direct or indirect effects of this disaster. A short period or a postponement of the consultation would, however, simply have amounted to closing one's eyes to the problem of fundamental importance with which we are faced today. Peru has experienced the most terrible disaster in its history,
all the plans we have established are severely jeopardized, and already we have requested assistance from financial organizations and technical assistance organizations at international level in order to evaluate the damage and propose appropriate measures.

18. In these circumstances and without prejudice to any questions or remarks which members of the Committee might make and in which we shall take great interest, I should like to make a request to you, Mr. Chairman, in the event that our contribution does not meet the hopes that you may have put in this consultation. Having regard to the favourable views expressed by other delegations, I should like to request that the next consultation be held in two years time. I thank the Chairman and the members of the Committee, and I hope that my request may be referred to the GATT Council with a favourable recommendation.