In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the Secretariat submits herewith Volume A (Text) of its report on Argentina. Volume B (Tables and Appendices) is presented in document C/RM/S/18B.

The report is drawn up by the Secretariat on its own responsibility. It is based on the information available to the Secretariat and that provided by Argentina. As required by the Decision, in preparing its report the Secretariat has sought clarification from Argentina on its trade policies and practices.

Documents C/RM/G/18 and Add.1 contain the report submitted by the Government of Argentina.

NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.

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SUMMARY OBSERVATIONS

1. Recent reforms in Argentina hold out hopes of its return to sustained economic growth based on an outward-oriented economy. In the first 100 years after its independence in 1816, Argentina's economy grew rapidly, dominated by agricultural production for export. However, following the Great Depression and again after the Second World War, when it was confronted with falling international prices for its commodity exports, Argentina turned to import substitution, progressively withdrew from world trade and discouraged foreign direct investment. Argentina's macro-economic policies, compounded by the structural rigidities associated with its trade, industrial and labour policies, led to severe fiscal imbalances, macro-economic instability, hyper-inflation and increased indebtedness. In the early 1980s a decline in net investment and negative productivity growth reflected falling economic activity and a lack of confidence in the economy. Previous attempts to rectify the situation and to re-open the economy these have not met with lasting success.

2. Recent years have seen a series of important fiscal, monetary and trade and industrial policy changes intended to reverse the country's economic fortunes. In September 1989 the new Government of President Menem introduced the Law for the Reform of the State which initiated the privatization of many public sector enterprises. The privatization programme is intended to cut Government expenditure, increase economic efficiency and help to reduce foreign debt. One month later, the Government introduced the Law on Economic Emergency which, inter alia, suspended export rebates and tax exemptions under various industrial and regional promotion schemes and the "Buy National" law, liberalized the foreign investment law, and increased gasoline prices and public service
tariffs. Major changes have also been made in 1991, including the pegging of the currency to the US dollar, the introduction of legal restraint on currency emission, the abandonment of the majority of industrial tax concessions, and increased efficiency in tax collection. Balance of payments support is being provided through an IMF stand-by loan, and specific reforms are being supported with loans from the World Bank and the Inter-American Development Bank.

3. On the side of trade policy, quantitative restrictions - which had covered much of Argentine industry - have been eliminated, except for the automobile sector; a complex licensing system has been eliminated; tariffs have been reduced to an average of 9.5 per cent; and there has been a substantial reduction of the export taxes which had hitherto fettered the country's efficient agricultural and agro-industrial sector.

4. The consequences are starting to be seen. Inflation has been reduced to the lowest level in 20 years; the secondary market in Argentine debt has started to rise; capital has started to return; exports have continued to grow and the growth of imports in the second half of 1991, in response to the recovery, has reduced but not reversed the substantial trade surplus. While there has been some adverse impact on real incomes, the people of Argentina seem to have accepted the need for stability and gave the government a firm vote of confidence in the September 1991 elections. If the macroeconomic programme shows signs of enduring success and produces the budgetary surpluses required to service the country's domestic and foreign debt, the Government will be in a good position to engage in serious discussions with commercial banks on a medium-term financing package.

(1) Argentina in World Trade

5. Argentina currently ranks 46th and 61st among world exporters and importers, respectively, compared with 48th and 44th, respectively, in 1970. Its share in world merchandise exports was 0.35 per cent in 1990.
6. During the 1980s, Argentina maintained a generally positive, though highly variable, trade balance. However, this principally reflected the effects of the economic contraction and import restrictions - typical of many countries at the time - introduced following the debt crisis of the early 1980s. Imports, which had soared from US$4 billion to US$10.4 billion between 1978 and 1980, fell to US$5 billion in 1982 and US$4.2 billion in 1985.

7. Argentina's export pattern in the 1980s represented a significant shift towards manufactures in the face of falling commodity prices. The share of agriculture in merchandise exports declined from 94 per cent of merchandise exports in 1965, and fell particularly sharply from 82 to 65 per cent between 1983 and 1989, mainly because of falling world commodity prices. While this price decline was in part a reflection of increased farm productivity, it was also associated with the increase in farm support policies and export subsidies by the major traders.

8. The growth in manufactures exports, however, resulted less from fundamental restructuring than from diversion of under-utilized production capacity to export. Falling real effective exchange rates in the early and late 1980s also helped to boost manufactured exports. The export performance of manufactures in the 1980s indicates that there are extensive manufacturing activities in Argentina with export potential, although much of industry is characterized by structural rigidities and inefficiencies, having been sheltered from import competition for decades.

9. Argentina's leading trading partners are the European Communities, the United States and Brazil. Between 1970 and 1990, the European Communities' share of Argentina's exports dropped from 53.3 to 30.3 per cent, while those of Brazil and the U.S. rose from 8.9 and 7.8 per cent respectively to 13.8 and 11.5 per cent. In the last twenty years there has been something of a re-orientation of Argentina's trade towards the Latin American region, although 50 per cent of exports and 57 per cent of imports are still with developed countries. In 1990, 28 per cent of exports were directed to and 35 per cent of imports were from other Latin American countries, as against 21 and 23 per cent respectively in 1970. During the
1980s, Brazil has also grown markedly as a source of Argentine imports, providing 17.6 per cent in 1990, compared with 11.0 per cent in 1970 and 10.2 per cent in 1980.

(2) Institutional Framework

10. Argentina’s legal and regulatory structure relating to trade matters has traditionally been complex, with a large number of laws, decrees and resolutions. The present Government has, under the Economic Emergency Law of 1989, suspended or eliminated many regulations dealing with various trade and tax concessions or exemptions. A new trade law is being drafted which will, inter alia, embody changes in anti-dumping procedures consequent on Argentina’s adhesion to the GATT Anti-dumping Agreement.

11. The main economic agency in Argentina is the Ministry of Economy and Public Works. With its various Secretariats and agencies it covers almost all aspects of economic policy in Argentina. The Foreign Affairs Ministry also has a number of responsibilities in connection with international trade and economic relations and negotiations with other countries.

12. Close links are maintained between Government and industry in Argentina. Even today, the Government appears to set great store by pacts with industry to improve economic performance. This seems somewhat at odds with the market-oriented policy approach which is the hallmark of the Government, despite its Peronist legacy.

13. The officially-constituted Foreign Trade Council provides a forum through which the private sector counsels the Government on trade policy. A number of active economic research institutes and a lively economic press closely monitor Government activities, as does the Congress. However, there is no independent, statutory body which reports to or advises the Government on trade and industrial policy.

14. Argentina acceded to the GATT in 1968. Ratification by the Congress approved Argentina’s accession to the General Agreement, although the GATT is not directly incorporated into Argentine law. It has adhered to the MTN
Agreements on Anti-Dumping, Customs Valuation, Import Licensing, Technical Barriers to Trade (subject to ratification), the International Dairy Arrangement and the Arrangement Regarding Bovine Meat. It is a signatory to the Multi-Fibre Arrangement, and maintains export restraint agreements on textiles and clothing with the European Communities and the United States. Argentina has been an active participant in the Uruguay Round, individually and as a member of the Cairns Group.

(3) Trade Policy Features and Trends

15. Argentina's main formal trade relations with other countries are conducted through the GATT and within the Latin American Integration Association (LAIA).

16. Tariffs are applied on an m.f.n. basis to 65 per cent of imports. Of the remaining 35 per cent, originating from LAIA countries, eligible imports benefit from preferential reductions of up to 50 per cent. Only 407 out of some 11,500 tariff lines are currently bound in GATT. However, in the Uruguay Round, Argentina has offered to bind its entire tariff at 35 per cent.

17. Under the LAIA, which replaced the Latin American Free Trade Association (LAFTA), Argentina has "partial scope" agreements (economic complementarity, trade or sectoral agreements, etc.) with most other members. The agreement with Brazil is a comprehensive economic and commercial agreement.

18. Within the framework of the LAIA, Argentina has recently joined with Brazil, Paraguay and Uruguay to form MERCOSUR - the Southern Common Market - which, at the time of writing, is awaiting full ratification. Its objective is "progressive, linear and automatic tariff reductions accompanied by across-the-board elimination of non-tariff restrictions or equivalent measures... with a view to arriving at a zero tariff and no non-tariff restrictions for the entire area by 31 December 1994". Each country has exemptions, but these are also to be phased out. The success of MERCOSUR in increasing welfare will depend very much on its willingness
to pursue outward-looking, market-oriented policies and to allow member states to take advantage of economies of scale and specialisation wherever the opportunities lie.

19. Argentina is a GSP beneficiary, but estimates are that its direct trade gains from GSP are minor largely because its predominantly agricultural exports are excluded from most of the schemes. To some extent the benefits from GSP are also limited because, in some tariff schedules, GSP treatment is less comprehensive than other preferences which are not available to Argentina, such as European Community tariff treatment for manufactures from EFTA countries, or preferences for certain Mediterranean countries.

(i) Recent evolution of trade policies and instruments

20. Extreme macro-economic instability, hyperinflation, falling commodity prices, and soaring debt rendered major economic reform a necessity for Argentina in the 1980s. However, Argentina has had more than one unsuccessful attempt at reform over time. In 1967, in the first major revision since 1945, tariffs were slashed from an average 119 per cent to 61 per cent. Most import prohibitions were eliminated. On the export side, subsidies were also eliminated and a number of export taxes were introduced. However, under deteriorating economic conditions, quantitative restrictions were used extensively in the following years, prohibitions were re-introduced on over 700 items, import deposits were required, and multiple exchange rates were restored.

21. The second and more significant liberalization occurred in 1976, with an initial focus on export liberalization. Export taxes were eliminated and exchange rates unified. Quantitative import restrictions were substantially reduced. Industrial tariffs, which had been raised after the previous liberalization, were cut from 98 per cent to 49 per cent in 1976 and 1977. However, this episode terminated with the onset of the debt crisis in the early 1980s, when import quotas, new licensing requirements and multiple exchange rates were re-introduced.
22. In the mid-1980s, there was a growing perception in Argentina that the import-substitution strategy was itself a factor contributing to inflation and unstable exchange rates. This led to a major policy shift and almost continuous liberalization of the trade régime in recent years. In 1986, approximately half of domestic production was protected by quantitative import restrictions. More than 7,000 tariff items were subject to import licensing. Imports of many consumer and industrial goods were prohibited. Average tariff rates were 43 per cent, there was an import surcharge, and there were a number of additional import taxes. However, many of these taxes were never collected because of exemptions or rebates under special régimes: tax revenues were less than 5 per cent of the value of imports. Reference prices were widely used, especially in the electronics sector, largely based in Tierra del Fuego. Exemptions from payment of domestic tax and tax rebates were allowed on industrial exports, while agricultural and agro-industrial exports were taxed and, in a few cases, prohibited. Much of the manufacturing sector and some non-traditional agricultural sectors enjoyed special tax breaks, as did various provinces. There were multiple exchange rates.

23. In the last five years tariffs have been reduced from an average of over 40 per cent to 9.5 per cent, mainly in October 1988, October 1989 and April 1991. The production coverage of quantitative import restrictions has been reduced to less than 2 per cent of manufacturing value added. Import licensing has been abolished.

24. Currently there is an essentially three-tier tariff with rates of zero, 11 per cent and 22 per cent, established in April 1991. However, in July 1991 a 35 per cent duty was introduced for some 27 tariff lines in the automotive and electronics sector. This increase from the prior maximum was associated with the lifting of quotas on all but 9 automotive products and the elimination of reference pricing in the electronics sector. A statistical tax of 3 per cent affecting imports and exports is presently untouched.

25. The frequency of the tariff reforms - 12 times since 1987 - gives some cause for concern because they have not been undertaken in accordance
with a pre-planned programme and they have not uniformly been in one direction. For example, the general minimum rate of zero was increased to 5 per cent in May 1990. This increased the average rate from 16.2 per cent to 18.3 per cent and reduced tariff escalation, while providing the Government with a valuable source of revenue. However, the minimum was again reduced to zero in January 1991, but, because of other changes, the average rate only changed to 18.2 per cent. The fact that the recent increase in rates for automobiles and electronics products took place with the removal of non-tariff measures must be regarded positively as liberalizing moves. Nevertheless, greater stability in the investment climate would result from a clear, pre-planned programme, and it is understood that greater stability and less dispersion is a Government objective in the trade law reform.

26. The export régime has also been reformed, to help reduce the anti-export bias facing agriculture in particular. Almost all export taxes have been eliminated, except for certain oilseeds which are now subject to a 6 per cent export tax. Apart from the 3 per cent statistical tax applying to all trade, there is a 1.5 per cent charge on agricultural exports to support the National Institute for Agricultural Technology (INTA). Voluntary export restraints are applied on the export of sheep meat to the European Communities, while restraints are applied under the MFA on certain textile and clothing products exported to the European Communities and the United States.

27. Many industrial and regional policy measures have been suspended by the Economic Emergency Law of September 1989. The main sectors to benefit from such incentives in the past were chemicals and petrochemicals, food products, metal products, machines and equipment.

28. In December 1989 the Government unified exchange rates, allowed unrestricted access to the foreign exchange market - permitting the holding of U.S. dollar accounts by Argentine nationals - and floated the austral. Following a renewed crisis of confidence in the currency, the Government in April 1991 introduced the Law of Convertibility which, inter alia, has effectively pegged the currency at 10,000 australs to the U.S. dollar. The
law also prohibits the emission of money to finance fiscal deficits and requires the monetary base to be fully backed by gold and foreign currency reserves. There have been concerns raised by export groups that the currency is overvalued. While inflation has fallen to very low levels for Argentina, it still exceeds that of the United States, its major trading partner (but not of Brazil, its second most important individual trading partner). However, the trade account is still in substantial surplus despite a surge in imports in the latter half of 1991, and Argentina has access to an IMF stand-by loan for balance-of-payments support, should this be needed while adjustment is taking place. The virtual fixing of the currency is considered to be an important element in the Government’s fight against inflation, and the Government is looking to productivity gains and real wage cuts - as well as the restructuring of the economy - to restore Argentina’s international competitiveness.

29. Foreign investment was also completely liberalised in September 1989 under the Economic Emergency Law. Performance requirements were eliminated in virtually all sectors, prior approval requirements were abolished, and registration (which is not compulsory) has been simplified. Registered foreign investments may be repatriated after three years. Argentina has signed a number of investment protection agreements and has become a member of MIGA. The main sources of foreign direct investment are the United States, Italy, Germany, France and Switzerland. The main sectors are petroleum, banking, automobiles, food and beverages and machinery and equipment. More recently, growing investments have been reported from Brazil in expectation of market-opening under MERCOSUR.

30. The Government’s privatization programme - one of the most extensive in Latin America - is also opening up major opportunities for foreign direct investment. The sale of the national airline Aerolineas Argentinas to Iberia and the sale of the telephone company to two consortia of foreign investors are only the most publicized of a range of ongoing sales. The privatization programme is linked to the raising of funds to reduce foreign debt, to reducing fiscal deficits by hiving off uneconomic, loss-making public enterprises, and to increasing efficiency throughout the economy by the improved operation of service industries. Thus, ports, railways,
highways, water and large parts of the energy sector are included in the privatization programme.

31. Until it was suspended by the Economic Emergency Law, the Buy National (Compre Argentino) Law of 1963 (predating Argentina's accession to GATT) covered all public procurement. This highly restrictive régime applied to the federal and provincial government and public enterprises, allowed local industry a voice in whether a comparable product was available locally, and set a preferential margin for local production. It was, therefore, an effective way of isolating a significant share of local production from import competition.

32. While many of the special tax régimes in support of specific industries and regions are currently under suspension, greater transparency and the assurance of more efficient resource allocation would be facilitated by their rationalization or elimination. This is just as important for the Government's objective of reducing inter-sectoral dispersions as reform of the trade régime.

33. The general effect of these reforms has been to transform Argentina from one of the most cosseted economies in the world to one of the more open. The emphasis on tariff protection has the benefit of greater transparency in the costs of protection to consumers and user industries, as well as increasing government revenues and reducing the scope for corruption which is associated with quotas and licensing in many countries. There is some escalation of tariffs and the remaining quantitative import restrictions, especially on automotive products, will still attract rent-seeking, unproductive activity in the sector with cost feedthroughs to other sectors of the economy. These concerns are somewhat mitigated by the expectation that tariffs on trade within MERCOSUR will be reduced to zero and quotas within the regional group will be eliminated by the end of 1994. To the extent that MERCOSUR itself becomes an open trading area, worries of welfare-reducing trade diversion will be lessened.

34. A clear commitment to neutrality in policy-induced incentives between industries and between sectors is likely to foster increased economic
efficiency. This is particularly the case in respect of traditional agriculture vis-a-vis other sectors of the economy. In the past falling international commodity prices and considerations of urban employment creation led to the fostering of import-substituting manufacturing and the implicit and explicit taxing of agriculture. There was also a widely held view that economic development was associated with increased industrial activity which should, therefore, be promoted. However, while this policy had some initial success, it soon reached its limits and started to exacerbate the economic problems. The squeeze on agriculture led to overall economic stagnation, not merely in the agricultural sector, with adverse effects on the industrialization which it was intended to promote.

(ii) **Temporary measures**

35. Argentina has never taken emergency protective measures under the provisions of Article XIX of the GATT.

36. Argentina has made limited use of anti-dumping or countervailing procedures, reflecting the high overall level of protection afforded until recently by other non-tariff measures. The peak of anti-dumping activity was in 1981, just before the re-introduction of quantitative import measures. Brazil was the main target of such measures. There are currently two anti-dumping duties in force, together with seven active anti-dumping investigations and two countervailing measures investigations.

37. Argentinian anti-dumping law has the positive feature that it provides for a limit of 2 years for the duration of definitive anti-dumping duties and six months for countervailing measures. To some extent, this must inhibit the use of anti-dumping for harassment of imports.

(iii) **New initiatives**

38. The basic foreign trade law is currently being reviewed. This is likely to lead to a consolidation of existing laws in a framework which is internally more coherent as well as being consistent with the thrust of current reforms. Part of the revision of the trade law is intended to
bring Argentina's anti-dumping procedures into line with the GATT Anti-dumping Agreement, following Argentina's adherence. The changes are intended to allow fast action against "unfair competition" to prevent "serious" injury. Congress is also considering a law which would pave the way for Argentina to adhere to the Subsidies Agreement.

39. Within the proposed new trade law, the key elements in support of the export sector would appear to be the opening of the economy; macroeconomic stability; the refund of taxes paid in the production process or on imported inputs; simplification of export procedures; support for small- and medium-size enterprises, the provinces and private sector; the creation of a trade facilitation committee; and active defence of fair competition and trade promotion.

40. The definitive elimination of the various laws creating special sectoral régimes, currently under suspension, and establishment of a sector-neutral trade and industrial policy régime would confirm the shift to the pursuit of more efficient allocation of resources, put the budget on a sound footing for the future and send the right signals to investors at home and abroad. Controlling provincial government expenditures and the continued emphasis on a more efficient VAT scheme will also support the Government's drive.

41. Priority is also being given to the targets within MERCOSUR for further trade liberalization. Despite the fact that the Treaty of Asuncion, signed on 16 March 1991, is awaiting ratification by one country, finance and agriculture ministers and central bank governors have already met to co-ordinate economic policy. However, in an early sign that MERCOSUR may be outward-looking, the four members, Argentina, Brazil, Paraguay and Uruguay, also signed a Trade and Investment Treaty with the United States on 19 June 1991, as part of President Bush's Enterprise for the Americas initiative.
Trade Policy and Foreign Trading Partners

42. Argentina has much at stake in the Uruguay Round. Many of its problems in overseas markets are related to the use of agricultural support programmes and export subsidies by the European Communities and the United States. Estimates place the welfare gains to Argentina from global trade liberalization, including reduction or elimination of trade and production interventions in the industrial countries, between U.S.$3.2 and U.S.$11.9 billion annually, depending on the assumptions.

43. However Argentina has also placed considerable emphasis in improving its ties with its immediate neighbours and the signing of MERCOSUR is the most far-reaching development in this regard. While there is some complementarity between the different members of MERCOSUR in agriculture (Brazil is a major market for Argentinian wheat - hence Argentinian concern about U.S. subsidized wheat exports to that country), it seems likely that MERCOSUR will have its main impact in the area of manufactures, with a more than proportional increase in intra-industry trade.

44. The elimination of the anti-agriculture, anti-export bias of Argentina's past import-substituting policies might be expected to lead to a relative increase in the size of Argentina's agricultural sector, which also has plenty of scope for increased productivity. This would be supported by international liberalization in the sector. However, international commodity prices are largely expected to pursue their long-term decline (with periodic fluctuations). This suggests that, despite a possible short- to medium-term swing in favour of agriculture, there will be greater long-term growth in manufacturing - a tendency which will be reinforced by MERCOSUR. This implies a need for policies which permit ongoing structural change in line with Argentina's dynamic comparative advantage. Further reforms along the lines of the Government's present programme would therefore be expected to lead to further reductions of tariff disparities and the elimination of residual quantitative restrictions. Confirmation of the changed incentive structure would further increase investor confidence in the direction of change and facilitate the resolution of outstanding economic problems.
45. The importance attached by Argentina to the removal of foreign countries' trade barriers is not seen as being in conflict with the unilateral liberalization which Argentina has undertaken. Rather, Argentina sees the multilateral negotiations taking place in the Uruguay Round as providing the opportunity to consolidate its own liberalization programme in return for greater access to overseas markets and certainty of trading conditions.

Since this report was completed, the Government of Argentina has taken further significant steps to liberalize the country's economic and trade system.

A Presidential Decree (No. 2284) issued on 30 October 1991, contains 122 Articles covering the deregulation of the internal market for goods and services; further liberalization of foreign trade, including the elimination of remaining import and export controls except those for health and the protection of the environment; the elimination of a number of State bodies, including the National Grains and Meat Boards; the suppression of a number of taxes, including the statistical tax on exports; the reduction of charges and increased transparency in the capital market; the amendment of the collective bargaining process, allowing enterprises to negotiate wages and hours directly with their own employees instead of national unions; the creation of a unified system of social security.

This new decree appears to strengthen substantially the market-oriented reforms which have been described in this GATT Secretariat report. Its provisions are expected to increase internal competition, further reduce the rate of inflation, and effectively eliminate most State intervention in the Argentine economy.

GATT Secretariat, Geneva 5 November 1991
(4) Trade Policy and Foreign Trading Partners

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I. THE ECONOMIC ENVIRONMENT

(1) Major Features of the Argentine Economy

1. Located in Latin America's Southern cone, Argentina has a population of some 32 million and covers a territory of 2.8 million square kilometres. Argentina's population is highly concentrated around its capital, Buenos Aires, which absorbs more than one-third of the country's total population. An estimated 86 per cent of Argentina's population lives in urban areas, up from 76 per cent in 1965. Population growth has remained low and stable in recent years, declining slightly to an average of 1.4 per cent during the 1980s after averaging 1.6 per cent between 1965 and 1980. Since the mid-1960s, Argentina's rate of population growth has been one-third lower than that observed for Latin America and the Caribbean as a whole.

2. Despite its low level, Argentina's rate of population growth has in recent years consistently outstripped the country's economic growth performance. After growing on average by 2.6 per cent per year during 1970-80, Argentina's real GDP contracted on average by 1.2 per cent a year during the 1980s. Beset by chronic macroeconomic instability, Argentina registered a steady decline in real per capita GDP during the last two decades. This decline accelerated markedly during the 1980s, when it averaged a yearly 2.6 per cent. The country's per capita GDP, which stood at US$2,600 at the end of 1989, contracted by more than one tenth in real terms since 1985, owing, inter alia, to the effects of accelerating inflation on real wages, declining public and private investment, poor labour productivity growth and a recession-induced rise in unemployment and underemployment (Table 1.1).

3. Argentina's inability to realise its long-term growth potential stands in marked contrast to the country's rich endowments in natural resources and human capital. Argentina's central-eastern region, from which most of the country's agricultural production originates, is one of the most fertile regions in the world for temperate agriculture, the natural productivity of its soils contributing to production costs which rank amongst the lowest in the world. Argentina's abundant and diverse energy resources, which include oil, gas, hydropower and uranium, render

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1 United Nations Demographic Yearbook 1988, New York 1990. This excludes Argentine Antarctic Territory, which covers a further 1 million square kilometres.

2 Argentina's GDP per capita was higher than that of Japan in 1960 - World Bank (1991).

3 For the 1980s as a whole, Argentina's price level increased by a factor of 3.36 million.
the country largely self-sufficient as regards its energy needs and some petroleum products are exported. Moreover, with adult literacy rates (for both males and females) estimated at 95 per cent, Argentina possesses a diverse and skilled work force displaying many of the characteristics found in high-income economies. The labour force, as a percentage of total population, stood at 38 per cent in 1990.

4. Argentina's poor economic performance throughout the postwar period has paralleled the relative closure of its economy to foreign trade (Note I.1). Despite noticeable yearly fluctuations, the degree of openness of the Argentine economy has nonetheless increased in recent years. From an average of 18.6 per cent during 1971-75, Argentina's ratio of merchandise trade (average of exports plus imports) to GDP stood at 26.0 per cent in 1989, one of its highest levels in two decades despite adverse terms of trade developments as well as a continued contraction in real import levels.

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4 The main energy import is natural gas, for which the value of imports was US$224 million in 1988.
Hôte I. Is Degree of Openness of the Argentinian Economy, 1915-1989

A rough measure of the degree of openness of an economy can be given by the ratio of the sum of exports and imports (or total trade) to gross domestic product. These ratios, see chart below, graphically demonstrate the story of the switch of the Argentine economy to import substitution, particularly in the period from 1929 to 1945. The period of liberalization under the Martinez de Hoz administration (1976-1981) shows up clearly, as well as the upturn in the late 1980s.

The shift towards import substitution affected the trends of several economic indicators. Prior to the 1940s, total exports and agricultural value added had long-term rates of growth similar to that of gross domestic product. From the early 1940s agriculture began to stagnate while exports declined. There was some improvement after the early 1950s.

Degree of Openness 1915-89
X+M/GNP Constant prices (%)

Source: Cavallo and Cottani, GATT Secretariat.

Ratios were calculated from 1915 by Cavallo and Joaquin Cottani (1991). The ratios from 1969 to 1989 have been calculated by the GATT Secretariat on the basis of data drawn from World Tables 1990/91, published by the World Bank.
5. Argentina ranked as the third most severely indebted developing country at the end of 1990, with a stock of external debt of US$60.5 billion. Argentina's external debt represented an estimated 77.1 per cent of GNP at the end of 1990, up noticeably from a level of 48.4 per cent in 1980 but down significantly from a year-end 1989 figure of 119.7 per cent. Interest due on Argentina's debt was estimated at US$5.8 billion in 1990, representing 44 per cent of exports of goods and non-factor services and over 6 per cent of GDP. As Chart I.1 reveals, significant changes have occurred in the composition of Argentina's external debt during the last decade. The share of public and publicly guaranteed debt owed to both official and private creditors more than doubled during the period while that of short-term debt experienced an almost threefold decline and that of private non-guaranteed debt became virtually negligible. Such trends are due to a number of factors, including the assumption by the public sector of private sector obligations in the early 1980s, as well as recourse to successive debt rescheduling agreements. There has, as well, been a noticeable rise in debt owed to international organizations as a result of adjustment lending for balance-of-payments purposes.

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5 1989 is the latest year for which data on the composition of Argentina's external debt is available. Of the country's US$64.7 billion stock of external debt at year-end 1989, US$53.2 billion represented long-term debt, US$8.4 billion short-term debt and US$3.1 billion IMF credit. Of the country's long-term debt, US$51.2 billion, or 96.2 per cent of the total, was public or publicly guaranteed. Of that, US$9.9 billion or 19.2 per cent was owed to official creditors (US$4.4 billion to international financial institutions and US$5.5 billion to bilateral creditors) and US$41.5 billion or 80.8 per cent to private creditors (US$12.8 billion in bonds and US$29.1 billion in commercial bank loans).

6 In the period from January 1983 to December 1989, Argentina reached seven debt rescheduling agreements. Of the total, four concerned commercial bank debt and three were with official, i.e. Paris Club, creditors.

7 Argentina has signed five Stand-by agreements with the International Monetary Fund since 1983. The country's authorities recently agreed with the IMF over the terms of a one-year US$1.04 billion Stand-by agreement.
6. Faced by the need to service high external debt obligations, Argentina has run persistent surpluses on its merchandise trade account since 1981 (see Chart I.2). This surplus, which reached a record US$8.2 billion at the end of 1990, averaged US$4.1 billion during 1981-90. With merchandise exports of US$12.3 billion and merchandise imports of US$4.1 billion in 1990, Argentina ranked as the world's 46th largest exporter and the 66th largest importer of merchandise.  

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8A measure of Argentina's economic decline is provided by its falling rank in world merchandise trade since the early 1970s. With merchandise exports of US$3.3 billion and merchandise imports of US$2.2 billion in 1973, Argentina ranked as the 37th largest exporter and 44th largest importer of merchandise.
Argentina has traditionally been a net importer of services, the country's services trade deficit averaging US$5.9 billion during 1980-90. Much of Argentina's services trade deficit owes to the servicing of the country's external debt, the negative balance on investment income accounting for some 85 per cent of the services trade deficit during the decade. Argentina has consistently been a net importer of commercial services, with the country's traditional surplus on shipment services and labour income offset by high net imports of travel services and property income. Exports and imports of commercial services attained US$2.3 billion and US$2.9 billion respectively in 1990.

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10. Argentina ranked as the 40th largest exporter and 39th largest importer of commercial services at year-end 1989, rankings which have changed little since the mid-1970s.
8. As noted earlier, Argentina is richly endowed in agrarian resources. Arable land covers some 1.95 million square kilometres, or 70 per cent of the country's territory. The most fertile and productive land is located within a radius of 500 kilometres of Buenos Aires. Known as the Humid Pampa, these lands account for more than 50 per cent of total agricultural production and for most of its three main products: cereals, oilseeds and cattle. Although the pampas can be expected to continue to provide the bulk of Argentina's agricultural output, the great diversity of the country's micro-climates and soils permits the production of a range of crops from wheat, rice and oilseeds to grapes and other fruits and even tropical products. According to the World Bank (1990a), many of these crops can be produced at costs competitive with production costs elsewhere. A further indication of Argentina's strong comparative advantage in agriculture derives from the fact that the foreign exchange generated by the country's agricultural sector has been estimated to represent two to three times the cost of domestic resources used in production.11

9. The agricultural sector, which absorbs 13 per cent of Argentina's labour force, contributed 13.8 per cent of GDP in 1989. As Chart I.3 makes clear, agriculture's share in GDP has fluctuated less markedly than those of industry and services over the past two decades. Despite declining real prices for foodstuffs in world markets and a domestic policy orientation that has tended to tilt the internal terms of trade against the agricultural sector, agriculture has grown faster than the economy as a whole in recent years.12 Such growth, which averaged slightly more than 1.0 per cent a year in real terms during the 1980s, is widely regarded as having been significantly below potential.13

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12 The country's domestic policy mix has tended to use the country's agricultural surplus to finance industrial development. The World Bank (1988a) estimated that, in the early 1980s, the agricultural sector contributed on average 45.6 per cent of its value of production in direct and indirect taxation.

13 Agriculture's sub-optimal performance owes to a combination of forces, including export taxes, price controls, official prices for exports and export quotas which, alongside the indirect effects of currency overvaluation and industrial sector protection, have greatly reduced the incentives to - and the returns of - investment in the sector.
After growing by 2.3 per cent a year in real terms during 1970-80, Argentina's industrial sector (comprising mining, manufacturing, construction as well as electricity and gas) has fared consistently worse than the economy as a whole during the last decade, experiencing an average yearly decline of 2.6 per cent in real terms during 1980-89. As a result, the country's industrial sector, which absorbs 34 per cent of Argentina's workforce, has seen its share in GDP decline from a high of 43.5 per cent in 1984-86 to 32.7 per cent at the end of 1989.

Within the broad industrial sector, manufacturing has seen its share in GDP decline markedly in recent years. From a high of 29.7 per cent in 1974, the contribution of manufacturing to GDP stood at 20.4 per cent in 1990, its lowest level in four decades. The sector, which contributes close to 70 per cent of Argentina's industrial value-added and employs
roughly one-fifth of its workforce, registered an average decline of 2.5 per cent per annum in real terms during the 1980s after growing by 1.6 per cent a year on average during the 1970s. This prolonged decline of Argentina's manufacturing sector can also be seen in the evolution of the country's index of industrial production, whose level in April 1991 stood some 15 per cent below its 1984 level (FIEL, 1991).

12. As shown in Table I.2, food and beverages ranked as the leading manufacturing sub-sector in 1990, accounting for 27.7 per cent of manufacturing value-added (MVA). Other sub-sectors of importance include chemicals (19.4 per cent of MVA), machines and equipment (17.7 per cent), textiles and leather (9.6 per cent), and metallurgy (8.4 per cent).

13. Since 1984, about half of Argentina's energy production has consisted of oil, one-third of gas, 6 per cent of hydroelectric and nuclear power, and the rest of biomass, coal and other sources (World Bank (1990a)). Argentina's energy resources have been developed primarily by the public sector. Inadequate pricing policies, combined with a high level of taxation, distorted investment and regulatory policies as well as inefficiencies within the State-owned energy firms, have resulted in significant resource misallocation, both by encouraging energy-intensive patterns of production and consumption and by placing a heavy financial burden on the public sector.

(iii) Services

14. Services play a prominent rôle in the Argentine economy, contributing more than half of GDP (52.3 per cent in 1989) and employing some 57 per cent of the country's workforce. As Table I.3 shows, the share of services in GDP has risen steadily over the past two decades, with Government services contributing close to 70 per cent of the rise observed in the sector's share of production between 1970 and 1989.

14Manufacturing employment accounts for 61.8 per cent of industrial employment, representing 21 per cent of total employment.

15The country's index of manufacturing employment shows a similar - if only more pronounced - trend, the year-end 1989 level being some 36 per cent lower than that attained in 1970 (INDEC, 1990). Moreover, real wages in manufacturing stood in April 1991 some 26 per cent below their 1985 average (FIEL, 1991).

16Not surprisingly, the energy sector ranks amongst the leading priorities of the current Government's policy of deregulation and privatization.

17After growing by 2.6 per cent per year on average during the 1970s, Argentina's services sector contracted by a yearly 0.7 per cent during 1980-89. The latter decline masks, however, the sector's stronger performance during 1985-89, when it experienced an average annual growth rate of 4.7 per cent.
15. Commercial services have in recent years become an important source of export earnings, as is evidenced by the rising share of commercial service exports in total exports of goods and non-factor services (Table 1.4). After growing by 18.8 per cent per year on average during the 1970s, exports of commercial services expanded by a yearly 3.9 per cent during the 1980s. Imports of commercial services have seen their share of total imports of goods and non-factor services increase from 28.1 per cent in 1980 to 43.4 per cent in 1990. Although real commercial service imports grew by 2.2 per cent per year on average during 1981-90, their rising share in total imports of goods and non-factor services stems largely from the severe contraction in merchandise imports during the period.

16. Reflecting the country's large pool of skilled manpower, Argentina possesses a services sector whose diversity and sophistication stand out among countries at similar levels of per capita income. A number of Argentine firms, in sectors such as construction, engineering, informatics and various forms of consulting, have long been internationally active.

17. Some segments of the country's domestic services sector, notably in the financial area, display relatively high degrees of internationalization. The current Government's privatization policy - see Note 1.2 - which has already seen the sale of ENTEL, the country's former telecommunications monopoly, and Aerolineas Argentinas, the national flag carrier - can be expected to contribute to the further internationalization of Argentina's services sector. Improvements in the efficiency of Argentina's service infrastructure should do much to raise the competitiveness of the country's main exports and reduce the country's import bill.

18 A measure of the internationalization of Argentina's services sector is provided by the country's banking industry, in which 33 established foreign banks accounted for nearly one-fifth of all local currency deposits at the end of 1988.

19 For instance, it is estimated that high freight and port costs alone add some 16 per cent to the cost of imports.
Note I.2 The Aims of Privatization and Public Sector Reform in Argentina

Privatization is but part of a package of public sector reforms in Argentina which has several objectives. One is to reduce domestic fiscal deficits - which is in turn critical to putting an end to persistent bursts of hyperinflation. Another is to obtain funds for debt reduction. A third is to increase economic efficiency.

It is estimated that public sector reforms - encompassing privatization as well as downsizing employment and reducing expenditures in remaining public sector functions - could reduce the structural deficit of GDP by more than 1.5-3.2 per cent and possibly more in later years. There are several components to the reform process (each of which is being supported by a series of World Bank loans announced between December 1990 and July 1991: 

(i) public enterprise reform, covering privatization, as well as rationalization and new pricing regimes for public enterprises that will not be subject to privatization;

(ii) public sector reform, which means rationalizing public expenditure and improving the revenue base, including through the reduction of tax evasion and avoidance. This also covers reducing exemptions for industrial promotion including the reduction of tax incentives for the electronic industries in Tierra del Fuego (see Chapters IV and V); and

(iii) reform of provincial Government finances. Till now provincial Governments could use provincially-owned bank to fund short-term deficits. These banks could count on their shortfalls being underwritten (rediscounted) by the Central Bank. Thus, provincial Governments had a virtual blank cheque for expenditure with minimal concern for revenues.

As an indication of the potential contribution of privatization to the reduction of the debt burden, Government figures show that the sale of the telephone system, the national airlines, radio and television stations and oil industry concessions yielded US$8.9 billion of which about US$7 billion went to reducing commercial debt by about 20 per cent through debt-equity conversions while the Government received US$1.9 billion in cash. Further substantial sales are planned.

It is expected that privatization will lead to long-term improvements in economic efficiency by getting the prices right. This will lead to the elimination of cross subsidization between sectors (see Chapter IV). It will encourage new investment in services and infrastructure with effects flowing to the rest of the economy.
(2) Recent Economic Performance

18. During the 1980s Argentina experienced slow—often negative—economic growth and high inflation (Table 1.1). Apart from inconsistent fiscal, monetary and exchange rate policies, the country's economic ills derive in large measure from the industrialization path pursued in the early post-War period. Argentina's shift from a rural and mainly agricultural economy into an industrialized urban economy began as a result of a prolonged balance-of-payments crisis induced by the world depression of the 1930s. The country's industrialization effort took a deliberate inward-looking turn during the 1940s, placing large demands on the public sector as an investor, a source of subsidy for favoured activities and interest groups as well as a net borrower of funds. Subject to frequent political upheavals, economic policies have shown a tendency to move from one extreme to the other and the uncertainty generated has severely affected both the efficiency of a rapidly expanding public sector and the decision-making ability of the private sector.

19. Argentina entered the 1980s with the deepest recession of its history, as a stabilization experiment initiated in 1978 quickly unraveled owing to the Government's inability to rein in public spending in the face of heightened inflationary pressures, deteriorating external accounts and capital flight fueled by expectations of a massive devaluation. Although some corrective measures were undertaken in 1981, fiscal imbalances worsened, leading to a resurgence of inflation. Emerging uncertainties combined with the South Atlantic conflict in 1982 to intensify capital flight, further exacerbating the country's balance-of-payments difficulties. Adverse external developments—the rise in oil prices, slower growth in industrialized country markets, surging international real interest rates—added to Argentina's economic difficulties in 1981-83.

20. The constitutional Government that took office in December 1983 thus confronted a difficult set of political and economic issues, marked by accelerating inflation (averaging 20 per cent a month), rapidly deteriorating public sector finances and a production structure generating less income than it did a decade earlier despite a US$38 billion increase in the level of external debt. By 1983, gross investment had fallen to less than 60 per cent of its 1978-80 level, and national savings had also declined by more than half.

21. The newly-elected Government's efforts at reviving the country's growth prospects and regaining control over public finances met with little success during its first eighteen months in power. By mid-1985, inflation was averaging between 25 and 30 per cent a month, prompting the authorities to replace its gradualist approach with a comprehensive set of stabilization measures. Beginning with the "Austral Plan" in June 1985,
the Government made several attempts to arrest the inflationary spiral through stabilization programmes combining tightened fiscal and monetary policies with wage and price freezes. Despite brief periods of initial success, particularly in arresting inflationary pressures, stabilization efforts generally faltered, owing to the inability of the authorities to sustain the requisite fiscal adjustment in the face of deteriorating levels of real economic activity.

22. Fuelled by a rise in both consumption and investment levels, economic activity recovered following the introduction of the Austral Plan in the second half of 1985, leading to strongly positive growth in real GDP in 1986 (Table I.6). The recovery carried through to 1987, albeit at a reduced pace as fiscal policy slippages rekindled inflationary pressures. 1988 witnessed a sharp reversal of economic fortunes, with price inflation rising to nearly 400 per cent at year-end (despite the implementation of the Plan Primavera). Economic activity contracted sharply during the year, owing to a decline in gross capital formation and the effect of falling real wages on consumption.

23. After a marked improvement in 1985 in the context of the Austral Plan, Argentina's external accounts deteriorated in 1986-87, owing in large measure to a decline in world prices for its main exports (and hence its terms of trade) and widespread flooding, both of which adversely affected agricultural exports. With interest payments well in excess of net exports, the current account deficit widened to 4.7 per cent of GDP in 1986 and to 6.6 per cent of GDP in 1987. Argentina's external accounts improved under the Plan Primavera in 1988, as a recovery in agricultural exports and strong inflows of foreign investment reduced the current account deficit to 2.5 per cent of GDP. The country's balance-of-payments deficit, which stood at US$4.1 billion, or 6.6 per cent of GDP, in 1987, fell to US$1.4 billion in 1988, representing 2.1 per cent of GDP.

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20 The Government's second major stabilization initiative came in August 1988 with the introduction of the "Plan Primavera", whose main components included a voluntary price freeze, pre-announced exchange rate devaluations to reduce inertial inflationary pressures, a tax reform designed to circumscribe costly industrial subsidies as well as a trade reform aimed at opening up the economy. As with previous stabilization programmes, the Plan Primavera achieved some initial success on the inflation front. The trade reform package succeeded in lowering the average level of protection and reducing the coverage of quantitative restrictions (see Chapter IV) while financial sector reforms reduced the flow of rediscounts through the Central Bank and maintained the régime of liberalized interest rates initiated in late 1987. Such progress, however, was quickly undermined by inadequate fiscal adjustment, the latter stemming from slippages in public sector wage settlements, continued high transfers to provincial Governments, lags in adjusting public sector prices, legislative obstacles to tax reform as well as to a stalling in negotiations with multilateral and commercial bank creditors over new money. For more on the Plan Primavera, see World Bank (1990a).
24. Argentina's fiscal imbalance has in recent years thrown much of the burden of stabilization on monetary policy, prompting the Central Bank to increase its stock of domestic debt sharply in order to support the desired interest- and exchange-rate mix. The maintenance of high real interest rate levels significantly worsened the Central Bank's quasi-fiscal deficit, which averaged 18.0 per cent of GDP in the first half of 1989, and fuelled an appreciation of the real exchange rate. In March 1989, the fundamental inconsistency of high real interest rates on Government debt, an overvalued exchange rate, continued lack of fiscal adjustment and, as the May election approached, concern that the country's external debt might be repudiated, led to massive portfolio shifts into dollar-denominated and non-financial assets and to a sharp rise in the fiscal deficit as inflation and tax evasion drove revenue collections to record lows. The above trends propelled the Argentine economy into hyperinflation on the eve of the presidential election - producing price rises of some 4 per cent a day in mid-1989 - and triggered a self-feeding run on the domestic currency which the outgoing administration proved incapable of arresting.

25. Eschewing the six month interregnum foreseen by the Argentine constitution, a new Government assumed power on 8 July 1989 and introduced a sweeping reform programme the next day. The Government's immediate response to the economic situation was to effect a major correction in relative prices (exchange rate, prices of public sector goods and services) and to submit to Congress a legislative programme comprising tax reform, authorization to reduce expenditures and subsidies, reductions in extra-budgetary transfers to the provinces and to State enterprises, reform of the central bank charter, as well as authorization to privatize public enterprises.

26. Despite early successes, including a sharp reduction of inflation and a build-up of international reserves, progress toward stabilization reversed rapidly during the last quarter of 1989, as slippages occurred in wage and credit policies and delays were encountered in the implementation of several key structural measures, among which tax reform and the privatization programme. An attempt in early December 1989 to reset the nominal anchors of the stabilization programme under a fixed exchange rate régime did not take hold, prompting the adoption a few days later of a policy package abolishing virtually all existing price controls and setting a floating exchange rate. Beset by conflicting policy signals, the

21 The combined public sector operational deficit reached 40 per cent of GDP in the first half of 1989, up from 2.5 per cent of GDP a year earlier.

22 The free market exchange rate fell from A$16.9 per U.S. dollar in January 1989 to A$402.4 in June 1989. It ended the year at A$2,400.0 per dollar.
Argentine economy returned to its familiar spiral of rising interest rates, a worsening fiscal deficit, renewed inflation and a weakening currency.  

27. Taken as a whole, 1989 saw a considerable worsening in the country's economic situation, with consumer price inflation approaching 5,000 per cent by year-end, real GDP contracting by 5.6 per cent and per capita incomes falling by 6.0 per cent in real terms. The slowdown in economic activity, evidenced by rising unemployment and underemployment as well as by a precipitous fall in industrial capacity utilization, was compounded by the continued decline in investment. For the three-year period ending in 1989, Argentina registered a 40 per cent reduction in public and private investment expenditure. Despite some improvement in its current account, owing mainly to the recovery of agricultural exports and a substantial contraction in imports, Argentina's balance-of-payments deficit recorded a substantial increase in 1989, reaching US$6.2 billion, or 9.5 per cent of GDP. The country saw a sharp deterioration in its capital account, which after being in surplus during 1985-88, registered a US$4.9 billion deficit (7.6 per cent of GDP) as growing economic uncertainty fuelled significant outward movements of private capital.

28. Attempting to reverse the crisis in market confidence that built up during the previous six months, the Government announced a major fiscal reform programme in March 1990. The programme yielded immediate results on the inflation front, arresting the hyperinflationary pressures that had re-emerged during the first quarter. 24 While down significantly from its 1989 level, consumer price inflation remained high for 1990 as a whole (some 1,450 per cent). Faced with a severe tightening of monetary policy, the Argentine economy contracted for a third consecutive year in 1990. With exports as the only positive element of aggregate demand, output declined by 2.0 per cent in real terms during the year. The continued drop in access to foreign savings led to a further decline in investment, which fell to 8.3 per cent of GDP, a level below that needed to cover the depreciation of capital stock. With capacity utilization rates hovering around 50 per cent, manufacturing output fell by 4.0 per cent in 1990, its fourth consecutive yearly drop.

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23 To eliminate the domestic component of the Central Bank's quasi-fiscal deficit as a source of monetary expansion, the authorities decreed, as of 1 January 1990, the compulsory conversion of austral-denominated Government bonds and term deposits into ten year dollar-denominated bonds. This resulted in an almost 50 per cent reduction in the stock of broad money.

24 After rising on average by 78.7 per cent a month during the year's first quarter, consumer prices rises averaged a monthly 11.0 per cent during the remainder of the year.
29. Preliminary estimates point to a marked improvement in Argentina's external accounts during 1990, as weak domestic demand conditions combined with buoyant agricultural exports to produce a record US$8.2 billion merchandise trade surplus. Combined with the effects of debt reduction on the level of debt servicing and the continued build-up in interest arrears, the rise in net exports fuelled an improvement in the current account, which registered a surplus estimated at US$1.8 billion in 1990. The improvement in Argentina's capital account followed a rise in direct investment flows associated with the Government's privatization of State enterprises - see Note I.2 for details on the contribution of privatization to debt reduction. Note I.3 describes the progress of the privatization programme.
Note I.3 The Privatization Programme in Argentina

Privatization is a cornerstone of the current economic reform in Argentina. It is also planned to take place at a faster rate than in other countries of the region. This speed is dictated partly by the need for debt reduction but also by the desire to use the price mechanism to drive industrial restructuring in services and user industries.

In July 1990 there were about 230 public enterprises in Argentina, of which 67 were operated by the Federal Government. The seven largest - covering more than 50 per cent of public enterprise revenues - were: ENTEL (telecommunications), Ferrocarriles Argentinos (FA - railways), Yacimientos Petrolíferos Fiscales (YPF - oil and gas production/refining), Gas del Estado (GdE - gas distribution), Servicios Electricos del Gran Buenos Aires (SEGBA), Agua y Energía Electrónica (AyEE) and Hidroeléctrica Norpatagonica (Hidronor) (power generation, and distribution). They were characterized by inefficiency, poor service quality and weak financial performance.

The restructuring and privatization of the public enterprises is being carried out under the Law for the Reform of the State and the Economic Emergency Law. The latter law also suspended the "Buy Argentinian" (Compre Argentino) obligations of the public enterprises which gave preferences to local suppliers (but will be replaced by a 5 per cent margin of preference). This is being supervised by the Ministry of the Economy and Public Works. The reforms are aimed at more rational pricing, procurement, labour management, healthy competition, and financial responsibility.

ENTEL has been split into two (on a North/South basis) and sold to two consortia - STET/France Cable et Radio/Morgan Bank and Telefonica/Citibank. Aerolineas Argentinas was sold to Iberia. The Government has deregulated the hydrocarbons sector, sold a number of minor oil-producing areas, allowed joint ventures in main oil-producing areas, awarded concessions to the private sector for operation of rail freight and about 10,000 km. of the highway system (to be operated as toll roads). Radio and television stations have been sold.

Other State-owned enterprises up for sale include the operators of electricity, gas and water services. The national shipping company is to be sold. Large parts of the petroleum sector are also to be privatized. There are also a number of defence industry manufacturing establishments that are to be privatized.

The Government is establishing regulatory mechanisms to oversee the operations and pricing policies of the new concessions/monopolies.
30. The disclosure in early 1991 of recourse by the authorities to monetary emission to cover expenditures reversed confidence in the Government's economic policy, rekindled inflationary pressures (consumer prices rose by 27 per cent in February) and precipitated a renewed flight from the austral. The Government's new economic team soon announced a package of stabilization measures aimed at arresting the incipient fiscal and exchange crisis. The measures, which came into force on 1 April 1991, included legislation aimed at pegging a hitherto fully convertible austral to the U.S. dollar at a rate of 10,000 australs per dollar, banning all forms of indexation and outlawing the monetization of Government deficits. Also in force from 1 April is a tariff reform package announced a month earlier (see Chapters III and IV).

(3) Trade Performance

(1) Commodity pattern of trade

31. Argentina has witnessed a significant deceleration in the growth of its merchandise exports over the past two decades. Reaching an f.o.b. value of US$12.3 billion in 1990, merchandise exports expanded by 4.4 per cent a year on average during 1980-90 - substantially below the average level of 16.3 per cent achieved during the 1970s.

32. Argentina's export mix has undergone important changes during the last two decades (Chart I.4). Exports of primary products (including products of agro-industrial origin), whose f.o.b. value stood at US$8.1 billion in 1990, remain the largest component of Argentina's merchandise exports, although their share in total merchandise exports declined from 86.1 per cent in 1970 to 66 per cent in 1990. After growing by 14.9 per cent a year on average during the 1970s, the average annual rate of growth of exports of primary products dropped to 2.8 per cent during 1980-90.
Chart I.4
Structure of merchandise trade, 1970-90

Per cent

Source: Ministerio de Economia.

33. Much of the decline observed in the relative share of primary products in total merchandise exports owes to adverse developments in world prices of cereals and meat. Traditionally amongst the country's leading commodity exports, their combined share in total merchandise exports declined from 54.1 in 1970 to 18.2 per cent in 1990.25

34. Tables I.5 and I.6 highlight the importance of the primary sector as a source of foreign exchange earnings, showing that seven of Argentina's ten leading merchandise exports, representing amongst them 53.5 per cent of 1990 export earnings, originate in the sector. Despite the price trends, the primary sector remains crucial to the recovery of the Argentine economy through its capacity to generate increased export earnings. The prospects and possible constraints, internal and external, are discussed further in Chapter V.

25 Exports of cereals and meat declined (in value terms) on average by 6.9 and 5.6 per cent a year respectively during the 1980s after growing by 12.3 and 8.1 per cent a year respectively during 1970-80.
35. Oilseeds, vegetable oils and their derivatives for animal feed are jointly Argentina's largest exports. Cereals have been overtaken by animal feeds (the bulk of which consist of vegetable oil residues) and pushed into second place among Argentina's leading merchandise exports in 1990. Meat, fruits and vegetables follow as Argentina's leading food exports, representing between them some 37 per cent of total merchandise exports in 1990.

36. Reflecting both adverse commodity price developments as well as the anti-agricultural bias of the country's economic policies, Argentina's manufacturing sector has, despite its anaemic performance in production and employment terms, seen its share in total merchandise exports grow from 13.9 per cent in 1970 to a record high of 34.0 per cent in 1990. This is partly associated with the decline in commodity prices. Exports of manufactures, whose f.o.b. value stood at US$4.2 billion in 1990, grew on average by 9.9 per cent a year during the 1980s, after expanding by 22.4 per cent per year on average during the preceding decade. Exports of iron and steel lead Argentina's exports of manufactures, accounting in 1990 for 19.7 per cent of manufactured exports and 8.0 per cent of total merchandise exports. The country's fifth leading merchandise export group in 1990, iron and steel exports nearly quadrupled their share in total exports during the period. Chemicals, non-electric machinery, transport equipment and textiles follow as the country's main manufactured exports, representing 32.7 per cent of manufactured exports and 11.1 per cent of merchandise exports in 1990.

37. Argentina's economic difficulties have resulted in a dramatic cutback in the level of merchandise imports in recent years. After growing by 20.1 per cent a year on average during the 1970s, the country's merchandise imports declined by 9.2 per cent a year on average during 1980-90. At US$4.1 billion (in f.o.b. terms) at year-end 1990, the value of Argentine merchandise imports was almost 60 per cent lower than the level attained at the beginning of the decade.

38. Argentina's import mix has not changed significantly in recent years. As Chart I.4 indicates, manufactures continue to dominate the country's

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26 Contributing almost one-sixth of the country's foreign exchange earnings, animal feeds have more than trebled their share in total merchandise exports during the 1980s.

27 Exports of manufactures grew by 20.7 per cent in 1990.

28 Argentina's third leading merchandise export in 1989, iron and steel exports in 1990 were 14.9 per cent lower than the previous year, providing evidence to some of the impact of a low real exchange rate on the country's non-traditional exports.
import bill, accounting in 1990 for 78.9 per cent of total merchandise imports, up slightly from a level of 73.1 per cent in 1970. Chart I.5, which maps the evolution of Argentina's merchandise imports by broad economic categories, shows that imports of intermediate goods have registered a noticeable rise - from 51.2 per cent in 1980 to 76.8 per cent in 1989 - in their relative share of total merchandise imports, while those of consumer and capital goods saw their shares decline during the same period. While the value of all three import categories declined significantly during the 1980s, the decline was particularly pronounced in the case of consumer goods, whose share in total merchandise imports fell from 18.6 per cent in 1980 to 5.6 per cent in 1989, reflecting an almost tenfold contraction in value terms.

Chart I.5
Structure of merchandise imports by broad economic categories, 1980 and 1989

Source: Ministerio de Economia.

39. The above trends are borne out in Tables I.7 and I.8, which highlight the degree to which Argentina's import structure is dominated by intermediate goods, such as chemicals, iron and steel, petroleum products and plastics; by capital goods, such as machinery (electric and non-electric) and transport equipment; and by natural gas. These products tend to have a high income elasticity of import demand, and hence, import levels are highly influenced by the overall level of activity of the economy.
(ii) Regional pattern of trade

40. Argentina’s merchandise trade by destination has changed appreciably during the past two decades (Table I.9). The share of merchandise exports destined for developed country markets declined from 71.1 per cent in 1970 to 50.2 per cent in 1990 while that destined for developing country markets rose from 28.1 per cent to 42.2 per cent. The declining share of merchandise exports destined for developed country markets owed to the sharp drop in the level of Argentine merchandise exports absorbed by the European Communities. Developed countries witnessed a similar drop in their share of Argentina’s merchandise imports, which fell from 72.0 per cent in 1970 to 56.9 per cent in 1990, while that of developing countries grew from 26.7 to 41.8 per cent during the period.

41. The European Communities, the United States and Brazil are Argentina’s main trading partners, accounting between them for over half of merchandise exports and some two-thirds of merchandise imports in 1990. Ranked by individual countries, the United States was in 1990 both the main destination of Argentine exports, absorbing 13.8 per cent of the country’s merchandise exports, as well as its largest supplier of merchandise imports, providing 17.9 per cent of the country’s total. Argentina’s exports to the United States, the bulk of which consists of iron and steel, leather and meat, grew by some 7.0 per cent a year on average during the 1980s, while its imports from the United States (mainly non-electric machinery and chemicals) fell by 11.0 per cent a year on average during the same period, the strongest decline amongst Argentina’s main trading partners.

42. Brazil, to which 11.5 per cent of merchandise exports were destined and from which 17.6 per cent of merchandise imports originated in 1990, is by far Argentina’s main trading partner in Latin America and the Caribbean, a trend which the recently agreed MERCOSUR Treaty is likely to increase. Argentina’s leading exports to Brazil in 1990 were cereals, chemicals as well as fruits and vegetables while its principal imports consisted of iron and steel, leather and meat. Overall, Argentina’s trade with Brazil contracted on both the export (-2.8 per cent a year) and import (-1.3 per cent a year) sides during the 1980s.

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29 Italy, whose share of Argentine merchandise exports declined from 15.3 per cent to 4.2 per cent during the period, accounted for half of this decline.

30 Argentina's imports from developed countries fell by some 10 per cent a year on average during 1980-90, compared to an average yearly decline of 4 per cent for imports from developing countries.

31 Trade with Brazil contracted on both the export (-2.8 per cent a year) and import (-1.3 per cent a year) sides during the 1980s.
and steel, chemicals and non-electric machinery. Exports to (then West) Germany, which consist mainly of oilseeds, vegetable oils and derivatives as well as meat grew by 2.2 per cent a year on average during the 1980s, compared to a 6.8 per cent average annual contraction in imports. The bulk of Argentina's imports from Germany consists of electric and non-electric machinery. Argentina’s other principal export markets include the Netherlands, Belgium-Luxembourg, Italy, Iran, the Soviet Union, Chile, Japan, Mexico, Spain, Uruguay and China. Argentina’s other main suppliers of imports include Bolivia, Italy, France, Japan, Uruguay, Mexico, Chile, Spain, Netherlands and Switzerland.

43. The last decade saw a significant rise in the share of Argentina's imports originating within Latin America and the Caribbean. The share of intra-regional imports stood at 34.8 per cent in 1990, up from 21.2 per cent in 1980. The share of Argentine merchandise exports destined for Latin America and the Caribbean stood at 27.5 per cent in 1990, up slightly from a level of 23.6 per cent in 1980. As Table I.9 indicates, trade with the other members of the Latin American Integration Association (LAIA) accounts for virtually all of Argentina's commerce within Latin America and the Caribbean. Apart from Brazil, which accounted for 45.6 per cent of the country's intra-regional exports in 1989, Argentina's main trading partners in Latin America and the Caribbean are Chile, Uruguay, Peru and Mexico, the latter group of countries absorbing 35.8 per cent of Argentina's intra-regional exports in 1989. In 1990, partner countries of the MERCOSUR (Brazil, Paraguay and Uruguay) took in 25.3 per cent of Argentine merchandise exports and provided 21.5 per cent of the country's merchandise imports.

(iii) Intra-industry trade

44. One indication of the nature of the change in a country's trade is the percentage of intra-industry trade - see Note I.4. Table I.10 shows that Argentina's level of intra-industry trade reached almost 22 per cent in 1988. This percentage is low by the overall standards of industrial countries whose intra-industry trade with the world was estimated at

32 Iron and steel imports from Brazil accounted for 39.5 per cent of total Argentine imports in 1988.

33 The Netherlands ranked as the second leading destination of Argentine exports of merchandise in 1989, absorbing 10.9 per cent of the country's total. However, it is understood that many exports to the Netherlands are re-exported to other European countries, especially Germany.

34 Ranked as the leading individual country importer of Argentine products in 1980, the Soviet Union has seen its share of Argentina's merchandise exports experience a five-fold decrease during the decade to 1990.
42.8 per cent in 1985 and other Newly Industrialising Economies with 29.3 per cent (Forster and Ballance (1990) - whose estimates only cover manufacturing which typically has higher intra-industry trade than commodities). However, Argentina's intra-industry trade with the world was higher than that of Japan with 17.8 per cent, or Australia with 17 per cent (estimate by Grubel and Lloyd (1975) using 1965 data).
Note I.4 The Concept of Intra-industry Trade

Intra-industry trade is a measure of the extent to which trade takes place within rather than between industries. It is the fastest growing component of global trade in manufactures. It has been remarked that intra-industry trade is higher with the degree of diversification and industrialization of an economy and of its integration with other countries. It can be adversely affected by distance from other markets.

Intra-industry trade may occur for a number of reasons:

(a) homogeneous products involved in border trade, entrepôt trade, or seasonal trade;

(b) heterogeneous products made in the same industry at vertically adjacent or complementary stages of production;

(c) heterogeneous or differentiated products that are close substitutes for each other in production, consumption or both.

It can be measured in a number of ways, but that most in use is given by the following formula by Grubel and Lloyd (1975). This has the property that all values lie between zero and 100 per cent. If all commodities in an industrial sector are either only exported or only imported then the intra-industry trade ratio would be zero. If, for all commodities in a sector, imports exactly equal exports then intra-industry trade is 100 per cent.

\[
IIT_{ij} = \frac{\sum_{i=1}^{m} \sum_{j=1}^{n} [(X_{ij} + M_{ij}) - |X_{ij} - M_{ij}|]}{\sum_{i=1}^{m} \sum_{j=1}^{n} (X_{ij} + M_{ij})}
\]

Where \(X\), \(M\) are exports and imports, respectively, and \(i\) and \(j\) represent, respectively, commodities and trading partners for which trade is being summed.
45. However, Argentina's intra-industry trade ratio was up from 11 per cent in 1970 and 15 per cent in 1980 - a sign of growing integration in the world economy. This openness is discussed further in Chapter IV.

46. It is to be noted that the agricultural sectors (from categories 27 through 34) typically have much lower ratios than for other sectors and have also registered some important declines. The low ratios are to be expected in the case of commodities where product homogeneity is more pronounced and where trade policies constraining Argentina's natural comparative advantage have been less restrictive than in the earlier period of relative closure. Given the weight of commodities in Argentina's (export) trade, the reduction of intra-industry trade in these sectors suggests that intra-industry trade in manufactures has grown more than suggested by the overall numbers, and this is indeed evident in the transport, machinery and wood and cork sectors.

(4) Outlook

47. The recent years have seen the emergence of a growing consensus in Argentina that the root of the country's secular decline lies in chronic fiscal and monetary maladjustment. As such, it is now widely acknowledged that eliminating Argentina's deeply entrenched structural problems - and the expectations that feed them - will require lasting reforms aimed at securing permanent reductions in the size of the public sector, imparting significantly greater buoyancy to the tax system, and maintaining stable monetary conditions.

48. Argentina's short- to medium-term prospects therefore depend crucially on the success of the Government's latest package of stabilization measures. If the programme succeeds in reducing the budget deficit, in maintaining a reasonable degree of price stability (including the price of foreign exchange), in rekindling the confidence of investors, both domestic and foreign, and in normalizing the country's relations with the creditor community, both official and private, the country could hope to renew with its considerable long-term growth potential. Without macro-economic stability, however, Argentina will be unable to mobilize savings, domestic and foreign, and arrest a fall in investment that has left the country's capital stock severely depleted.

49. The economic emergency measures taken in April 1991 (effectively pegging the exchange rate to the U.S. dollar, prohibiting the printing of money to finance fiscal deficits, etc.) have clearly helped to stabilize the situation, and there are a number of signs that the Government's policies are having the desired effects. Monthly inflation, as measured by the consumer price index, fell to 1.3 per cent in August 1991 - the lowest monthly figure since March 1974 - although short-term reductions in
inflation have been a feature of earlier stabilization packages. Interest rates have also been falling from about 100 per cent a year to around 20 per cent (World Bank News, 1 August 1991). This has prompted some increase in consumer spending and helped the recovery. Current expectations are for 5 per cent real growth in GDP for 1991. There are reports of increased investment interest as well as the return of flight capital. Although there have been some recent weaknesses, the stock market has had a good year. The recently signed agreement between the Government and industry is designed to control costs and help to foster growth. However, pressures from market opening, especially with respect to Brazil, and the linkage of the exchange rate to the U.S. dollar will also oblige industry to constrain costs and seek productivity gains, and will help rein in the power of cartels. The return of the Government party in the September 1991 elections for the lower House is also regarded as a sign of acceptance of Government policies by the community.

50. Current reforms are far from complete. Public sector reforms aimed at helping the government mobilize revenues and rationalize expenditures, are being supported with loans from the international lending agencies. A US$1.04 billion one-year stand-by loan from the International Monetary Fund approved in July 1991 will help to ease any pressures on the currency that might eventuate from an import surge. The loan also sets out conditions requiring a budget surplus equivalent to 3.5 per cent of GDP in the 12 months to June 1992. The stand-by support to the currency plus the tight fiscal discipline should help the Government to control any inflationary tendencies. The IMF loan also cleared the way for a World Bank loan of US$325 million for public sector reform - and the Inter-American Development Bank is providing a similar amount in co-financing. There are additional World Bank loans of US$156 million for specific reform projects. These reforms, together with the privatization programme and a social security reform currently under consideration, should substantially reduce the drain on public finances. Indeed, a strong performance in the consolidated public sector accounts is the

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35 The wholesale price index for August 1991 declined by 0.4 per cent. The difference in the movement of the wholesale and consumer prices has been attributed by officials to the operation of cartels (Financial Times, 4 September 1991).

36 The Journal of Commerce, 8 July 1991, cites a number of investment deals by U.S. companies. Ambito Financiero, 28 June 1991, reports investment interest in Argentina by Brazilian and Chilean companies. The Brazilian interest is considered to be related to MERCOSUR.

37 La Nacion, 30 July 1991.

38 It is also essential that provincial budgets be put on a sound basis.
cornerstone of the government's strategy to promote recovery through a strong turnaround in private investment and demand.

51. With respect to trade, as noted earlier, demand for imports in recent years has tended to be suppressed by the low level of economic activity, and thanks to strong export growth the trade surplus in 1990 reached record levels. The 1991 trade liberalization measures appear to have led to no evidence of a surge in imports, although the improvement in the level of activity is widely expected to cause import growth in the latter half of 1991. Export value has have been growing at a slightly slower pace to that of 1990. Thus the trade balance remains in surplus despite claims by exporter groups that the currency is overvalued. In trade policy, Argentina remains deeply concerned about damage to its export prospects from export subsidies used by other countries to promote agricultural exports, and it looks to the Uruguay Round to help resolve such trade problems. While the secular decline in the prices of its main export commodities might be expected to lead to some re-shaping of the Argentine economy away from agriculture, under the trade reforms much of the implicit and explicit taxation of agriculture has been removed and returns to farmers must be expected to improve. Although there are some concerns about competition from Brazil under MERCOSUR, it is expected that the market opening will also force greater rationalization of Argentina's manufacturing industry which has significant areas of actual and potential international competitiveness.

52. Finally, there must be concern over the heavy debt burden. The privatization sales are being used to ease this burden (and will have more substantial long-term effects on the efficiency of the economy as well as direct effects through reducing the constant drain on the budget). However, this alone is not enough, and it seems likely that some kind of negotiated solution to the problem of Argentina's commercial debt will need to be found.

39 However, while the austral is effectively pegged to the U.S. dollar, Argentine inflation is currently lower than that of Brazil - Argentina's second largest individual trading partner - implying a real exchange rate depreciation against the cruzeiro which began in the first months of 1991, even before the main reforms.
II. TRADE POLICY REGIME: OBJECTIVES AND FRAMEWORK

(1) General Framework

53. For almost three hundred years following Spanish settlement in the early 16th century, there was little development in Argentina and the potential of the country was not recognized. Buenos Aires, essentially a military outpost of Spain, had not been allowed to take part in trade and at the end of the 18th century had a population of only 25,000. The Spanish alliance with Napoleon led to a series of British attacks on Buenos Aires in 1806 and in 1807, but these attacks were repulsed. One consequence was increased political self-assurance and in 1810 the municipality of Buenos Aires (the Cabildo) deposed the Spanish Viceroy in the name of King Ferdinand VII. Six years later, under threat of invasion from Peru and a Spanish blockade on the River Plate, a national congress declared independence on 9 July 1816. Under the Constitution of 1853 Argentina became a federal republic with limited suffrage, extended to universal suffrage under the Saenz Pena law of 1912. The constitution - as amended at various times - stands as the oldest in Latin America.

54. From the 1930s until 1983 was a period of political, social and macro-economic instability, with mainly military Governments mostly changed by coups d'etat. The election of the Governor of the Rioja Province, Carlos Menem, to replace President Raul Ricardo Alfonsin in May 1989 was the first time in 63 years that one constitutionally elected president had succeeded another.

55. Argentina is formed by 23 provinces\(^1\), the Federal Capital of Buenos Aires, and the Islands of the South Atlantic. The Federal Government and each Provincial Government have a Senate and Chamber of Deputies. The municipal Government of the Federal Capital is exercised by a mayor ("intendente") appointed by the President.

56. Argentine law has been influenced by Spain on criminal procedure, Italy on administrative law, commercial code and civil code, France on the civil code and administrative procedure, Germany on the penal code and the United States on constitutional law. The result is a mixed jurisprudential system, drawing from the European Civilian tradition, based on Roman law, and the Common law or Anglo-American system. There is a separation of powers with the President representing the Executive power (Poder Ejecutivo) and the two houses representing the legislative power. The

\(^1\)Tierra del Fuego has recently become Argentina's 23rd Province.
legislature approves laws proposed by the executive which then promulgates the laws and elaborates them by means of decrees and resolutions. The Supreme Court represents the judiciary and the ultimate appellate court. Judges of the first instance have certain investigative powers, which under the Common Law system are typically carried out by the prosecutor.

57. Because of constitutional restrictions, Argentina has few Ministerial positions by comparison with most other countries. These are:

- Ministry of the Economy and Public Works
- Ministry of Foreign Relations
- Ministry of Defence
- Ministry of Education
- Ministry of Public Health and Social Action
- Ministry of Labour
- Ministry of the Interior
- Ministry of Justice.

Under these Ministries operate a number of distinct Secretariats (Secretarias and Subsecretarias) and other agencies.

(2) Structure of Trade Policy Formulation

(i) Legislative and executive branches of the Government

58. Under Article 67 of the Constitution, the Congress, consisting of the Senate and Chamber of Deputies, has authority to legislate on customs and set customs duties for import and export, to establish the terms of the Commercial Code, and to regulate foreign maritime and land commerce as well as between the provinces.

59. Under Article 86 of the Constitution the President has the authority to conclude and sign trade treaties and other agreements with foreign powers.

60. Almost all trade-related functions are carried out under the Ministry of the Economy, although responsibility for a number of trade negotiation activities, including Uruguay Round negotiations, is shared with the Ministry of Foreign Relations.

61. The Central Bank of Argentina, which acts with virtual independence of the Ministry of the Economy, has had considerable influence on policies outside the normal domain of setting the prime rate (the rate at which the Central Bank lends to the commercial banks) and controlling the money supply. This rôle, extending even to trade policy, derived mainly from the professional expertise of its staff. Since 1990 its functions have been
constrained to some extent by the pegging of the austral to the dollar and a law prohibiting the emission of money to support deficit financing.

62. The main subsidiary bodies of the Ministry of the Economy and Public Works are:

- Secretariat of Economic Planning
- Secretariat of Finance
- Secretariat of Industry and Foreign Trade
- Customs Administration
- National Institute of Economic Statistics
- Secretariat of Agriculture, Livestock and Fisheries
- Secretariat of Transport
- Secretariat of Energy.

63. The new structure of the Ministry also encompasses State-owned enterprises, State-owned banks and the National Savings System (Caja Nacional de Ahorro y Seguros).

64. No Government agency involved in trade matters publishes any annual report on its activities.

(ii) Advisory bodies

65. In the formulation of trade policy and changes therein, the Government neither seeks nor receives formal advice from any university or research institute, although a number of such institutes (e.g. FIEL, Fundacion Mediterranea, FLACSO, Macroeconomia, etc.) have carried out extensive qualitative and quantitative economic research on various aspects of the economy and have obviously influenced economic policy in the country.

66. The private sector, however, has the opportunity to contribute to the formulation and evaluation of trade policy, including export promotion policy, through its participation in the Advisory Council on Foreign Trade (Consejo Asesor de Comercio Exterior, CACE), formed in 1885 under a decree of the Secretariat of Industry and Commerce (SICE). This Council also includes representation from a number of bodies linked with the Argentine Industrial Union (Union Industrial Argentina, UIA). It also includes the Sociedad Rural, Chambers of Commerce, etc. The Council only meets from time to time, and is currently reviewing its rôle in the light of the recent changes in Government policy.

67. Under the Latin American Integration Association (LAIA) there is an ad hoc Committee which offers the private sector the possibility of
discussing the main issues concerning negotiations in the Association. A Trade Facilitation Committee is to be created in the near future.

68. The private sector has also been consulted by SICE on the allocation of licences for importation, including under various temporary admission régimes. With the substantial reduction in the number of products covered by non-automatic licensing, this largely negative influence has been greatly reduced.

(iii) Independent review bodies

69. No statutory authority, independent of any ministry or secretariat of State, has any authority to conduct reviews of trade policy or practice in general or in specific cases. However, such reviews could be undertaken by Congress, which, under the Presidential system, need not have a majority of the same party as the President.

70. An active press ensures public debate on most economic issues.

(3) Trade Policy Objectives

(i) General trade policy objectives

71. Since 1987, the general objective of achieving macro-economic stability has been supported by far-reaching trade policy and public sector reforms. Substantial reductions have been made in public spending; the fiscal deficit has also been cut through greater efforts to eliminate tax avoidance and tax evasion; and progress is being made in the privatization of State enterprises, many of which were also a drain on the public purse. The reform process has also involved substantial reduction or elimination of price, wage, interest rate and exchange controls, as well as a complex network of implicit subsidies and taxes which distorted the operation of markets. (These are discussed in detail in Chapter IV.) The provisions of Article XVIII:B of the General Agreement, concerning import restrictions for balance-of-payments purposes, were disinvoked in January 1991.

72. As is discussed in more detail in Chapters IV and V, the main thrust of trade and industrial policy in the period since 1945 up to the late 1980s - with limited periods of reduced interference - was the development of the import-replacing industrial sector at the expense of traditional agriculture in particular. The main policy instruments were import and

\[\text{See also the review in Cavallo and Cottani (1991).}\]
export restrictions, tariff and non-tariff, and tax exemptions or rebates. With the exception of some periods when export subsidies were paid for non-traditional exports, direct fiscal subsidies were virtually unknown, basically because of revenue constraints.

73. In 1989, the Law for the Reform of the State signalled the most important change in trade and industrial policy through the suspension of many of the special trade régimes, i.e., the tax exemptions for specific regions and sectors. Export taxes on traditional exports have also been eliminated on all but a few products. The exchange rate régime has been unified, further reducing the implicit taxation of the traditional export sector.

(ii) Sectoral trade policy objectives

74. As was explained in Chapter I, following the depression of the 1930s, Argentina pursued a policy of import-substitution for most of the next 50 years. This was intended to support industrial development at the expense of the agricultural sector, which was taxed both explicitly and implicitly. The policy instruments used for this purpose were tax exemptions, tariffs (of which a number were specific) and non-tariff barriers, and multiple exchange rates. The evolution in the use of these instruments and the underlying policy shifts is described in detail in Chapters IV and V.

75. Industrial incentives have been used to foster the development of target industries and for regional development. Capital goods were favoured most, followed by intermediate goods and consumer durables. In the past, the industrial incentives were implemented by means of (i) exemptions from the payment of company (indirect and income) taxes and value added tax and (ii) the special tax incentives for regional development purposes. These were suspended in 1989 under the Economic Emergency Law, but have not been abolished. Certainly, the special tax exemptions for the electronics industry - concentrated in Tierra del Fuego - were reinstated on threats of massive localized unemployment. However, in the short-term, the need for funds is likely to provide a major constraint against any major reversal of the suspension of tax exemptions. In the medium- to longer-term, the principal constraint against a return to the trade and industrial policies applied since the 1940s is the awareness by the Government of the extent to which such policies compounded the macro-economic instability.

76. Nevertheless, remaining trade barriers do not fall evenly on all sectors. There is still an essentially three-tier tariff structure. Under today's tariff régime capital goods receive an average of 13 per cent, consumer durables 12 per cent and intermediate goods 5 per cent. Food
products are generally duty-free. Oilseeds remain subject to an export tax. Automobiles remain under quota and there is a local content plan in operation. Reference prices in the electronics sector (supported by the tax exemptions just noted) have recently been abolished. Sugar and tobacco production also benefit from special régimes. There are also a series of sectoral arrangements with neighbouring countries in the Latin American Integration Association - see below. While these do not directly restrict trade, they would be expected to have a trade diverting effect.

(iii) Objectives in the Uruguay Round

77. Argentina has been an active member of the Cairns Group of countries in the Uruguay Round. As such it has actively sought the re-integration of agriculture into the main GATT system. More specifically, Argentina has sought a commitment "to reduce domestic support subsidies, but also to cut back export subsidies and above all the replacement of the system of sliding duties by a traditional system of protection at the frontier based on ad valorem tariffs which cannot be adjusted because of changes in international prices or of variations in exchange rates and of course exclude any possibility of uncompensated increases in bound tariffs, whether they are called rebalancing or by any other name". (Statement by Mr. Domingo Cavallo, then Minister for Foreign Affairs, to the Uruguay Round Ministerial Meeting, Brussels, December 1990).

78. Argentina has also made a number of specific requests from other contracting parties in the Uruguay Round. In the area of non-tariff barriers Argentina has sought action from Austria, Canada, the European Communities, Finland, Japan, New Zealand, Norway, Sweden, Switzerland and the United States. The majority of these requests cover live animals, animal products, vegetable products, animal and vegetable oils and fats, foodstuffs, beverages, spirits, vinegar and tobacco. The measures on which Argentina has requested action cover a range of domestic support measures and various import restrictions, as well as technical regulations and standards, including health and safety regulations.

79. Apart from in the area of agriculture, Argentina has been active in a number of other areas in the Uruguay Round. These include trade-related aspects of intellectual property rights (TRIPS), trade-related investment measures (TRIMS), services and dispute settlement.

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3 The use of export taxes in Argentina is discussed in chapter IV(3)(i1) Export taxes, charges and levies.
80. Argentina has also made offers in the Uruguay Round. In particular, it has offered to introduce a ceiling binding of 35 per cent for its entire customs tariff, compared with only some 3 per cent of items which have been bound as a result of earlier rounds of negotiations. It has also offered to bind its recent action on non-tariff barriers, which have reduced to some 25 out of some 11,000 items, the number of items affected by quantitative restrictions and non-automatic licensing. Argentina has asked for recognition of its unilateral reforms as part of its contribution to the negotiations.

81. Argentina has been asked to take action in a number of areas by a small number of other contracting parties. These requests mainly cover export taxes and restrictions, import restrictions and procurement practices, i.e. they affect export controls by Argentina as much as import controls and domestic procurement practices. The products covered include hides, skins and leather products, petrochemicals, chemicals and pharmaceutical products, paperboard, ceramic tiles, various aluminium products and scrap and other non-ferrous metals, various steel products, various electrical and electronic machines, refrigerators and freezers, weighing scales, clocks, medical, surgical and optical instruments, tanning products, resins and essential oils, soaps and waxes, footwear. Some of these are evidently already covered by Argentina's recent unilateral actions under its reform programme, but the binding of such reforms obviously depends on Argentina's assessment of the value of the concessions which it will receive. Other products on the request lists remain subject to import restrictions, including for health and safety reasons.

(4) **Trade Laws and Regulations**

82. Argentina has a large number of laws, decrees and resolutions governing foreign trade. Argentina's adhesion to the GATT was ratified by Law No. 17.799 of 28 June 1968. Tariff concessions negotiated in the Kennedy Round and the Tokyo Round were also covered by mandatory national legislation.

83. The foreign trade law is currently being reviewed. While this is still actively being considered it is already possible to give an indication of the direction of thinking of the Government on the new law which will cover both imports and exports. This is likely to be a consolidation as well as a revision of a number of existing laws in a more internally coherent framework.

84. The key elements in support of the export sector would appear to be: (i) the opening of the economy, (ii) macroeconomic stability, (iii) refund of taxes paid in the production process or on imported inputs, (iv) simplification of export procedures, (v) support for small-
medium-size enterprises, the provinces, and private sector representatives, 
(vi) the creation of a trade facilitation committee, and (vii) active 
defence of fair competition and trade expansion.

85. On the import side, the régime under consideration would have greater 
transparency and simplicity in import procedures. It would link the 
Argentine and world economies more closely, with a more stable tariff 
structure, with less dispersion of rates between sectors. It is also 
envisaged to eliminate special régimes and non-tariff barriers as well as 
other differential taxes and duties which increase the cost of importing 
and reduce transparency.

86. A feature of the new régime under consideration would be a revised 
safeguard mechanism within a new and more effective anti-dumping law which 
is to be in line with the GATT Code. This is intended to take speedy 
action against "unfair competition" when a situation of serious injury 
arises because of sudden increases of imports.

87. Other detailed regulations affecting trade are discussed in 
Chapters IV and V, but the main laws are as follows:

- Economic Emergency Law - Decree No. 1930/90 - suspended a 
  number of laws and decrees concerning tax exemptions, as noted 
  below.

- The Customs Code of the Republic of Argentina (Law No. 23.311 
  of 17 April 1986). Anti-dumping is presently regulated under 
  the Argentine Customs Code, Law No. 22.415, Articles 687 to 
  723. This is being revised, as discussed earlier.

- The Export Promotion Law No. 23.101 of 16 December 1984 and 
  numerous decrees under the law contain the main provisions 
  covering export promotion as well as various tax exemptions and 
  deductions, including for special regions and export régimes. 
  However, this is currently suspended, pending the general 
  review of the trade law.

- Law 22.415 provides for the reimbursement of all or a portion 
  of domestic indirect taxes on exports. With Law 23.101, it 
  also allows for the drawback of duty, including the statistical 
  tax, on imported materials or parts. Details are given in 
  various decrees.

- Under Decree No. 178/55 export contracts are exempt from the 
payment of stamp duties.
- Decree No. 175/85, Decree No. 1440/85 ("Tradings") and Resolution No 557/85 of the Foreign Trade Secretariat (SICE) provide for the formation of international trading companies. Decree No. 174/85 authorized the promotion and creation of export cooperatives and consortiums.

- Law No. 20.299 of 1973, Law 23.101 and various decrees under the laws establish the Argentinian export credit insurance régime.

- Law No. 21.932, Decree No. 2226/90 set out the provisions covering the prohibition of automotive imports. However, imports are no longer prohibited, but rather they are subject to quota (see Chapter V for details). Ministry of Economy Resolution No. 56/90 sets out the provisions for imports linked to local contents and export performance.

- Under Decree No. 3399/66 exports containing sugar may be compensated for the difference in the domestic and international price of sugar.

- Law No. 19.800 set out support measures for tobacco growing, including the setting of support prices.

- Law No. 23.359 created the Commission for the Co-ordination of Policy (a non State body) and the Fund for the Promotion of Dairy Activity. Under the Law, Decree 37/86 and Resolution 589/88 of July 1988, restitutions (restituciones) of different amounts were established for different dairy products on export. However, the Fund is a private sector compensatory fund and no Government subsidies are involved (see Chapter V).

- Law 23.103 and Decree No. 4005/84 provide the authority for levying the duty on freight (gravamen sobre fletes). However, it is understood that this has been suspended.

- Decree 515/87 of SICE allowed for discretionary duty exemptions on imports other than those covered by the Temporary Admission Régime, but has expired.

- Law No. 19.640 of 1972 - initially suspended by the Economic Emergency Law - grants the authority for a special fiscal and customs régime for the territory of Tierra del Fuego, Antarctica and the islands of the South Atlantic.
Law No. 23.018 of 1983 provides for additional reimbursement of taxes for exports from Patagonia through Patagonian Ports. Resolution 906/83 of the Ministry of Economy, 11 August 1983, provided for a supplementary reimbursement of taxes of 10 per cent for products exported through customs in the Northern Provinces of Salta, Tucuman and Jujuy via ports in Chile north of Latitude 30 degrees South. Under the Economic Emergency Law these benefits are being paid by Export Credit Bonds (BOCREX).

- Decree No. 526/87 guarantees the equivalent value in australs of foreign currency as well as the reimbursement of duties on export at current prices.

- Law No. 23.101, Decree Nos. 179/85 and 1.442/85 of 1985 provides for an import tax to contribute to the National Fund for the Promotion of Export (FOPEX). Contributions to the Fund are currently suspended.


(5) Trade Agreements

(i) Multilateral agreements

88. Argentina's accession to the GATT was approved by the CONTRACTING PARTIES on 4 September 1967. The Protocol of Accession (see BISD 15S/36) entered into force on 11 October 1967. Argentina's membership of GATT was ratified in June 1968.

89. Argentina has adhered to the following MTN (Tokyo Round) Agreements: Customs Valuation, Import Licensing, Technical Barriers to Trade (subject to ratification), the International Dairy Agreement, the International Meat Agreement, and, on 18 April 1991, the Anti-Dumping Agreement. The Argentine authorities have indicated that their non-ratification of the Agreement on Technical Barriers to Trade relates to the lack of finance to establish and maintain the necessary domestic services required by membership.

90. Argentina has indicated that it is studying the possibility of adhering to the Agreements on Articles VI, XVI and XXIII of the GATT (Subsidies and Countervailing Measures), on Government Procurement and on Civil Aircraft.
91. Argentina is a participant in the Generalized System of Trade Preferences among Developing Countries (GSP).

92. Argentina is not a participant in the preferential arrangements among developing countries covered by the GATT Protocol relating to Trade Negotiations among Developing Countries.

93. Argentina is a member of the International Sugar Agreement, the International Wheat Council, both based in London.

(ii) Regional agreements

94. Under the Treaty of Asunción, signed on 26 March 1991 by the Presidents of Argentina, Brazil, Paraguay and Uruguay, the Mercado Común del Sur (MERCOSUR) was established. The treaty has still to be ratified by Brazil. Following ratification, consideration will be given to the appropriate means of conveying it to the GATT.

95. The treaty provides for the establishment of a common market among the four countries with free circulation of goods, services, capital and workers from 1 January 1995. The treaty has 25 Articles in six main chapters covering the purposes, principles and instruments of MERCOSUR, the organizational structure, the period of application, accession, denunciation and general provisions. In addition, there are annexes covering the trade liberalization programme, rules of origin, dispute settlement, safeguards, and the establishment of technical and policy working groups.

96. The details of the trade liberalization programme under MERCOSUR, contained in Annex I of the treaty, are reproduced as Annex II.1 of this report. According to Article 5 of the treaty, the liberalization programme will consist of "progressive, linear and automatic tariff reductions accompanied across the board by the elimination of non-tariff restrictions or equivalent measures..... with a view to arriving at a zero tariff and no non-tariff restrictions for the entire tariff area by 31 December 1994." However, there are some exceptions which are listed in the Annex. (In Argentina's case, 394 products are excepted from the main liberalization.) There is also a negotiation process to fit the commercial agreement signed in the LAIA framework.

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4 A copy of the treaty was forwarded to the Secretary-General of the United Nations by the Permanent Representatives of Argentina, Brazil, Paraguay and Uruguay and has been reproduced in General Assembly document A/46/155 of 19 April 1991.
97. Apart from the trade arrangements, ministers of the MERCOSUR countries will also meet periodically to try to establish joint approaches to common problems such as inflation, foreign investment and trade. In this context they will also discuss the co-ordination of macro-economic policy. Some convergence is considered to be critical to the success of the integration effort.

98. After five years of operation, the possibility of admission to MERCOSUR will be open to other members of the Latin American Integration Association.

99. In June 1991, the MERCOSUR countries also signed a framework treaty with the United States to encourage trade and investment in the region. This treaty establishes a consultative council on trade and investment. It sets out an initial action programme which encompasses Uruguay Round cooperation, means to reduce trade and investment barriers in the Americas, access to technology, intellectual property rights, agricultural export subsidies, access to markets for goods, and services, sanitary and phytosanitary regulations in agriculture, and the need for a transparent safeguard régime in conformity with the GATT. The treaty explicitly states that it is without prejudice to the rights and obligations of the parties under the GATT, its agreements, understandings and other instruments.

100. As noted earlier, Argentina is also a member of the Latin American Integration Association (LAIA/ALADI) which replaced the Latin American Free Trade Association (LAFTA) in 1980. See GATT (1991), Appendix II for a detailed description of LAIA. Member countries of LAIA are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

101. The long term objective of the 1980 Montevideo Treaty, the instrument establishing the LAIA, is the gradual and progressive establishment of a Latin American Common Market. LAIA rules and mechanisms are oriented towards the promotion and regulation of reciprocal trade, economic complementation, and the development of economic cooperation and market expansion.

102. LAIA covers various types of agreements at the regional level or between sub-sets of member States, including for specific sectors. Arrangements not only cover trade but also production complementarity. Member countries have established areas of economic preference, comprising a regional tariff preference applied with reference to the levels applying to third countries; regional-scope agreements where all member countries participate; and partial-scope agreements in which only signatory countries participate.
103. Partial-scope agreements may refer to trade, economic complementation, agriculture or trade promotion. Other agreements may be adopted according to Article 14 of the Treaty. Trade agreements are exclusively aimed towards trade promotion among member countries. Economic complementation agreements are aimed at promoting maximum utilization of resources, stimulating economic complementation, ensuring equitable conditions for competition, facilitating entry of products into the international market, and encouraging the balanced and harmonious development of member countries. Agricultural agreements attempt to promote and regulate intra-regional trade of agricultural and livestock products. Trade promotion agreements refer to non-tariff matters and tend to promote intra-regional trade flows.

104. Under the LAIA Regional-Scope Agreements, Argentina has adopted market-opening measures in favour of relatively less-developed countries in the LAIA, viz. Bolivia, Ecuador and Paraguay. Argentina also has partial-scope agreements with most LAIA countries. These encompass renegotiation agreements, trade agreements, economic complementarity agreements, an agricultural agreement (with Uruguay) and partial-scope agreements. The trade agreements cover the following sectors: statistical machines; electron valves; chemicals; refrigeration and air-conditioning; household goods; generation, transmission and distribution of electricity; office machines; electronics and electrical communications; phonography; household electrical appliances; pharmaceuticals; petrochemicals; photography; dyes and pigments; essential oils; lamps and lighting units; medical, dental and veterinary products; and glass. Some details are provided in GATT documents L/5689 of 1 October 1984, L/6158 of 4 May 1987 and L/6531 of 25 July 1989, which are reports by member States of the LAIA to GATT under the provisions of the Enabling Clause.

105. Apart from MERCOSUR and LAIA, Argentina is also a member of the Group of Latin American and Caribbean Countries Exporters of Sugar, based in Mexico City.

(iii) Bilateral agreements

106. An integration agreement was signed between Argentina and Brazil on 29 July 1986 and was changed and amplified several times until the signature of partial scope of Economic Agreement Number 14, which is a comprehensive economic and commercial agreement between both countries. This included provisions for integration of the capital goods market, an agreement on wheat sales, and the establishment of reciprocal lines of credit.
107. Argentina has bilateral scientific, technical and cultural agreements with a number of countries.
Annex II.1
MERCOSUR Trade Liberalization Programme
(Extract from Treaty of Asunción: United Nations General Assembly Document A/46/155)

Article 1

The States Parties hereby agree to eliminate, by 31 December 1994 at the latest, any duties, charges and other restrictions applied in their reciprocal trade.

With regard to the schedules of exceptions submitted by the Republic of Paraguay and the Eastern Republic of Uruguay, the period for their elimination shall extend to 31 December 1995, on the terms of article 7 of this annex.

Article 2

For the purposes of the preceding article:

(a) "Duties and charges" shall mean customs duties and any other charges of equivalent effect, whether related to fiscal, monetary, foreign exchange or other matters, levied on foreign trade. This concept does not cover fees and similar charges corresponding to the approximate cost of services rendered; and

(b) "Restrictions" shall mean any administrative, financial, foreign exchange or other measures by which a State Party unilaterally prevents or impedes reciprocal trade. This concept does not cover measures taken in the situations envisaged in article 50 of the Montevideo Treaty of 1980.

Article 3

As of the date of entry into force of the Treaty, the States Parties shall begin a programme of gradual, linear and automatic tariff reductions, which shall benefit products classified according to the tariff nomenclature used by the Latin American Integration Association, observing the following timetable:
DATE/PERCENTAGE TARIFF REDUCTION

<table>
<thead>
<tr>
<th>Date</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 June 1991</td>
<td>47</td>
</tr>
<tr>
<td>31 Dec. 1991</td>
<td>54</td>
</tr>
<tr>
<td>30 June 1992</td>
<td>61</td>
</tr>
<tr>
<td>31 Dec. 1992</td>
<td>68</td>
</tr>
<tr>
<td>30 June 1993</td>
<td>75</td>
</tr>
<tr>
<td>31 Dec. 1993</td>
<td>82</td>
</tr>
<tr>
<td>30 June 1994</td>
<td>89</td>
</tr>
<tr>
<td>31 Dec. 1994</td>
<td>100</td>
</tr>
</tbody>
</table>

Preferences shall apply to the tariff in force at the time of their application and shall consist of a percentage reduction in the most favourable duties and charges applied to imports of products coming from third countries not members of the Latin American Integration Association.

If one of the States Parties increases this tariff for imports from third countries, the established timetable shall continue to apply at the tariff level in force on 1 January 1991.

If tariffs are reduced, the corresponding preference shall apply automatically to the new tariff on the date on which that new tariff enters into force.

For the above purposes, the States Parties shall exchange among themselves and shall transmit to the Latin American Integration Association, within 30 days of the entry into force of the Treaty, updated copies of their customs tariffs and of those in force on 1 January 1991.

Article 4

Preferences agreed to in partial scope agreements concluded by the States Parties among themselves in the framework of the Latin American Integration Association shall be expanded, under the present tariff reduction programme, according to the following timetable:
DATE/PERCENTAGE TARIFF REDUCTION

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<tr>
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<tbody>
<tr>
<td>00 to 40</td>
<td>47</td>
<td>54</td>
<td>61</td>
<td>68</td>
<td>75</td>
<td>82</td>
<td>89</td>
<td>100</td>
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<tr>
<td>41 to 45</td>
<td>52</td>
<td>59</td>
<td>66</td>
<td>73</td>
<td>80</td>
<td>87</td>
<td>94</td>
<td>100</td>
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<tr>
<td>46 to 50</td>
<td>57</td>
<td>64</td>
<td>71</td>
<td>78</td>
<td>85</td>
<td>92</td>
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<tr>
<td>51 to 55</td>
<td>61</td>
<td>67</td>
<td>73</td>
<td>79</td>
<td>86</td>
<td>93</td>
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<tr>
<td>56 to 60</td>
<td>67</td>
<td>74</td>
<td>81</td>
<td>88</td>
<td>95</td>
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<tr>
<td>61 to 65</td>
<td>71</td>
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<td>89</td>
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<td>66 to 70</td>
<td>75</td>
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<td>76 to 80</td>
<td>85</td>
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<td>81 to 85</td>
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<td>86 to 90</td>
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<td>96 to 100</td>
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</table>

These reductions shall apply only in the context of the corresponding partial scope agreements and shall not benefit other members of the common market; nor shall they apply to products included in the respective schedules of exceptions.

Article 5

Without prejudice to the mechanism described in articles 3 and 4, States Parties may also expand preferences by means of negotiations conducted in the framework of the agreements envisaged in the Montevideo Treaty of 1980.

Article 6

The tariff reduction timetable referred to in articles 3 and 4 of this annex shall not apply to products included in the schedules of exceptions submitted by each of the States Parties with the following quantities of ALADI nomenclature items:

- Argentine Republic: 394
- Federative Republic of Brazil: 324
- Republic of Paraguay: 439
- Eastern Republic of Uruguay: 960
Article 7

The schedules of exceptions shall be reduced at the end of each calendar year in accordance with the following timetable:

(a) For the Argentine Republic and the Federative Republic of Brazil, by 20 per cent per year of the component items; this reduction applies from 31 December 1990;

(b) For the Republic of Paraguay and the Eastern Republic of Uruguay, the reduction shall be at the following rates:

10 per cent on the date of entry into force of the Treaty
10 per cent on 31 December 1991
20 per cent on 31 December 1992
20 per cent on 31 December 1993
20 per cent on 31 December 1994
20 per cent on 31 December 1995

Article 8

The schedules of exceptions contained in appendices I, II, III and IV include the first reduction envisaged in the preceding article.

Article 9

Products which are removed from schedules of exceptions on the terms set forth in article 7 shall automatically benefit from the preferences resulting from the tariff reduction programme established in article 3 of this annex. They shall benefit, at the least, from the minimum percentage reduction provided on the date on which they are removed from the schedule.

Article 10

States Parties may apply up to 31 December 1994, to products included in the tariff reduction programme, only the non-tariff restrictions expressly mentioned in the notes supplementing the complementarity agreement to be concluded by the States Parties in the framework of the Montevideo Treaty of 1980.

As of 31 December 1994, all non-tariff restrictions shall be eliminated from the common market area.
Article 11

In order to ensure observance of the tariff reduction timetable established in articles 3 and 4, and also the formation of the common market, the States Parties shall coordinate any macroeconomic and sectoral policies which may be agreed upon and to which the Treaty establishing the common market refers, beginning with those connected with trade flows and the composition of the States Parties' productive sectors.

Article 12

The provisions of this annex shall not apply to the partial scope agreements, economic complementarity agreements Nos. 1, 2, 13 and 14 or trade and agricultural agreements signed in the framework of the Montevideo Treaty of 1980, such agreements being governed exclusively by their own provisions.
III. TRADE-RELATED ASPECTS OF THE FOREIGN EXCHANGE REGIME

108. The Minister of the Economy, Mr. Domingo Cavallo, recently remarked that "the history of currency instability in Argentina is the history of Argentina itself". As with the country's chronic fiscal maladjustment, the instability of Argentina's domestic currency is firmly rooted in - indeed is very much a symptom of - the contradictions inherent in the country's chosen policy mix during most of the last six decades (Note III.1). Currency movements have also been closely linked to inflation, with bursts of hyperinflation and depreciation of the domestic currency running hand in hand. This process has encouraged capital flight, which has in turn exacerbated the situation, and has also discouraged foreign investment.

109. The most recent policy changes may well augur a new era. The keynotes - as mentioned in Chapter I - are fiscal responsibility and macro-economic stability. However, changes in the exchange régime (as well as the trade régime) are also critical components of the reform process. The currency is now freely available and convertible between 9,500 and 10,000 australs to the United States dollar. Instead of adopting a policy of nominal exchange rate devaluations to stimulate exports, Argentina has opted for an exchange rate moving within a narrow band as a means of combating inflation and enforcing wage discipline. The resulting increase in confidence has seen the return of flight capital and increased confidence by foreign investors.

(1) Exchange Rate Movements and Trade

110. Currency instability has plagued Argentina's economy for many years. This is evidenced by the fact that the currency - currently the austral - has changed its name four times and seen nine zeros removed during the period 1969-91. A fifth name change - back to the peso - is foreshadowed for 1 January 1992, and a further four zeros will be removed from the currency. From January 1992 the new peso will be valued at one United States dollar.

111. The currency instability has prompted the authorities to experiment with several exchange rate régimes. Such régimes have run the gamut from a fixed peg to a freely floating rate, including a forward looking crawling peg and multiple exchange rate systems. Starting in the late 1970s, the Argentinian authorities have assigned a major rôle to changes in exchange régimes as central elements of stabilization programmes aimed at arresting mounting balance-of-payments problems and spiralling inflation.
Note III.1 The exchange rate and Argentina's stop-go cycle

From the late 1920s, Argentina experienced a severe worsening in its external terms of trade for agricultural products. As the country's traditional exports declined, internal demand replaced exports as the leading source of growth, ushering in a period of inward-looking industrialization characterized by increased tariff and non-tariff protection against imports as well as foreign exchange restrictions imposed for reasons of balance-of-payments disequilibria - see Chapter IV for more details.

Even when world prices for Argentina's traditional exports increased after World War II, import barriers neutralized the improvement in external terms of trade. Agriculture stagnated whilst industrial import-substitution grew rapidly. Mainly because of strong discrimination against agricultural prices, real wages increased relative to export prices.

The above forces combined to produce the "stop-go" cycle that has characterized the Argentine economy during most of the post-war period, a cycle in which the exchange rate has assumed a pivotal rôle (see Sturzenegger et al. (1990) and Kiguel (1989)). During the country's "go" phases, real GDP, real wages, real absorption, industrial production, imports and, more recently, external debt, have all tended to increase at high rates.

Because of the strong import-substitution bias inherent in the development strategy pursued since the 1930s, most Argentine imports have been intermediate industrial inputs and capital goods not produced locally. Exports, both traditional and non-traditional, tended to lag behind imports until the early 1980s, all the more so as the high degree of protection afforded to import-competing industries resulted in allocative inefficiencies through the mispricing of labour, capital, foreign exchange, energy and transport.

Typically these policies led to balance-of-payments difficulties, setting in motion a "stop" phase characterized first and foremost by the need to devalue the domestic currency so as to improve the relative price of tradables, followed by measures to stimulate a rise in exports and reduce imports. However, given the low short-run price elasticities of many Argentine tradables, it has most often proven necessary to resort to reductions in domestic absorption - particularly of investment - and to sharply curtail the growth of imports to improve the country's external balance. The impact of devaluation has typically been inflationary, further reducing domestic absorption and leading to recession, allowing the economy's stop-go cycle to start anew.
112. A fixed exchange rate (or preannounced crawl) was a key component of the stabilization programmes known as the "tablita" period (June 1978 - February 1981), the Austral Plan (June 1985 - March 1986), the Primavera Plan (August 1988 - February 1989), as well as the first (July 1989 - December 1989) and most recent (April 1991 - ) stabilization plans of the current administration. All of the above programmes were characterized by an attempt to anchor Argentina's economy to a nominal exchange rate or to some planned movement of the exchange rate. As noted in Chapter I, the fiscal and monetary policies pursued in the context of fixed (or preannounced crawl) exchange régimes have typically not achieved the reduction in inflation that would have made the nominal exchange rate level or path viable. This is clearly evidenced in Chart III.1, which maps developments in consumer prices and the nominal exchange rate during 1970-90.

Chart III.1
Consumer prices and the nominal exchange rate
1970-90

Per cent (Annual changes, period averages)

Source: World Bank, FIEL.

113. Inconsistencies between the country's fiscal\(^1\), monetary and exchange policies, as well as the inappropriate sequencing of commercial and

\(^1\)The steady rise in Government expenditures, the bulk on non-traded goods, clearly (Footnote Continued)
financial policy changes, are widely seen as explaining much of the secular volatility in Argentina's real exchange rate. Evidenced by marked rises in the currency's black market premium, periods of currency overvaluation have generally been associated with the build-up in external debt and with large-scale capital flight, the latter fuelled by expectations of strong currency realignments. Taking place against the backdrop of spiralling inflation, the marked swings in the level of the nominal exchange rate have themselves become a prime source for transmitting price inflation (Chart III.1).

114. The trends depicted above have generally resulted in the abandonment of the precommitted peg or crawl, most often followed by the (re)imposition of exchange restrictions and dual/multiple markets for foreign exchange. Indeed, exchange controls and/or multiple exchange régimes prevailed throughout most of the periods between the stabilization plans; i.e. from mid-1981 to mid-1985, from October 1987 to August 1988, and during much of 1989.

115. Representing a marked shift from the exchange rate policies pursued during the previous decade, the Argentine authorities decided in December 1989 to allow unrestricted access to the exchange market, unify the country's various exchange rates, and allow market forces freely to determine the rate. The shift to a freely floating exchange rate marked the authorities' willingness to implement a stabilization programme without relying on the exchange rate as an instrument of policy. Rather, the economy's nominal anchors were to be provided by fiscal and monetary policy stances, whose perceived credibility would shape price expectations. As described in Chapter I, fiscal policy slippages contributed in early 1991 to undermine confidence in the Government's stabilization policy, precipitating a renewed crisis of confidence in the currency. The latter crisis prompted the return to a fixed exchange régime on 1 April 1991 when, the austral was made fully convertible with the U.S. dollar and allowed under a newly introduced Law of Convertibility to move within the range of 9,500 to 10,000 australs per dollar. Under the law, the currency must have

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(Footnote Continued)
ranks amongst the leading factors associated with the maintenance of currency overvaluation in Argentina. According to one recent study, each additional point of Government spending in GDP during 1964-87 was associated with a 2.1 per cent appreciation of the real exchange rate (Rodriguez, 1991).

2It is estimated that foreign borrowing may have financed up to US$45-60 billion in capital flight, representing between three-quarters and 100 per cent of the country's stock of external debt at year-end 1990.

3From the end of December 1990 to the beginning of February 1991, the exchange rate moved from about A$5,000 to A$9,400-9,800.
100 per cent backing of fully usable reserves in gold and foreign currencies.

116. The adoption of the new exchange régime marks a return to a policy package in which the exchange rate assumes the rôle of nominal anchor to the country's stabilization programme.

117. To redress the country's fiscal imbalance in an environment of price and exchange rate stability, the Government has enacted legislative measures aimed at banning all forms of indexation and forbidding the monetization of budget deficits. In addition, the Central Bank's freely usable foreign currency and gold reserves are to be equivalent at all times to at least 100 per cent of the country's monetary base, linking monetary growth strictly to external-sector developments.

118. Assessing the impact of changes in Argentina's exchange rate on the country's trade performance in recent years remains an arduous task: not least because of the high incidence of changes both in the exchange régime - more than one change per year on average during 1979-91 - and in the level of the country's real exchange rate (Chart III.2).

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4 Law on Convertibility of the Argentine Currency, Article 4.

5 Article 10 of the Law on the Convertibility of the Argentine Currency reads as follows: "Hereby revoked, effective 1 April 1991, are all laws or regulations establishing or authorizing price indexation, monetary updating, adjustment for increased costs or any other means or recalculating debts, taxes, prices or charges for goods or services. This revocation shall apply even to the effects of existing legal relationships and situations, and it will not be possible to apply or invoke any clause in laws, regulations, contracts or agreements - including collective labour agreements - from a prior date, as grounds for adjustment in the amounts of Australs payable, apart from until 1 April 1991, the date on which the convertibility of the Austral enters into force."

6 With consumer price inflation up by some 12 per cent in the four months following the adoption on 1 April 1991 of the Law of Convertibility, questions have been raised as to the Government's ability to maintain - and the real economy to support - the current level of Argentina's real exchange rate.
119. As Chart III.3 reveals, Argentina’s trade performance appears periodically to have been directly responsive to variations in the country’s real exchange rate during the last two decades, with periods of currency appreciation (depreciation) typically associated with a decline (rise) in the country’s trade balance. Such results are consistent with recent empirical investigations showing that aggregate imports are significantly affected by the level of exporting countries’ real exchange rates and the level of economic activity in importing countries (Balassa (1988) and Helmers (1988)). However, the overall relationship between trade flows and exchange rates is also affected by other economic variables, sometimes operating with leads or lags. (It should also be noted that in the case of countries, such as Argentina, where there have been violent fluctuations in prices and nominal exchange rates as well as shifting patterns of trade, the measurement of real effective exchange rates is also subject to error).
Chart III.3
Relation between the real exchange rate and the trade balance, 1970-90


120. During 1989-90, as a significant depreciation of the country’s currency coincided both with a strong progression of merchandise exports - although some exporters have recently complained the currency remains overvalued and expect the export growth to decelerate. There was also a continued contraction in import levels although this has been sharply reversed in the first seven months of 1991. Much of the stability of the real effective exchange rate during the latter period (not covered in Charts III.2 and III.3) stems from the overall tightness of monetary policy, which combined with a contraction in imports and a continued build-up in arrears on the country’s external debt to sharply reduce the demand for dollars. The depth of Argentina’s recession, and the considerable uncertainty generated by recurring bouts of hyperinflation and currency realignments, are widely seen as explaining the low and declining level of imports during 1988-90. By contrast, there is now evidence of a marked pick-up in import levels (up by some 72 per cent over 1990 levels) in the months that have followed the Government’s introduction of its Law of Convertibility in April 1991. One of the Government’s stated desires in effectively pegging the austral to the dollar is to accelerate the opening of Argentina’s hitherto protected market to international competition, forcing both exporting and import-competing firms to rely on cost (including wage) compressions and productivity growth as the principal means to maintain and enhance market shares.
121. Other factors than the real exchange rate may have exerted a greater influence on Argentina's recent export performance. These include: variations in climatic conditions, price developments in international markets, the level of demand in industrial country markets, changes in commercial policies (e.g., elimination of most export taxes, and the effects of reduced tariffs on imported inputs), etc. Argentina's experience during 1989-90 thus appears to lend credence to recent empirical findings showing that while real exchange rate volatility exerts, through a heightening of uncertainty, strongly negative effects on investment and growth in developing countries, its effect on the level of exports may not on the whole be significant.

(2) Foreign Direct Investment, Debt and Trade

122. Argentina's foreign investment régime was liberalized in September 1989. All restrictions and discriminatory procedures slowing the entry of capital and technology into the country were eliminated, equal treatment of foreign and national capital for productive activities was guaranteed.

123. Chapter VI of the Government's Economic Emergency Law removed performance requirements in virtually all sectors, eliminated prior approval for new foreign investments and simplified the registration procedures to a basic statistical information-gathering process. In addition, having considerably broadened the scope of its privatization programme, the Government has made it clear that foreign investment is now welcomed in all sectors of the Argentine economy.

124. Foreign investments in Argentina may be made in freely convertible foreign currency, in capital goods, in profits or capital in local currency belonging to foreign investors, in capitalization of external credits in freely convertible foreign currency and in any other form of contribution

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8Law No. 23697 was passed on 1 September 1989 and promulgated by the National Executive Power on 15 September 1989.

9Except for the banking and insurance sectors. It is the current policy of Argentina's Central Bank not to grant any new bank licences, whether to domestic or foreign entities.

10The Register of Foreign Capital Investments was established under Law No. 23697 of 1989. Decree No. 1225/89, which governs the foreign investment régime, provides that investments registered before its entry into force (9 November 1989) shall automatically be recorded in the new register.
acceptable to the implementing authority or within the scope of commercial or promotional régimes.

125. Registered foreign investments may be repatriated after three years. The right to transfer profits and to repatriate invested capital may, however, be suspended by the National Executive Power in times of serious balance-of-payments disequilibria. In instances where the National Executive Power declares a difficult situation with regard to external payments, the Central Bank is empowered to deliver external public debt instruments denominated in foreign currency for the amounts which registered foreign investors wish to remit as profits. Despite these safeguards, Argentina is signing many investment protection agreements and has become a member of MIGA.

126. Flows of foreign direct investment have been responsive to the set of liberalizing measures recently enacted in Argentina's trade, exchange and investment régimes. After averaging US$489 million a year during the period 1980-87, inflows of foreign direct investment increased markedly in the period 1988-90, averaging a yearly US$1.4 billion and attained US$2 billion in 1990. There have also been press reports of renewed interest in investment in Argentina by United States' companies and even Brazilian companies (partly prompted by developments in MERCOSUR). Based upon discussions with Argentine officials and private sector representatives, it appears that much of the recent increase in foreign direct investment represents reinvestments (particularly the replenishment of working capital) by established foreign firms, rather than new FDI flows. Much of the impetus for new flows of direct investment from abroad has come from the Government's privatization programme, as well as the deregulation process in the energy sector in particular.

127. Tables III.1 and III.2 depict the origin and sectoral destination of approved foreign direct investments in Argentina during the period 1977-89, the latter year having seen the abandonment of Argentina's policy of prior approval of foreign investment. As can be seen, both the origin and destination of FDI flows were highly concentrated during the period, with the top five countries - the United States, Italy, the Federal Republic of Germany, France and Switzerland - and sectors - petroleum and gas, banking, automobiles, food and beverages and machinery and equipment - accounting between them for 77.7 per cent and 65 per cent respectively of approved FDI.

\[11\] Notably in Argentina’s automobile industry, partly in anticipation of the changes brought about by the completion of the MERCOSUR.
128. As noted in Chapter I, the Argentine economy remains under a high burden of domestic and foreign debt. Argentina's creditworthiness problems have been reflected in the low value of the country's liabilities in the secondary market for developing country debt. Argentine debt traded at 17 per cent of face value at the end of the 1st quarter of 1991 although it has since increased in value to 27 and 39 per cent, respectively, at the end of the 2nd and 3rd quarters. Despite this improvement, the secondary market price of Argentine debt remains among the lowest of all major Latin American debtors.

129. With much of the country's foreign borrowing since the late 1970s escaping through capital flight, channelled into unproductive end-uses or used to postpone the adoption of needed structural adjustment measures, Argentina's build-up of external debt has acted as a strong disincentive to investment (domestic and foreign), new capital inflows and economic growth. The increasingly heavy weight of external debt reversed Argentina's traditional pattern of resource flows, making the country a net exporter of capital from 1983 onwards. Net resource transfers abroad averaged US$2.3 billion during 1984-89, or 3.2 per cent of GNP. The build-up in foreign debt created an acute external and internal transfer problem that hampered efforts at deficit reduction and made both foreign and domestic creditors increasingly reluctant to lend to the Government (Dornbusch and de Pablo, 1990). In turn, reduced access to foreign financing required a marked contraction in both domestic absorption and imports. It has, moreover, imposed an additional limit to the sustainability of fixed exchange régimes (Kiguel, 1989).

130. The severe anti-export bias, until recently, of Argentina's trade policies compounded the country's debt servicing difficulties. Argentina's decreasing involvement in international trade is reflected in the fact that its external debt represented some 450 per cent of exports of goods and services in 1990. This compares to end-1989 figures of 302 per cent for

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12 The secondary market price of Argentine debt went from 32 per cent of face value in January 1988 to a record low of 11 per cent in mid-1989.

13 As noted in a recent World Bank (1989) report: "The policy course of the early 1980's involved a high cost that has cast its shadow over the entire decade. Rather than adjusting quickly to the reluctance of private markets to lend voluntarily into Argentina's policy environment, the Government chose to defend the appreciated peso through massive foreign borrowing. Rather than maintaining an arm's length distance in the private sector's bilateral negotiation over the terms of the private debt, Argentina essentially absorbed the private liabilities and used inflation to impose losses on creditors (including the publicly-owned banks). Rather than adjusting public expenditures to accommodate higher interest payments, the Government financed accelerated spending through inflation, shattering any possibility of immediate recovery."

14 Aside from transfers, in particular to provincial Governments and to the social security system, the single largest category of public expenditure is interest accrued on Argentina's external debt, which amounted in 1990 to more than one fourth of expenditures of the non-financial public sector.
Brazil and 262 per cent for Mexico, whose external debt stocks were respectively 72 per cent and 48 per cent higher than that of Argentina.

131. Strong growth in exports of goods and non-factor services, combined with extensive recourse to debt conversions and buy-backs, have led to an improvement in Argentina's debt-servicing ratios during 1989 and 1990 (Table III.3). At the same time, an accumulation of arrears on commercial bank debt means that the improvement in Argentina's debt servicing profile has in part been more apparent than real. Total arrears were estimated at US$7.5 billion at year-end 1990, representing 7.8 per cent of GDP. After ceasing all interest payments on its commercial bank debt in mid-1988, Argentina decided in June 1990 to make partial interest payments to commercial banks on medium- and long-term debt. Such payments, which amounted to US$40 million per month between June and December 1990 and were raised to US$60 million per month in January 1991, are indicative of the Government's desire to restore Argentina's financial standing and improve the country's relationship with creditors.

132. The constraints associated with Argentina's acute debt-servicing difficulties have played a central role in fostering the far-reaching changes enacted in the country's economic policies since the mid-1980s. The availability of foreign finance remains, however, one of the most problematic aspects of Argentina's medium-term outlook, potentially threatening the course of policy reform to which the country's authorities are strongly committed. Even with improved trade performance, the amounts required from external creditors - which represented some 6 per cent of GDP in 1990 - remain considerable if the country is to resume import growth and replenish its capital stock while servicing its external obligations over the next few years. Argentina's financing problems are not made any easier by the marked increase in competition worldwide to attract scarce foreign savings, nor by the reluctance of many commercial banks to participate in voluntary lending exercises in developing countries.

(3) Foreign Exchange Allocation

133. Argentina formally accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement as from 14 May 1968.

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15 Both debt conversions and buy-backs figured prominently in the country's privatization efforts.

16 Argentina's interest arrears are projected to reach US$9 billion at year-end 1991.

17 These Sections commit members of the Fund not to impose restrictions on current (Footnote Continued)
134. Foreign exchange transactions are freely permitted in the United States dollar and a number of currencies, with daily quotations based on the buying and selling rates for the U.S. dollar on foreign markets. All exchange transactions must be carried out through entities authorized expressly for this purpose. These include banks, exchange agencies, exchange houses, exchange offices and financial companies, all of which are subject to different regulatory treatment.

135. All payments between Argentina and Bolivia, Brazil, Chile, Columbia, the Dominican Republic, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela are made through accounts maintained by the Central Bank of Argentina and the central banks concerned, under the Reciprocal Payments and Credits Agreement within the framework of the multilateral clearing system of the Latin American Integration Association (LAIA). Argentina also maintains reciprocal credit arrangements with Bulgaria, Cuba, Hungary, Poland, and the Soviet Union by means of special accounts in each Central Bank through which some transactions are settled. Transactions with other countries must be settled in freely convertible currencies.

136. Since 20 December 1989, the sale of foreign exchange at the free exchange rate has been permitted for most invisible payments. Authorized entities may carry out most types of transactions without the prior authorization of the Central Bank. Foreign currency receipts obtained from private sector invisible transactions may be sold in the exchange market and need not be surrendered to the Central Bank.

137. Also from 20 December 1989, proceeds from all loans have been transacted in the free exchange market. Principal and interest payments for loans may only be effected directly through authorized entities on the maturity date, without prior Central Bank authorization. The inflow of financial loans undertaken by local foreign-owned enterprises and originating from foreign enterprises that either directly or indirectly control the borrowing enterprises or are their subsidiaries requires authorization from the Central Bank.

(Footnote Continued)

payments, nor to engage in discriminatory currency or multiple exchange rate practices, without Fund approval, and to maintain currency convertibility.

18 Austrian schillings, Belgian francs, Canadian dollars, Danish kroner, deutsche mark, Finnish markkaa, French francs, Italian lire, Japanese yen, Netherlands guilders, Norwegian kroner, pounds sterling, Portuguese escudos, Spanish pesetas, Swedish kronor, and Swiss francs.

19 Domestic and foreign bank notes entering and leaving Argentina are not subject to any exchange requirement. The same applies to gold coins and to "good delivery" gold bars.
IV. TRADE POLICIES AND PRACTICES BY MEASURE

(1) Overview

138. Prior to the Great Depression Argentina’s trade was characterized by export-led growth, based on the exploitation of abundant natural resources. However, because of declining terms of trade in the late 1920s but more dramatically during the Second World War and afterwards, Government policies caused a switch to import substitution. In the second half of the 1930s, exchange rate policies and infant industry tariff protection fostered the processing of foodstuffs, textiles, clothing and leather products. However, an expected transition to more capital intensive technologies did not occur. Exports were increasingly discouraged and the economy lacked the dynamism to avoid foreign exchange shortages.

139. During the Peron administration (1946-55) protection increased. High tariffs were accompanied by import restrictions, administered by import licences and prohibitions. Effective protection for manufacturing was further increased by subsidized inputs. Permits were required to obtain foreign exchange. Exchange rates were overvalued, and a system of multiple exchange rates discriminated against traditional agricultural and non-traditional manufactured goods. The Government relied on marketing boards for the export of grains and producer prices fell below world prices because of populist food consumption promotion policies. It has been estimated that the average effective rate of protection was of the order of 295 per cent for 1947-52 (Loser (1971)).

140. Recurrent balance-of-payments problems and political instability have marked Argentinian history since 1955. The military Government that took power in 1955 did achieve some trade liberalization. During the constitutional Government of Arturo Frondizi, starting in 1958, this was combined with an industrialization plan for the development of "basic" industries and high technology manufacturing (oil refining, steel, automobiles, chemicals, paper, etc.) and for the intensive exploitation of mineral resources. Foreign investment was encouraged. The new industries were allowed to import capital goods at low or free rates of duty owing to exemptions and special régimes. They were also accorded protection against directly competitive imports and by 1959, Argentina had an average nominal tariff of 151 per cent (Macario (1964)).

141. Some trade surpluses were achieved from 1963 to 1966, partly because of export promotion through the introduction of compensatory tax incentives to industrial exports. Some quantitative restrictions were decreased. Nevertheless, tariffs were high and varied - see Table IV.1 - although considerable use was also made of tariff exemptions. In addition, official customs prices and advance import deposits were applied.
142. Following a military coup in 1966, the Minister of Finance Adalbert Krieger-Vasena in 1967 undertook the first significant tariff reductions since 1945, reducing ad valorem import duties to about half their previous level - from 119 per cent to 61 per cent on average (FIEL, 1980). While the overall average remained high, the reform did reduce the variance of tariffs among sectors and, hence, effective rates. Taxes of 25, 20 and 16 per cent were imposed on traditional exports, according to the product - to be subsequently reduced. Subsidies to non-traditional exports were eliminated, along with import deposit requirements. Most import prohibitions were removed. This reform was supported by a strong devaluation of the currency, the first such compensatory devaluation in Argentina.

143. Nevertheless, in the following years, quantitative restrictions were used extensively and by 1976 there were import prohibitions on 734 commodities. More than 3,800 items were again subject to import deposit requirements equivalent to 40 per cent of the c.i.f. value of the imports. Multiple exchange rates were re-introduced in 1971. A significant anti-export bias resulting from these commercial and exchange rate policies has been reported (Berlinsky and Schydloowski (1977) and Nogués (1983)).

144. The Martinez de Hoz period (1976-81), following the military coup of 1976, was the second and more significant liberalization. In the first two years, the emphasis was on export liberalization: exchange rates were re-unified and export taxes were eliminated. Ceilings were also lifted on interest rates. Import liberalization was undertaken through the gradual elimination of quantitative restrictions and tariff reductions. On average, industrial tariffs - which had again been increased between 1967 and 1976 - were reduced from 98 per cent (arithmetic mean) to 49 per cent between October 1976 and December 1977 (Nogués, op. cit.). To some extent this merely reduced the "water in the tariff", and it has been estimated (Nogués, op. cit.) that the "realized" rates were 37.1 per cent on average. There was a shift in emphasis to import liberalization in 1978-79 and some further modest tariff reductions were introduced. The benefits of trade liberalization appeared almost immediately, with increased productivity in agriculture and manufacturing, investment rates were relatively high, unemployment fell, foreign reserves increased (up to 1980) and the trade and current accounts improved substantially. Inflation stabilized and began to fall in 1980.

145. In 1981-82, under a balance-of-payments crisis, the trade liberalization programme was abandoned with the re-introduction of quantitative import restrictions. (However, the pre-programmed reductions in the nominal tariffs apparently continued unhindered through 1984 to reach a moderate average "realized" rate of 22.8 per cent according to
estimates by the World Bank.) Multiple exchange rates were resumed. Inflation and the fiscal deficit rose, and the currency was devalued several times. When civil Government was restored in 1983, external debt had reached US$45.1 billion, mostly owed by the public sector. In Argentina, most explanations for the failure of the 1976-81 trade liberalization episode focus on the lack of co-ordination among the fiscal, monetary and exchange rate policies.

146. The civilian Alfonsin administration (1983-1989) inherited a severely distorted and highly indebted economy. Gross investment declined. The country became a net exporter of capital. The shock treatment of the Austral Plan of 1985 attempted to stabilize prices with tightened fiscal and monetary policies, coupled with wage and price freezes, and the fixed exchange rate was pegged to the United States dollar. The programme generally failed "essentially because the authorities could not sustain the requisite fiscal authority" (World Bank (1990b)).

147. Even prior to the macro-economic policies of the Austral Plan, the Government had tried to tighten its control on import demand through the introduction of a licensing system in January 1984. Goods fell into three categories: prohibited goods, imports that required prior approval of the Sworn Declaration of the Need to Import (Declaracion Jurada de Necesidad de Importacion) in consultation with domestic producers; and other imports for which licences were readily available. The prohibited list included most consumer goods as well as many industrial goods produced in Argentina. Prior approval was required for most capital goods and some industrial imports. The Austral Plan itself included a 15 per cent across-the-board import surcharge.

148. In the mid-1980s there developed the perception that the closure of the economy, i.e., the import-substitution strategy, was itself a factor contributing to inflation and unstable exchange rates. For example, it has been noted (World Bank (1990a)) that what was missing were mechanisms through which an open economy could cope with trade shocks. There had been a weakening of the responsiveness of the economy to price fluctuations and of the ability to react to the competition provided by foreign trade. "Increasing the import share of non-substitutable primary inputs and intermediates rendered aggregate import demand prices inelastic; intermittent balance-of-payments crises impaired the country's access to foreign credit; and the creation of sheltered domestic markets fostered a pricing behaviour that has added an inertial component to inflation. Moreover, pricing in entrenched oligopolies undisciplined by competition had probably acted to accelerate inflationary impulses through expectation-based mark-up pricing" (World Bank, op. cit.).
149. The failure of the import substitution policy for industrialization is also highlighted in a recent long-term study by Mundlak, Cavallo and Domenech (1989). This report shows that over the long run, total factor productivity in the non-agricultural sector (excluding Government) grew at less than two-thirds of the rate achieved in the agricultural sector much of which suffered from negative effective protection - see Chapter V.

150. It is also clear that - apart from the explicit import-substitution objectives of the import régime - Argentina's trade performance has suffered from additional anti-export biases, through the complexity of import and export procedures, the disincentive of export taxes, and a restrictive temporary admission régime.

151. The increasing public perception that import-substitution had run its course allowed the Government in 1987 to start to implement the current active reform policy, despite long-standing resistance from powerful vested interests. The key elements of the reform have been identified (World Bank, op. cit.) as:

(i) a strong emphasis on eliminating the negative effects of existing policies towards exporters early in the reform process, coupled with the phasing-out of various specific export promotion measures;

(ii) a negotiated sector-by-sector approach to import liberalization; and

(iii) an attempt to maintain a competitive exchange rate for trade transactions.

152. In addition, the Government, recognizing the complementary relation between foreign trade and domestic industrial policy instruments, took care to co-ordinate the trade reform with changes in industrial policy.

153. In the second quarter of 1987, import licensing restrictions were reduced in the context of a trade policy loan from the World Bank. This relaxation of quantitative restrictions continued and quickened through the latter part of 1988, with the import coverage being reduced from 30 to 18 per cent. The tariff was also reduced on production-weighted basis from 43 to 28 per cent (World Bank, op. cit.) or, on a simple average basis, from 38.2 to 29.4 per cent.

154. These reforms were part of the Plan Primavera, introduced in August 1988, which represented a new attempt at fiscal and structural reform. This initially succeeded in reducing the rate of inflation to single digit figures by the end of 1988, but in early 1989 there developed
a run on the currency and monthly inflation accelerated through July 1989 to a level of 203 per cent for the month.

155. The Menem administration took office in July 1989 with the support of half the Chamber of Deputies (through the Partido Justicialista and other pro-Government parties). The situation has been described (World Bank 1990a) as one of hyperinflation, instability in the financial system, price misalignment in the public sector, and the threat of a major recession. The new programme recognized the need for structural reforms ahead of, or at the same time as, the stabilization measures. The key elements are: (i) reform of the public sector, including the well-publicized privatization programme, and tax reform, especially efforts to increase revenues by the reduction of non-payment; (ii) reform of monetary policy to permit expansion only as a function of increases in international reserves; (iii) maintenance of stable exchange rates by linking the exchange rate to the dollar; and (iv) a reform of the country's external finances through long-term restructuring of its external debt.

156. The new Government also continued and extended the trade and industrial policies begun in 1987 in order to support price stability and growth. In March 1991, licensing provisions were eliminated except for the few products covered by quantitative restrictions. The production coverage of quantitative restrictions was further reduced to 7 per cent by the end of 1990. At the beginning of 1991, the Government of Argentina disinvoked the provisions of Article XVIII:B of the General Agreement relating to the application of import restrictions for balance-of-payments reasons. Now only a few import items in the motor vehicle sector remain subject to non-tariff restrictions. Tariffs have been adjusted downwards several times, in October 1988, October 1989, mid-1990 and again in April 1991 to an average of some 9 per cent overall (including primary products). This compares favourably to a number of industrial countries. Also, while the new, three-tier tariff structure does allow the possibility of very high effective rates, there are in practice few very high rates such as have been seen in the past in Argentina.

157. Chart IV.1 shows the extent of the tariff reform in the 1989-91 period, while Chart IV.2 shows the reductions in the production coverage of quantitative restrictions. In appraising these changes, it is important to realise that many tariffs were simply never collected because of the exemptions that existed under many of the special régimes that will be described in this and the next chapter (and the fact that much of LAIA trade is duty free or preferential). This is illustrated graphically in Chart IV.3 which shows the ratio of tariff revenue to the total value of imports, as well as the ratio of export tax revenue to export receipts since 1970. (Data limitations do not permit the continuation of the import series through to 1990). As will be remarked, the ratio of tariff revenue
to import value varied only slightly around 2 per cent over a 17 year period - far below what one would expect from the high tariff averages. Thus, there is little question that the binding constraint on imports, in particular was the operation of non-tariff barriers.

Chart IV.1
Argentine Tariff Reform 1989-91

Note: It is understood that since the April 1991 reform the value on several automotive and electronics products have even increased to 35 per cent. The changes would be expected to have little effect on the arithmetic mean, but would clearly affect the maximum.

Source: Data supplied by FIEL.
Chart IV.2  
Production coverage of QRs, 1986-91

Production coverage %

- Agriculture
- Mining
- Manufacturing

Source: Estimates by the World Bank.

158. The more recent changes in Argentina's trade policy are discussed in further detail in the following sections of this chapter. However, as noted in Chapter II, the whole trade law is under study with a view to a comprehensive revision affecting the import and export régime.

(2) Measures Directly Affecting Imports

(i) Registration, documentation

159. Until 1 January 1991 almost 50 per cent of all import items required a Sworn Declaration of the Need to Import (Declaracion Jurada de Necessidades de Importacion) issued by the National Import Directorate. This requirement was repealed by Decree Number 2226/90 of July 1990, except for remaining items subject to quantitative restrictions. These are listed in Table IV.2.
160. Under Resolution 330/89 of the Ministry of the Economy some 734 tariff positions, previously subject to prior examination requirements, were made subject to automatic import processing.¹

(ii) Tariffs

(a) Structure

161. The Argentine import tariff is one of the most complex of any GATT member, with 11,744 lines.² The Government of Argentina does not publish its customs tariff and rates. The main source of information on tariff and other conditions of entry in general use is the Guia Practica del Exportador e Importador, a private publication, which is not endorsed by the Government despite its widespread use in and out of Government. It is sometimes cited in Government legislation.

162. The Harmonized System (HS) was introduced by Argentina on 1 January 1991 for its export classification (NADE), and work is underway to introduce the HS for the import classification (NADI).

163. Tariffs and other charges are applied to the c.i.f. value of imports.

(b) Bindings

164. Currently some 407 items in the Argentine tariff are bound, affecting some US$54 million or 1.7 per cent of imports in 1986. These items, whose bindings were negotiated in the Kennedy and Tokyo Rounds of Multilateral Trade Negotiations, are listed in List LXIV of the GATT Loose-leaf Schedules.

165. In the Uruguay Round Argentina has offered to set a ceiling binding of 35 per cent for its entire tariff schedule. This conditional offer does not cover the numerous supplementary taxes on imports (Note IV.2). It is a general objective of the Uruguay Round to consolidate such charges into the tariff schedule for binding. Apart from the simplification, this will also provide exporters greater assurances on the total level of charges they face in the market. In Argentina's case this would be a significant additional obligation. It would also represent a considerable simplification of its structure of charges.

¹GATT document L/6644 of 20 February 1990.

²Most countries have 5-6,000 lines. Canada and Australia have a little more than 6,000 lines. The comparable figures for the EC and the United States are 7,500 and 8,620, respectively. Mexico and Malaysia have some 12,000 lines and Turkey as many as 15,000 lines.
(c) Levels of tariffs

166. As noted earlier, the levels of nominal tariff protection have been changing rapidly in the last several years. According to calculations by the GATT Secretariat, the simple average pre-Uruguay Round tariff for all trade was 23.3 per cent (or 20.1 per cent weighted by m.f.n./GSP country trade in 1986). The average unweighted rates for agriculture and industry were 23.3 per cent and 23.5 per cent, respectively. The Uruguay Round offer would represent a simple average bound level of 22.2 per cent (or 19.8 per cent weighted).

167. However, as noted in the overview to this chapter, there have been several important tariff reforms under the present administration. Starting on 21 October 1988, the range of tariffs for most imports was narrowed from 15-53 per cent, including surcharges, to 0-40 per cent. The maximum tariff rate for automobiles, motor vehicle bodies and tractors was reduced from 115 to 40 per cent. As noted earlier this reduced the overall average production weighted tariff from some 43 per cent to 30 per cent. The special surcharge of 15 per cent was also abolished. Specific duties, however, were imposed on 40 categories of imports, including automobiles and textiles. The Government weakened the reform process by imposing specific tariffs with a high ad valorem equivalent on some 322 tariff items (mostly textiles, electronic goods and bearings).

168. On 10 October 1989, tariffs were again reduced. Rates above 40 per cent were reduced to 40 per cent, while rates between 14 and 40 per cent were reduced by 7 percentage points (IMF(1990)). However, a tax of 5 per cent was introduced on goods that had not been subject to any import tax. The effect of this latter decision was to reduce the disparities in levels of protection and effective rates, i.e. to reduce the resource misallocation associated with a dispersed tariff structure. It has been estimated that the average tariff was reduced from more than 38 per cent to 25 per cent (USTR(1991)). Just a few months later, in December 1989, tariffs were again reduced with a ceiling rate of 30 per cent ad valorem, although some specific rates were higher.

169. As of 1 April 1991 Argentina introduced another tariff reform package. A triple-tier tariff was established (replacing the six-tier structure introduced in mid-1989). Finished goods, covering some 3,644 tariff lines, were made dutiable at 22 per cent. From June 1991 tariffs on automotive products subject to quota (which range has also been
reduced since April) were increased to 35 per cent. Similarly, a number of electronics products, previously subject to reference prices, have also had this rate increased to 35 per cent. These changes have not been taken into account in our estimates of tariff averages since the full details needed for such calculations were not available in time to allow re-estimations. Intermediate products (3,900 lines) were made dutiable at 11 per cent. Primary products and capital goods not produced in the country (5,200 lines) were made be duty free. All 322 items on which specific rates had been imposed in October 1988 (ball bearings, consumer electronics and textiles) became subject to the 22 per cent ad valorem rate. The overall average was reduced from 22 per cent to 9.5 per cent (see Table V.1 for a sectoral breakdown).

170. As many are now aware, the average nominal tariff - even in the absence of non-tariff protection - need not be representative of the protection afforded to the production processes in a country. For this purpose the concept of the effective rate of protection has been used by trade economists now for a number of years - see Note IV.1 for an explanation. The average effective rate associated with the new tariff régime is 12.4 per cent, according to estimates by the World Bank. This is quite moderate even compared to some industrial countries.

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3The tariff change on automotive products and electronics products was announced in Resolution Number 432/91 from the Ministry of Economy and Public Works, dated 24 May 1991.
Note IV.1 Effective rate of protection

The average rate of tariff protection does not, even in the absence of non-tariff barriers, give a comprehensive view of the trade and production effects of the protective structure. For example, ad valorem tariffs directly affect the import price of foreign goods by the amount indicated - a 20 per cent tariff on automobiles increases the import price by 20 per cent, etc. This does not give any idea of the extent of protection of the activity of producing automobiles in the importing country, or to what extent protection of the industry generates extra production, profits, employment and wages. For this it is necessary to look at the combined effects of tariffs and other restrictions on imports of the finished goods - automobiles - and tariffs and other restrictions on the materials and parts used in the production process - steel, rubber, plastics, glass, etc., as well as engines, gearboxes, brakes, electrical components, etc. For this the concept of the effective rate has been developed. The effective rate - developed mainly in the 1960s - see Balassa (1965) and Corden (1966), measures the increase in value added in an industry under protection relative to what value added would be under free trade. Protection should take full account of tariff and non-tariff measures affecting production and trade. It can simply be used to measure the combined effects of tariffs on finished goods and on material inputs. Mathematically, it can be expressed in different ways. One such expression is:

\[ g = \frac{df - x \cdot dm}{1 - x} \]

where \( g \) - effective rate
\( df \) - duty on finished goods
\( dm \) - average duty on inputs
\( x \) - free trade materials/output ratio.

As can be see from the formula, the exact level of effective protection depends on the rate on the finished goods, the average rate on the inputs of materials and parts, and the extent of value added in the industry (the materials/output ratio or technical coefficient).

If the tariff rates on the inputs and the finished goods are identical, then the effective rate on the industrial activity is also the same level (i.e., \( df = dm = g \)). If the rate on the finished goods are higher than the rate on the inputs then the effective rate in higher than the rate on the finished good (i.e., \( g > df > dm \)), and the extent to which it is higher depends critically on the materials/output ratio. The higher the materials/output ratio the higher the effective rate. Thus, an industry with a tariff on its finished good equal to 22 per cent and an average rate on the inputs equal to zero could have an effective rate very little different to 22 per cent if there is high value added in the industry, but for a low value added, e.g., a materials to output ratio of 90 per cent, the effective rate would be over 200 per cent. By contrast a higher rate on
the inputs than on the finished good could lead to equivalent substantial negative rates (i.e., $g<df<dm$).

Industries with negative or below average effective rates are in effect being taxed to provide support for the industries with higher effective rates. This is because the more highly protected industry is in a more advantageous position to bid for labour, materials, and other inputs. By bidding up such prices or wages, protected industries increase costs for other sectors beyond what they would be under free trade. Thus, unprotected sectors, or sectors with relatively little protection become less profitable and smaller. This is what is meant by saying that protection has a taxing effect on non-protected sectors or that it affects the allocation of resources.
171. However, it is the sectoral breakdown, or rather the deviations from the average, that gives an indication of the distortions in domestic production associated with the combined effects of tariffs on inputs to an industry and tariffs on the goods which the industry produces. It gives an indication of which industries are being penalised (or "taxed") by the protective structure through having below average protection, and which industries are advantaged (or "subsidized"). The narrower the dispersion in effective rates, the more likely that the industrial structure of the economy resembles its "free trade" structure. The broad sectoral breakdown of effective rates for Argentine industry (excluding basic agricultural production, mining, etc., but including the processing of primary products) is shown in Table V.4 and discussed at some length in Chapter V.

172. Table V.4 also shows estimates of the effective rates which take account of other tariff-type charges on imports (e.g., of the kind mentioned in Note IV.2, but excluding transport cost, etc.). The average effective rate, taking such charges into account, is 28.2 per cent - more than double the protection afforded by tariffs alone.

173. These rates are still not fully representative of the distortions afforded by commercial and industrial policy. First, primary production is excluded. As discussed in Chapter V, the production of cereals, etc., is considered to have been negatively affected by the combined effects of export taxes and exchange rates. While export taxes have been reduced, they have not been fully eliminated. Second, no account is taken of implicit subsidization through tax incentives. Although most of these have been suspended under the Economic Emergency Law (see Chapter II) they were restored for the electronics sector, based in Tierra del Fuego. Third, remaining quantitative restrictions on automobiles would indicate that these sectors are much more heavily protected than is indicated by the tariff régime alone.

174. Until the April 1991 tariff reform, a number of items were subject to specific tariffs, 117 items were subject to "normal" specific rates. These rates were progressively eliminated, and replaced by ad valorem tariffs. There were also a number of items subject to specific minimum rates. These varied from as little as 2 items in October 1989 up to 281 in October 1990 and were also replaced entirely by ad valorem tariff under the April 1991 reform.

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4 The electronics sector had also been supported by reference prices for imports set up under Decree 593/91. However, the reference price system was suspended by Decree 1084/91 of 6 June 1991.
(d) Seasonal tariffs

175. There are no seasonal tariffs applied by Argentina.

(e) Concessional entry

176. The Secretary of Industry and Foreign Trade had wide discretion to grant duty exemptions for capital goods until this was abolished as part of the process of review of the permanent tariff rates. This apparently means that there is to be no more duty free entry for goods normally subject to non-zero rates. The main exception will be the duty free admission of goods for use in export production under the Temporary Admission Régime (see below).

(f) Tariff preferences

177. Under the Latin American Integration Association (LAIA), Argentina grants and receives tariff preferences to other Latin American countries. In general, imports from other LAIA countries are dutiable at about half of the m.f.n. rate.

178. As noted in Chapter II, under the Treaty of Asunción which was signed in Asunción on 27 March 1991 by Argentina, Brazil, Paraguay and Uruguay, the Mercado Común del Sur (MERCOSUR) was established. This provides for the establishment of a common market among the four countries with free circulation of goods, services, capital and workers from 1 January 1995. If the new common market is to be based on a relatively open régime, such as is now being applied in Argentina, then the market itself will represent an opening to the rest of the world by the group of countries as a whole. There are a number of exceptions for sensitive items from the initial reductions, although the intention is for these also to be brought within the scope of the treaty.

179. Another possible development is the "Bush initiative" for free trade between the United States and countries of Latin America. This would affect items traded with the United States. To the extent that the United States is a supplier of a wide range of products at relatively low prices this could bring substantial competition to the Argentine market. However, there could be some trade diversion away from more efficient suppliers to both markets, and - at a global level - this would decrease welfare.

180. Argentina has few product arrangements under the Global System of Trade Preferences among Developing Countries (GSTP).
181. Argentina does not grant m.f.n. treatment to Syria, Saudi Arabia, Iran and partially to Iraq and Libya (these five countries are not members of GATT). However, since there is no higher rate than the m.f.n. rate, this has few practical consequences.

(iii) Tariff quotas

182. Argentina does not use tariff quotas, other than those applied in the partial scope commercial agreements under the LAIA framework (see Chapter II).

(iv) Variable import levies

183. Argentina does not use variable import levies.

(v) Other levies and charges

184. The structure of import charges is illustrated in Figure IV.2.

185. In addition to customs duties, imports are subject to a stamp duty of 0.6 per cent (as well as to various selective internal taxes) under Decree 178/85. According to the Government, telex and fax operations are now becoming more common and contracts organized in this way are not covered by the tax. It is therefore falling into disuse. A stamp duty of 0.1 per cent, applicable only in the Federal Capital to import and export contracts, was abolished by the Fiscal Reform Law No. 23.905.

186. Almost all imports are also subject to a supplementary tax of 0.5 per cent which is contributed to the National Fund for the Promotion of Exports (Guia Practica, No. 408, December 1990). This has been applied since 1985 under Articles 22 and 23 of Law 23.101 and Decree No. 179/85.

187. With very few exceptions all imports (and exports) are subject to a statistical tax of 3 per cent, payable on the customs value of the goods (Guia Practica, No. 408, December 1990). This does not apply to goods subsequently re-exported under the Temporary Admission Régime.

188. A duty on freight (gravamen sobre fletes) under Law 23.103 and Decree No. 4005/84 was recently abolished by Decree No. 1704/91. This had re-introduced the freight duty under the National Fund for the Merchant Marine (Fondo Nacional de la Marina Mercante) on International Maritime and River Transport. The duty rate is 12 per cent on imports (and 2 per cent on exports). It is assessed on the freight charge, not on the value of the imports.
189. Until they were suspended by Decree No. 1704/91, consular charges were also imposed by Argentinian consulates in the exporting country. These charges became an advance payment of the import duty and were not supplementary to the charges shown in Note IV.2. The charges were not imposed on goods subject to duties between zero and 3.5 per cent. To authenticate the commercial invoice there was a charge of 3.5 per cent on the declared value of the goods or the equivalent of two consular units, whichever was greater. Consular units are equal to US$3.00 or the equivalent in local currency. Additional fees also expressed in consular units, included, for example, charges for replacement certificates, for goods with no commercial value, stamp for weights or measures, or extra copies of certificates.

190. In addition to the above charges importers are generally required to pay the equivalent of the domestic value added tax and other domestic taxes. These are assessed on the customs value of the goods.

191. Prior import deposits are no longer required.
**Note IV.2 Structure of Import Charges in Argentina**

Example of the cost of importing sodium triple phosphate (technical grade) from the United States

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Per Cent</th>
<th>Value US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Value f.o.b.</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>Freight (on US$ f.o.b.)</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>3</td>
<td>Insurance (on US$ f.o.b.)</td>
<td>3</td>
<td>3.6</td>
</tr>
<tr>
<td>4</td>
<td>Value c.i.f. (=1+2+3)</td>
<td></td>
<td>123.6</td>
</tr>
<tr>
<td>5</td>
<td>Import duty (on US$ c.i.f.)</td>
<td>22</td>
<td>27.2</td>
</tr>
<tr>
<td>5.1</td>
<td>Supplementary duty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Statistical tax (on US$ c.i.f.)</td>
<td>3</td>
<td>3.7</td>
</tr>
<tr>
<td>7</td>
<td>National Export Promotion Fund (on US$ c.i.f.)</td>
<td>0.5</td>
<td>0.6</td>
</tr>
<tr>
<td>8</td>
<td>Freight tax (on freight - i.e. 12% of item 2.)</td>
<td>12</td>
<td>2.4</td>
</tr>
<tr>
<td>9</td>
<td>Sub-total</td>
<td></td>
<td>155.1</td>
</tr>
<tr>
<td>10</td>
<td>Cost of letter of credit (on US$ f.o.b.)</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>11</td>
<td>Customs clearance cost (on US$ c.i.f.)</td>
<td>1.5</td>
<td>1.9</td>
</tr>
<tr>
<td></td>
<td>Port charges (on US$ c.i.f.)</td>
<td>1</td>
<td>1.2</td>
</tr>
<tr>
<td></td>
<td>Final value on import</td>
<td></td>
<td>159.2</td>
</tr>
</tbody>
</table>

Ad valorem equivalent of all charges combined on the f.o.b. value: 59.2

A consular charge, cancelled during 1991, was considered as part payment of the import duty. The Freight Tax was recently eliminated by Decree No. 1704/91.

The above table does not fully represent the equivalent of the wholesale cost in Argentina. On landing in Argentina goods are also subject to the equivalent of the domestic value added tax and other domestic taxes.

Note: Based on data supplied by the Republic of Argentina.
(vi) **Minimum import prices**

192. Most official reference prices were abolished between the second quarter of 1987 and the end of 1988. This action stemmed from Argentina's implementation of the GATT Agreement on Customs Valuation. Reference prices remained for imports of a wide range of electronics goods - until they were cancelled by Decree No. 1084/91 of 6 June 1991. These were set at the discretion of the National Customs Administrator.

193. Minimum export prices may be set under Argentine Customs law covering anti-dumping and countervailing actions on specific products and countries (see below).

(vii) **Import prohibitions**

194. A small number of products are subject to import prohibitions. These are applied mainly for health and safety, environmental, or military reasons. They cover various animals, plants, seeds, pollens, drugs (e.g. coca leaves), various packaging materials, etc. For example, all imports of live rabbits or hares, or their meat, fur or pelts are prohibited until a cure is found for viral hepatitis and certain other diseases carried by rabbits. Imports of all livestock from Paraguay, and horses from Brazil, Chile and Paraguay, are prohibited. In general, health prohibitions depend on the situation in the exporting country.

(viii) **Import licensing**

195. As from 1 April 1991, licensing provisions were eliminated except for some 25 items - primarily automobiles and parts - covered by quantitative restrictions (Table IV.2). The quotas have since been eliminated leaving only 9 automotive items subject to quotas. Even on the remaining items, the prior authorization procedure has also been eliminated. More than 90 per cent of import items had previously been subject to such licences as part of the import authorization processes. The authorization process is now automatic and is handled by the commercial banks (whereas previously this had been under the discretion of the Secretary of Industry and Trade).

196. Application for licences for those remaining items subject to licences are handled by the Secretariat for Industry and Trade.

197. Previously the licensing procedure was complex. For some 7,000 items (over 60 per cent of the total) an application for a Sworn Declaration of the Need to Import (DJNI) had to be lodged with the Secretariat of Industry and Foreign Commerce (SICE) where data were entered into a computer data base for processing at the Ministry of Social Welfare. The DJNI was then returned to SICE for consideration and approval and delivery to the
importer. For the remaining tariff items - covering imports competitive with local production - the import permit was then referred to producer associations. These would generally recommend against the issuance of the import permit unless no domestic production or supplies were available. SICE seldom overruled the producer associations. Price was not generally a consideration.

198. Prior to 1987, the issuance of import licences was subject to payment of prior honorary commissions. By the end of 1988 this was abolished for more than 8,000 tariff positions, leaving some 2,000 items subject to the requirement. This has now been abolished.

199. There seems little doubt that the licensing system was, until recently, the cornerstone of the import substitution policy. Tariffs had been moderated quite substantially during the 1980s, and there was significant use of tariff exemptions even where there were non-zero rates. This left import licences as the binding constraint against imports. The central rôle of producer associations in decisions on the granting of import licences meant that over 50 per cent of domestic production was essentially free of any significant import competition. Although the licensing system has now been very largely abolished, the remaining items subject to licences are nevertheless significant, especially transport items which are an important input into all branches of economic activity. A move to a tariff-based economy on those items would be expected to reduce further the anti-export bias of past policies.

(ix)  

Import quotas

200. Despite the major trade reforms, quantitative restrictions presently remain on 9 items covering automobiles and trucks (Table IV.2).

201. The import quota for automobiles allows the import of 18,000 units from Brazil in 1991. There is a quota of 8,000 units for all the countries combined. These quotas were originally set at 10,000 units for Brazil and 7,200 units for the rest of the world. This is a particularly stringent requirement, which must increase the cost of many businesses, including those in export industries, as well as limiting the choices and increasing prices for a large part of the community.

(x)  

Import surveillance

202. The widespread documentation and licensing requirements in use until recently provided the authorities ample scope for surveillance of imports. However, the elimination of many of these requirements under recent trade reforms has not been replaced by any formal surveillance of any categories of imports.
State-trading enterprises

203. The National Grains Board and the National Meat Board operate as State-trading enterprises. As mere "witness" operators they no longer act as monopolies in their respective products areas. Their operations are further discussed in Chapter V.

Import cartels

204. The GATT Secretariat is not aware of any import cartels operating in Argentina. Argentina has a law on restrictive business practices, but, according to the authorities, no cases have been brought under this law.

Countertrade

205. Countertrade is permitted for firms engaging in the exportation of non-traditional, non-agricultural products. In such cases, import payments can take the form of the exportation of promoted goods (IMF (1990)). The countertrade régime (Regimen de Intercambio Compensado) was established under Law 21.101, Article 11, and the details were promulgated by Decree No. 176/85. This régime has lost much of its attraction since the obligation of exporters and importers to sell or buy the currencies derived from foreign trade has been eliminated.

206. Since 1985 to date, some US$283.9 million of exports and US$275.0 million of imports have been covered by countertrade arrangements. It is not possible to compute a fully detailed list of products and trading partners involved, but the range of products and partners is extensive. Among the larger trading partners involved in such trade are Peru and the United States, each accounting for more than 25 per cent of such trade with Argentina. Buses, trucks and chassis, steel products, polypropylene, petrochemicals and even small savoury biscuits figure among the key export items. The import items include various copper products, coal, various chemicals and weapons.

207. One countertrade project concerns the setting aside of 18 per cent of the purchases of Bolivian gas for the acquisition of Argentinian goods and services for projects aimed at the physical integration of the two countries. The remaining 82 per cent of the payments are paid in freely convertible currencies.

These are the most recent data supplied by the Government of Argentina.
208. In general the setting of standards for Argentina is covered under an agreement between the Secretariat of Industry and Foreign Trade and the Argentine Institute of Standards (Instituto Argentino de Racionalizacion de Materiales, IRAM). This was ratified in Decree No. 331/89. The standards involve a wide range of parties, public and private, and are generally based on an elaboration of the recommendations of the International Standards Organization (ISO) as well as the Pan-American Commission on Technical Standards.

209. According to the Government of Argentina, no distinction is made in the standards applied to imported and domestically-produced goods.

210. The Government of Argentina has not adhered to the Tokyo Round Agreement on Government Procurement.

211. Under Law 5.340 (the Compre Argentino Law) the minimum requirement was to give local suppliers preference at prices equal to import prices including duties and domestic taxes. However, if the applicable duty was less than 25 per cent, then a notional 25 per cent duty was substituted for the purposes of making the price comparison. Other factors such as quality and delivery time were taken into account. The policy applied to federal Government, State enterprises or private companies acting under State contract, although specific requirements had varied somewhat between sectors and enterprises.

212. The Compre Argentino law was suspended by the Economic Emergency Law adopted by the present Government. Currently there is no requirement for the State to make national purchases.

213. Argentina operates a local content scheme for automobiles (see Chapter V).

214. Under the Latin American Integration Association (Resolution No. 78), the basic rule is that to receive LAIA treatment the c.i.f. value of materials from third countries (i.e., non-members of LAIA) must not exceed 50 per cent of the f.o.b. value of the finished good in the final importing country.
215. In addition to the general rule - and perhaps more important - there are specific rules of origin under the special agreements of LAIA covering trade in specific products in the trade between specific partners. Special rules or origin apply in respect of capital goods from Brazil under the sectoral partial-scope agreement which requires 80 per cent local content. There are also special rules under the bilateral partial-scope economic complementarity agreement with Uruguay. This covers several sectors, including automotive products and milk products.

216. The rules of origin to be applied under the MERCOSUR are laid out in United Nations General Assembly document A/46/155, as mentioned in Chapter II. These follow the basic rules of origin already applicable under the Latin American Integration Association, although there are some transitional arrangements.

(xviii) **Anti-dumping and countervailing measures**

217. On 9 April 1991 Argentina signed the Tokyo Round Anti-Dumping Agreement, subject to ratification. Prior to that Argentina had applied Article VI of the General Agreement under its Customs Code, Law No. 22.415, Articles 687 to 723 (see Chapter II). The new trade law (discussed earlier) currently being drafted will encompass anti-dumping matters. It is the intention of the Government to bring anti-dumping laws into line with the GATT Anti-Dumping Code.

218. At present, under the Customs Code, countervailing measures have a maximum duration of 6 months and cannot be extended. A period of two years maximum duration was set for anti-dumping duties.

219. On the whole, Argentina has not been very active in the pursuit of anti-dumping or countervailing duty cases. The main exception was the year 1981 when 29 anti-dumping cases were initiated, resulting in 25 instances where the action terminated by Argentina setting minimum prices for export of the specific goods from the foreign countries covered by the action. (The European Communities (EC) is counted as 10 - in one instance only - since the action was specified against countries members of the EC). More than three times as many actions were taken against Brazil as against any other trading partner of Argentina. Relatively few tariff items were involved (Tables IV.3-IV.5).

220. The situation on countervailing measure cases is similar to that for anti-dumping cases. The peak of activity was in 1981 and Brazil was the most affected country. There was a total of only 29 countervailing cases, compared with 41 anti-dumping cases in the 1980-90 period. See Tables IV.6-IV.8 for a breakdown of the cases, countries, and products affected.
221. The current situation on anti-dumping and countervailing measure cases is shown in Table IV.9. Currently, only two products are subject to anti-dumping duties - compressors for household refrigerators from Brazil (subject to a 26.0 per cent duty) and acrylic fibre tops from Mexico (23.99 per cent duty). There are seven anti-investigations underway - four against Brazil, three against Mexico and one against Colombia. There is a current countervailing measure investigation on bicycle pinions from India and Italy.

(xix) **Safeguard actions**

222. Argentina has not taken any actions under Article XIX of the GATT relating to Emergency Action on Imports of Particular Products.

(xx) **Measures implemented in exporting countries**

223. Argentina has not imposed any export restraint agreements on other countries exporting to the Argentine market.

(xxii) **Balance-of-payments measures**

224. At the beginning of 1991 (Communication of 22 January 1991 in L/6611 of 28 January 1991) Argentina disinvoked the provisions of Article XVIII:B of the General Agreement relating to the application of import restrictions for balance-of-payments reasons. These had been invoked as cover for import licensing restrictions.\(^6\) Residual non-tariff restrictions covering 22 headings of the motor-vehicle sector are to be brought into conformity with the General Agreement according to the schedule outlined for Argentina's Uruguay Round tariff offer (MTN.TNC/W/60 of 7 December 1990).

(xxii) **Free trade zones, export processing zones**

225. Tierra del Fuego (with the exception of the Grand Island of Tierra del Fuego), Antarctica and the islands of the South Atlantic operate as a free-trade area with import tariff exemptions. The Grand Island of Tierra del Fuego operates under a special fiscal and customs régime. Duty-free importation of all goods and exemption from all national taxes was allowed for priority sectors (mostly electronics) under Law No. 19.640 of 1972. To be eligible for the régime, there had to be 65 per cent value added in the territory. The plan was conceived partly for industrialization objectives but also had security and geopolitical considerations. This law, which was

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\(^6\) Argentina had previously invoked Article XVIII:B between 1972 and 1979, and from 1984 onwards.
suspended under the Economic Emergency Law, has subsequently been partially reinstated.

226. From material available to the Secretariat, it appears that little was exported from the zone. Rather, its fiscal treatment allowed it to produce goods with duty free imported components for sale in other parts of the domestic market. However, it is becoming clearer that the special treatment for the zone has much less meaning as the economy as a whole is undergoing substantial liberalization and the protection afforded to its "export" to the major market, Buenos Aires, is inadequate to allow it to compete with fully assembled imports. See Chapter V on electronics for a further discussion.

(3) Measures Directly Affecting Exports

227. All Argentina's export legislation is currently under review as a new foreign trade law is being studied (see Chapter II).

(i) Registration, documentation

228. There is a legal requirement for exporters to be registered with the National Customs Administration, and a nominal fee is charged for registration.

(ii) Export taxes, charges, levies

229. Export taxes have frequently been used in Argentina. These taxes had applied to a wide range of products (e.g., mostly agricultural products such as grains, oilseeds, hides and skins, etc.). The extent of the coverage and the level of the taxes were also varied quite markedly from time to time. Under the tariff and tax changes of 1 April, exports of unprocessed oilseeds will remain subject to an export tax level of 6 per cent, while all other export taxes have been eliminated. With the shift from import substitution, the anti-export bias has been reduced through the progressive reduction of export taxes on traditional exports. Since 1987 the average export tax rate has been progressively reduced from 18.2 per cent for agricultural products (except oilseeds), and from 9.5 per cent for manufactures. The recent repeal of special export taxes on traditional exports of agricultural products (La Nacion, International Edition, 18 March 1991) was part of a package intended to promote the export of agricultural and fisheries products.

230. Initial reductions of the export tax were more than compensated by the multiple exchange rates (estimated in World Bank (1990a)) to have an export tax equivalent for agriculture equal to 17.4 per cent and for manufactures to 12.7 per cent). The unification of the exchange rate in
December 1990 had the effect of eliminating the export taxing effect of the multiple exchange rate régime, and was another important step in reducing the distortions of the domestic economy. However, farm groups claim that the new level of the Austral (at US$1.00 per australs 10,000) - a cornerstone of the Government's anti-inflationary policies - is too high to boost exports, and would in fact encourage imports (Latin American Regional Reports - Southern Cone, 25 April 1991) (see also Chapter I).

231. Some idea of the significance of the export tax can be gained from Chart IV.3. As may be observed export taxes have, at times, constituted up to 30 per cent of Argentina's export receipts. The frequent policy reversals on the use of export taxes is also evident from the pronounced swings in the ratio of export tax receipts to total export receipts. They also accounted for as much as 11 per cent of national tax revenues in 1989 (Table IV.10).

232. The Government's objectives in using export taxes have varied over time. For example, Cavallo and Cottani (1991) note that in 1967 export taxes were used to dampen domestic prices of traditional exports which were rising because of devaluation (and hence reducing real wages). The taxes were subsequently reduced to counter domestic price increases. In 1977, however, export taxes were reduced from very high levels to zero for most products to offset the rise in real effective exchange rates associated with the unification of the nominal exchange rate at that time. However, if price stabilization has been a key consideration in the use of export taxes, Sturzenegger, Otrera and Mozquera (1990) also report that fiscal equilibrium was a major concern, while resolving foreign exchange shortages was apparently of much less concern. This seems to have changed somewhat since, according to the Government, the reduction since 1989 of export taxes on oilseeds to 6 per cent was intended to maintain their international competitiveness against subsidized exports of similar products by other suppliers.

233. There is little doubt that, for most products, the main burden of the export tax has fallen on the farmer. This is because Argentina is essentially a price taker for most of its agricultural products on the world market. Exceptionally, in the case of oilseeds, Argentina, as the leading supplier, is able to influence world prices to some extent and thus extract part of the export tax from foreign buyers instead of uniquely from

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7 Export taxes on cereals were 50 per cent, oilseeds - 59 per cent, livestock - 50 per cent, vegetable oils - 47 per cent (Cavallo and Cottani (1991)).
its own farmers. (Annex IV.1 explains diagrammatically the economics of export taxes). However, there is no evidence that Argentina has consciously used the "optimum tax" concept to extract economic rent from foreign buyers. The main concerns have been to use the export taxes to reducing domestic prices, as well as to garner revenue for the Government.

Chart IV.3
Import and export tax and revenue percentages, 1970-90

Source: World Bank data, est. by GATT.

234. Most agricultural exports (products falling within Chapters 1 to 24 of the NADE are subject to a 1.5 per cent duty to cover the costs of the National Agricultural Technology Institute (INTA).

235. As noted earlier, with very few exceptions all exports are subject to a statistical tax of 3 per cent, payable on the customs value of the goods (Guia Practica, No. 408, December 1990). This does not apply to goods imported under the Temporary Admission Régime for subsequent re-export.

8 The export prohibition on raw and cured hides and skins works in a similar way. In this case the Government explains the use of export restraints as providing supplies to the tanning and leather products industries at "reasonable" prices, i.e., like export taxes, export restraints lower domestic prices below world prices.
236. Until it was recently eliminated by Decree 1704/91, there was also a duty on freight (gravamen sobre fletes) under Law 23.103 and Decree No. 4005/84. The duty rate was 2 per cent of the freight charge for the exports.

(iii) Minimum prices

237. Index prices are set for the few oilseed items that remain subject to export taxes. Duties and other changes (such as the INTA change and the statistical tax) are calculated on the basis of the index prices, which act as minimum export prices. Minimum export prices are also set for a few products not subject to export duties.

(iv) Export prohibitions

238. Exports of most raw and cured hides and skins were suspended under Resoluciones SCI Numeros 321/85 and 240/87 in order to ensure an adequate supply for the local tanning and leather manufacturing industries, avoiding price increases.

(v) Export licensing

239. In the last few years the licensing process for exports was simplified and finally eliminated, according to the Government of Argentina. However, as late as 1990, World Bank (1990a) mentions that some 54.5 per cent of agricultural commodities and 17.7 per cent of manufactures remained subject to such procedures, thus increasing costs for exporters.

240. Until early 1989 (when the Austral depreciated rapidly against the dollar), the Government had been sweeping away export licence requirements. The intention was to remove all licence requirements which had given the authorities the power to give priority to domestic supply over exports. The only goods to remain under export licence requirements were to be those subject to: (i) quality and sanitary controls; (ii) environmental restrictions; and (iii) international agreements such as those which might need to be negotiated under the Multi-Fibre Arrangement and bilateral "voluntary" export restraint agreements.

(vi) Export quotas

241. There are currently no export quotas.
(vii) Export cartels

242. According to the Government of Argentina, there are no export cartels in Argentina. However, the formation of international trading companies for promoted exports was permitted under Decree No. 175/85, Decree No. 1440/85 ("Tradings") and Resolution No. 557/85 of the Foreign Trade Secretariat (SICE). However, this scheme was never implemented and its elimination is expected. Decree No. 174/85 authorized the promotion and creation of export cooperatives and consortiums - a scheme meant to help small and medium-sized companies. A special incentive equivalent to 4 per cent of the f.o.b. value of exports in the first five years of operation was intended to help towards operating costs. The scheme was suspended by the Economic Emergency Law and consideration is being given to eliminating the scheme.

243. According to the Government of Argentina, boards such as the National Grains Board and the National Meat Board, which had previously held monopoly positions, operate under the same market conditions as other purchasers/sellers.

(viii) Voluntary restraints, surveillance and similar measures

244. With respect to export restraint agreements these cover the bilateral accord negotiated with the EC under the MFA, a "voluntary" restraint on the export of sheep and goat meat to the EC (since 1980, and extended in 1989) and on the export of dessert apples to the EC (see GATT document C/RM/S/10B). It is understood that the agreement on apples, which was arranged on an industry-to-industry basis, mainly concerned the provision of data. The ceilings which had been discussed were never reached, and, according to the Government of Argentina, the agreement no longer exists.

(ix) Export subsidies

245. The special export programme (PEEX), established on 4 February 1986, provided subsidies for incremental exports under multi-annual contracts between the Government and exporters. However, since 1987 the Government has entered no new contracts nor extended old ones. The current coverage, which is understood to be small, will be terminated when the remaining contracts end in 1993.

(x) Duty and tax concessions

246. Duty-free admission of imported goods on an ex ante basis for use in export production (the temporary admission régime, TAR) now applies to all primary inputs and intermediates with few exceptions. This is defined under Articles 250 to 277 of the Customs Code. This system has been
estimated (World Bank (1990a)) to have reduced the average production costs of manufactures exports by some 3 per cent. A special TAR for capital goods, called ARGEX, requiring a multi-year commitment from exporters, was never implemented. Decree 515/87, under which the scheme was established, has been cancelled.

247. A new duty-drawback scheme, established by Decree No. 1190/91, allows for the reimbursement of duties after exportation. This should also help to reduce exporters' costs.

248. The earlier TAR was somewhat restricted. It required a case-by-case review of the Sworn Declaration of Temporary Admission (Declaracion Jurada de Admision Temporaria - DJAT). It covered imports only where no domestic substitute was available or where the price of the domestic "equivalent" exceeded the c.i.f. price of the imported good by 30 per cent. Capital goods were not covered.

249. On exports in general there is provision under Law 22.415 for the reimbursement of all or a portion of domestic indirect taxes. Decree 1555/86 established four different rates of reimbursement of taxes: 15, 12.5, 10 and 5 per cent. These were maintained until March 1991 when they were replaced by the following: 10, 8.3, 6.7 and 3.3 per cent. The Secretariat of Industry and Trade estimates that the weighted average level of reimbursement was 9.4 per cent in 1990. The reimbursements probably went largely to the manufacturing sector.

250. Reimbursements of indirect taxes were paid in cash from the start of the scheme in 1986 until September 1989 when Export Credit Bonds (BOCREX) were used for this purpose. Between March and June 1990, payments were completely suspended. Since March 1991, under Decree 612/91, cash payments were restored. Value-added tax reimbursements have always been paid in cash, except between September 1989 and March 1990 when they were paid in BOCREX.

251. Table IV.10 shows the level of tax reimbursements for exports in the period 1986-90.

252. Under the Export Promotion Law No. 23.101 of 16 December 1984 and Decree No. 173/85 up to 10 per cent of the value of many export items may

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9 The World Bank estimates that the average rate of reimbursement is 13 per cent for manufactures and below 1 per cent for other goods (World Bank (1990a)).

10 BOCREX are austral-denominated bonds which can be used to pay foreign trade taxes.
be deductible from taxable profits. However, this is currently suspended, pending the general review of the trade law.

253. Also currently under suspension pending review is the law making exports eligible for the elimination of the 0.6 per cent stamp tax (Decree No. 178/85). Since the stamp tax was not payable on contracts arranged by telex or fax, this has little practical effect.

254. Under Decree No. 3399/66 exports containing sugar may be compensated for the difference in the domestic and international price of sugar (see Chapter V).

255. Law No. 23.359 created the Commission for the Co-ordination of Policy (a non State body) and the Fund for the Promotion of Dairy Activity (FOPAL). Under the Law, Decree 37/86 and Resolution 589/88 of July 1988, restitutions of different amounts were established for different dairy products on export. It is understood that the fund is run on a private compensatory fund, and no governmental subsidies are involved (see Chapter V).

256. Under Law 23.101, Decree 525/85, exporters of turnkey operations receive a 15 per cent reimbursement of domestic taxes. According to the Government, this replaces and is not additional to any other reimbursement to which they may be entitled. To be eligible for such treatment more than 60 per cent of the f.o.b. value of the exports must be of national origin and more than 40 per cent must be physical goods.

257. Law No. 23.018 of 1983 provides for additional reimbursement of taxes for exports from Patagonia through Patagonian ports. At the time the programme was initiated the reimbursements were as shown in Table IV.11. The level of reimbursements was due to be reduced by one percentage point on 28 January 1984 and to remain stable thereafter for eleven years. From 1 January 1995 the reimbursement is to be reduced by one percentage point a year until its is eliminated.

258. Resolucion 906/83 of the Ministry of Economy, 11 August 1983, provided for a supplementary reimbursement of taxes of 10 per cent for products exported through customs in the Northern Provinces of Salta, Tucuman and Jujuy via ports in Chile north of Latitude 30 degrees South. The amount of the reimbursement was subsequently reduced to 5 per cent by Resolution 976/88 of the Ministry of the Economy on 13 October 1988. The scope of the law covered the following range of exports from the northern provinces: certain vegetables, cereals, flour, oilseeds and vegetable oils, and animal feedstuffs. This law was intended as a temporary measure and payments were concluded in 1990.
(xi) **Export finance**

259. Export promotion has also been supported officially through Central Bank rediscounts of commercial banks' pre-shipment loan and of post-shipment foreign trade bills at subsidized interest rates. The prior régime was suspended in March 1991. In September 1991, the Central Bank established a line of credit of US$60 million for export credit at rates between 11 and 12 per cent.

260. It is understood that an Investment and Foreign Trade Bank is being established to provide export finance, and that this will operate at market rates.

(xii) **Export insurance and guarantees**

261. Law No. 20.299 of 1973, Law 23.101 and various decrees under the laws establish the Argentinian export credit insurance régime, backed by State funds. The Compania Argentina de Seguro de Credito a la Exportacion S.A. provides export credit insurance coverage against commercial risks. It also provides coverage of extraordinary risks, on account of the Government, for transactions included under the General System of Financing for Promoted Exports.

262. Decree No. 526/85 guaranteed the equivalent value in australs of foreign currency as well as the reimbursement of duties on export at current prices. However, this was eliminated by the Economic Emergency Law.

(xiii) **Export promotion, marketing assistance**

263. As mentioned earlier there is an import tax of 0.5 per cent which contributes to the National Fund for the Promotion of Exports (FOPEX), established under Law No. 23.101, Decree Nos. 179/85 and 1.442/85 of 1985 to provide assistance for small- and medium-size industries. Under the law the funds may be used for loans or direct assistance for the promotion of exports. Examples of the purposes of the loans are: (i) participation in international trade fairs and exhibitions, (ii) participation in foreign trade missions and (iii) mass media publicity for exports. Examples of direct assistance are: (i) support for chambers of commerce carrying out studies and development of foreign trade, and (ii) recognition of individuals and awards to companies for achievements in development of new markets, for continued export activities and for export growth.

264. Under the Economic Emergency Law, the application of FOPEX has been suspended, but the tax continues to be levied.
(xiv) Free-trade zones, export processing zones

265. The special provisions affecting the free zone of Tierra del Fuego, the Antarctic and Islands of the South Atlantic have been described earlier in this Chapter (Section (2)(xxii)).

266. These areas also benefit from the special reimbursement of taxes available to Patagonian ports - see above.

267. A new free trade zone was created in La Plata, capital of the province of Buenos Aires, in August 1991 under Decree No. 1668/91. Initially, fairly simple operations will take place in the zone, but it is intended that operations will be extended to include industrial activity for exports.

(xv) Other measures

268. On 29 August 1986 the compensatory adjustment mechanism had been made available to exporters of specific products and for suppliers of turnkey projects. This mechanism provided protection for exporters against adverse changes in the real price of their exports. (IMF (1987)). However, this was also cancelled under the Economic Emergency Law.

(4) Measures Affecting Production and Trade

269. This Section is intended to give a brief overview of other measures affecting production and trade. Industry specific measures are covered in Chapter V.

(i) Adjustment assistance

270. Argentina has no programme to help local industries adjust to changes in the levels of protection afforded to them.

(ii) Assistance for research and development

271. The Computer Policy Programme (Programa Informatica) (Resolutions ME 978/85 and ME 418/86) consisted mainly of high import tariffs and some fiscal allowances tied to research and development as well as for the improvement of the quality of production. According to the Government, the régime ended with no practical result.
(iii) Production subsidies, tax concessions

272. Argentina's sectoral incentives mainly take the form of tax exemptions. While most of these are under suspension, as has been noted earlier, it may be useful to give a brief overview of the schemes as they existed. Table IV.12 gives an overview of the various tax exemption schemes as they applied to different targeted industrial sectors. The sectors which were the main beneficiaries of promoted investments in the 1984-87 period were chemicals and petrochemicals (with 66.8 per cent of investment, food products (16.1 per cent) and metal products, machines and equipment (9.7 per cent). (World Bank (1988)).

273. Similar schemes have applied to some non-traditional agricultural sectors such as tobacco.

(iv) Pricing and marketing arrangements

274. Argentina is a member of the International Sugar Organization, and the International Wheat Council and the GATT Dairy Council. As such it participates in decisions on pricing and production under those bodies.

(v) Regional assistance

275. To some extent regional assistance for imports and exports has been touched on earlier in this chapter. An indication of the nature of regional investment incentives in the industrial sector is given in Table IV.13.
Annex IV.1
The effects of export taxes

1. Argentina has in the past made extensive use of export taxes, although they are now retained only for certain oilseeds. This is in part intended to exploit its position as a leading supplier of such products on the world market and in part for revenue purposes.

2. The economics of the use of export taxes are illustrated in the following chart.

3. On the right of the chart is the interaction of domestic supply (S) and demand (DD). On the left is the interaction of Argentina's excess supply available for the international market (ES) and excess demand by the rest of the world. Initially, domestic consumption is OC and the quantity exported is CQ(=OX). The international price is Pw.
4. If the exporter then introduces an export tax, this has the effect of shifting the excess supply to ES' (ES' is not parallel to ES since following Argentine practice - the tax is assumed to be fixed as a percentage of fob value). The tax drives up the international price to Pw' but drives down the domestic price to P. The drop in the domestic price causes an expansion in domestic consumption from OC to OC'. The higher price on the international market causes a decline in the quantity exported from CQ (=OX) to C'Q' (=OX').

5. The tax revenue collected by the Government is acef of which acdg is paid by producers and gdef is paid by foreign buyers. Domestic consumers gain by cnhd (consumer surplus) and producers lose by cjid (producer surplus), a net loss of njih (=acdb) to Argentine producers and consumers combined. Since acdg is a transfer to the government, the deadweight loss to Argentina is bag. The net "gain" to Argentina is gdef-bag which may be positive or negative. The net loss to foreigners is bdef, of which gdef is the tax component (as noted above), and bgf is the deadweight loss to foreigners associated with the intervention.

6. If the demand facing the exporter is sufficiently inelastic (i.e., the slope of ED is steep enough) and the tax is low enough, then exporting revenues could increase compared to the pre-tax situation (i.e., the area OefX' could be greater than OdbX). Its net gain will increase as the export tax is raised above zero until it optimises tax or export revenue (not being identical rates) rate, but continued increased will eventually cause a decline in such revenues. Export and tax revenue could even become zero.

7. In the longer term, other suppliers could enter the international market, reducing the excess demand (shifting ED to the right) and, hence, exports, export revenue and tax revenue.
V. TRADE POLICIES AND PRACTICES BY SECTOR

(1) Overview

276. Unfettering the agriculture sector, including non-traditional agriculture and agro-based industries, appears to be one of the keys to the recovery of the Argentine economy. Agricultural and agro-based products have historically made up as much as 70-80 per cent of total export earnings, and would seem to offer the greatest capacity to increase supplies in the short- and medium-term.\(^1\) As noted in Chapter IV, the recent trade liberalization measures adopted by the Government of Argentina will help to reduce costs of agricultural production as well as stimulating external demand by reducing Argentine agricultural export prices (largely through the reduction or elimination of export taxes). The recent reforms will thus reduce the supply constraints on agricultural exports.

277. However, there are also some external constraints on the export prospects for Argentine agriculture. For example, with respect to prices the prospects for cereals, fats and oils are not promising. They have been subject to a secular decline as well as important fluctuations (see Note V.1). Forecasts are for further real price reduction through to the year 2000. A second, associated constraint is that international markets for exports of grains are highly distorted in part because of the use of export subsidies by some major suppliers.\(^2\) Estimates place the welfare gains to Argentina from global trade liberalization, including reduction or elimination of trade and production interventions in industrial countries, between US$3.2 billion and US$11.9 billion, depending on the assumptions - see Note V.2. Another important benefit of liberalization is the estimated greater stability of international prices.\(^3\) Thus, Argentina has much at stake in the attempts in the Uruguay Round to impose greater disciplines on and reduce the use of trade and production subsidies in this sector.

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\(^1\)As Table V.4 shows, the main agro-based products (grains, animals and products, oilseeds and products, other foodstuffs and leather) made up over three-quarters of Argentina's exports in 1970. In 1988 the same products made up 59 per cent of the total.

\(^2\)The International Wheat Council estimates that nearly two-thirds of annual trade in wheat is exported with subsidies or credit guarantees or as aid. Argentina's share of international trade in wheat has halved since the 1950s. (The Economist, 24 August 1991).

\(^3\)Some policies can be applied to cope with fluctuations in the world market prices of such products. See Priovolos and Duncan (1991) for a review of World Bank research on the use of "hedging" techniques in futures markets to reduce the risks associated with price fluctuations.
Note V.1: Commodity price movements

According to recent unpublished estimates by the World Bank, commodity prices in real terms were at their lowest level in 90 years in the second half of the 1980s. Published data from 1948 (World Bank (1990b)) illustrate the continued decline in real prices for key Argentine exports. For example, cereals prices declined from 153.7 in 1948 (1979-81 average=100) to 49.7 in 1989 in real terms, while real prices in the fats and oils sector declined from 188.4 to 58.8 over the same period. Forecasts are that the index for cereals will continue to decline through 1992 to 45.5, recovering to 50.4 by 1995 and 57.8 in the year 2000. For fats and oils real prices are forecast to decline to 43.7 in 1991, recovering slightly by 1993 and then declining again to 46.0 in the year 2000. Beef prices are expected to decline in real terms through 1992.

Nominal prices for Argentina's traditional exports have shown substantial swings. Using an index with the 1979-81 average=100, nominal prices in US$ rose from a low of 42.4 for cereals in 1948 to a high of 117.6 in 1974, but in 1990 they had dropped again to an average of 78.5 for 1990. Recent data show that they continued to decline throughout 1990 (to 72.8) and recovered slightly in the first quarter of 1991. For fats and oils, nominal prices hit a low of 34.7 in 1962, peaked at 107.3 in 1984 and declined to 67.9 in 1990. Nominal beef prices are also expected to decline slightly through 1992.

The main reason why real agricultural commodity prices have been subject to secular decline - and seem likely to continue declining over the long term - appears to be linked to several key empirical factors. One is that agricultural products face low income elasticities: people will not keep on buying more food products in proportion to increments in their real incomes. The second is growth in labour- and land-productivity in agriculture through the adoption of new technologies and capital intensive techniques. Another factor is the use of various incentives by a number of countries to increase farm production even as their economies industrialize. For a discussion, see Anderson (1987). Anderson also argues - and this appears to be borne out in the case of Argentina - that a policy response of promoting an import-competing manufacturing sector "would only make things worse for farmers and the total economy as it would worsen the domestic terms of trade for the non manufacturing sectors as well as reduce national income and hence non-farm job prospects for farm household members".
Note V.2: Effects of Trade Liberalization in Agriculture

The effects of trade liberalization, including the reduction of domestic intervention, in agriculture have been the subject of extensive study in recent years - see, for example, Goldin and Knudsen (1990) and Islam and Valdes (1990) for some collections of studies.

With respect to price trends and price instability, Tyers (1990) and Anderson and Tyers (1991) make the point that trade liberalization could have reduced price instability, but it is unlikely to reverse the long-term decline in real commodity prices. However, there could be a structural shift which would lift prices to a higher, but still declining, trend line. The extent of this shift would be moderated by gradual liberalization.

A number of studies have made estimates of considerable gains to Argentina under various scenarios for the liberalization of world trade in agriculture. Among the partial equilibrium studies - focusing on sector policies and effects - with specific results for Argentina are those by Anderson and Tyers (1990) (AT), and Krissof, Sullivan and Wainio (1990) (KSW). Anderson and Tyers model global liberalization, i.e., in both developed and developing countries, while Krissof, Sullivan and Wainio model industrial country liberalization. Their results are:

<table>
<thead>
<tr>
<th>Annual Changes</th>
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<tbody>
<tr>
<td>Net foreign exchange earnings</td>
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<tr>
<td>KSW (1986 base)</td>
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The KSW results, in particular, demonstrate the importance of different assumptions used in the modelling exercises. Some of the variations are associated with assumptions concerning income multiplier and exchange rate realignment effects under different scenarios.

General equilibrium studies models are more complex and subject to extensive assumptions about economic behaviour. They are useful for exploring inter-industry relations. However, few such models are fully able to capture dynamic economic behaviour. One such model looking at OECD liberalization and with specific results for Argentina is by Frohberg, Fischer and Parikh (1990). Their results show an increase in agricultural production due to OECD liberalization in 1970 prices of 8.1 per cent 1990 and 13.9 per cent by the year 2000, while effects on overall GDP are negligible. There would be reduction in Argentina's trade deficit of 4.6 per cent in 1990 and 3.2 per cent in the year 2000.
278. The situation in the beef market is more complex because the product itself is quite differentiated by quality, and the market is also complicated by sanitary and phytosanitary regulations affecting imports of beef from areas where foot and mouth disease is considered to be endemic, including Argentina. Beef consumption in the United States (the largest market) has declined in recent years, while remaining more or less stable in other markets (Korea has emerged as a major importer). Beef prices in the U.S. market and other foot and mouth disease free areas have been firm in the second half of the 1980s - and this is expected to continue for the next few years, with the outlook depending to some extent on the responses to the opening of the Japanese and Korean markets. However, the prices fell in markets where foot and mouth disease is endemic (World Bank (1990b)).

279. Over the period 1970-88, the changes in Argentina’s agricultural export structure reflect the effects of the above constraints. The shares of grains and meat (traditionally Argentina’s major exports) have fallen, while oilseeds have grown to become Argentina’s largest agricultural export. Fishery and dairy products, however, have also grown rapidly.

280. Argentina’s agricultural sector has enormous capacity for expansion, mainly through further productivity gains. The main agricultural region – the Pampas in the central/eastern part of the country – has rich soil requiring minimal fertilizer supplements under normal crop rotation. This natural productivity contributes to some of the lowest costs in the world. According to Sturzenegger, Otrera and Mosquera (1990), variable production costs in 1987 were US$35 a ton for wheat, US$27 for maize, and US$80 for soya beans, or roughly two-thirds to one half of US production costs. Argentina also spans a number of climatic zones and has a number of soil types which permit the production of a range of crops, including grapes, fruits and even some tropical products. Most of these crops can be produced at prices competitive on the world market. Thus, Argentina has the capability of expanding agricultural production outside the traditional sectors which have been subject to declining terms of trade.

281. The main internal constraint on the growth of the agricultural sector has been explicit and implicit taxation, as mentioned in Chapter IV, partly for revenue purposes but also with the intention of increasing the size of the industrial sector. The disincentives to agriculture have included

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Foot and mouth disease is not endemic in all parts of Argentina, and there are negotiations underway with the United States to see if U.S. legislation can be amended to allow imports of beef produced in areas of the country which are free of foot and mouth disease.
export taxes, price controls for domestic sales, official prices for exports and export quotas. Following recent reforms, only a few products remain covered by export taxes. The agriculture sector, in particular, has also suffered from an overvalued currency and multiple exchange rates. There have been periodic reductions of the disincentives, including through tax exemptions and some subsidies on machinery inputs, but these were never adequate to offset the explicit and implicit taxation of the sector.

282. For various reasons, the agricultural sector has also suffered from lack of finance. It has little capital stock and little debt. With the removal of the above-mentioned disincentives, investment should be more profitable and could lead to significant productivity increases. Other restraints on the agricultural sector include poor infrastructural support, and there is scope for further encouragement of integrated systems of storage and transport from the farmgate to the export terminal. Thus, the sector has considerable potential for expansion through increased productivity as well as through increased acreages.

283. Explicit industrial promotion policies, together with import protection policies, have been used to foment industrialization in Argentina since the Great Depression, and, with greater intensity, since the mid-1940s. However, these policies have failed to stem the relative decline of the industrial sector in the last two decades (see Chapter I).

284. There appears to be a view in Argentina that the industrialization policy would have been more successful in a more stable macro-economic environment. However, the same conditions applied to other sectors, and agricultural exports also suffered from world price fluctuations and reduced export receipts in the 1980s. Moreover, other developing countries in the region were able to expand manufactured exports with more success than Argentina. Thus, the weight of evidence seems to point to the conclusion that, rather, the policies of protection and industrial promotion contributed to the macro-economic instability through their anti-export bias, which encouraged an import dependent industrial sector, allowed the fiscal burden of these policies to rise rapidly, and brought about an uncompetitive market structure conducive to cost-push dynamics. In this context the reforms of trade and industrial policy can be seen not merely as a complement to macro-economic reforms, but an essential component.

285. Special régimes for small sectors cover mining, forestry, fishery, shipbuilding, wine production and processing, sugar, tobacco, yerba maté and cotton and production of internal combustion engines. Chapter IV gives an indication of the investment incentives in a number of these sectors. Additional data is supplied below, where available.
286. In the detailed sector by sector discussion which follows, the focus is on the current situation, i.e., after the April 1991 reform. This includes tariff rates, non-tariff barriers and effective rates. Where historical data permit, comments are included on the situation prevailing prior to April 1991. This needs to be taken into account in evaluating the comments on the relative efficiency of specific industries. Some industries which now have relatively little protection may well have to make adjustments under the new trade régime.

287. In the case of quantitative restrictions, data on the four digit CCCN items affected were taken from GATT document NTM(TG)/W/5 and concorded to the NADI and to the GATT Tariff Study classification to obtain an estimate of the effect of quantitative restrictions in 1988. However, in a number of cases only part of the 4 digit CCCN category was affected. Accordingly, the data overstate the coverage of quantitative restrictions in 1988 in some cases. Full details can be obtained by consulting GATT document NTM/W/6/RW5 (for Governments only - not a public document).

288. Some care is also needed in interpreting the data on tariff escalation. In the GATT Tariff Study, on which the figures are based, processing stages are estimated sector by sector. If raw material or semi-processed material or parts used as inputs in later stages of production come from other sectors (i.e., Tariff Study categories) then this would not be taken into account in the estimates for any individual sector.

289. It is also to be noted that the production weights used in computing effective rates of protection (using World Bank data) are taken from the 1984 Industrial Census - the last complete set of industrial statistics collected in Argentina. This, together with other problems associated with the allocation of sectors to input and output categories, could lead to some inaccuracies in the effective rates for specific sectors and the groupings by GATT Tariff Study Category (grouped by the GATT Secretariat).

290. Another point to note is that data derived from industrial statistics (e.g., employment, number of establishments, value of production), which also come from the 1984 Industrial Census, are based on the United National International Standard Industrial Classification (ISIC), in which processing of agricultural products is considered as an industrial activity. Thus, the industrial census did not cover agricultural production such as cereal growing, ranching, forestry, fishing, mining, or service industries. However, vegetable oil production, slaughtering, smelting of ores, operations of sawmills, etc., were covered. Sometimes the processing of agricultural products is referred to as 'agro-based' industries.
(2) **Agriculture**

(i) **Oilseeds, fats, oils and their products**

291. Oilseeds, fats and oils, etc., today are Argentina's most valuable export, having overtaken grains. Exports grew at an annual average rate of 24.1 per cent in the period 1970-80, and at a rate of 9 per cent in the period 1980-88 to reach a value of US$2.9 billion in 1988 (Table V.1). The value would have been even higher but for a decline in international prices (World Bank (1990b)). Argentina has a few bilateral agreements for the supply of oilseeds and vegetable oils to other countries at negotiated prices.

292. Table V.2 and Chart V.1 show the producer subsidy equivalent (PSE) of the trade and exchange rate régime for soybeans (and other major agricultural producers) over the period 1982-1989. The strong negative impact of policies - including strong variations in such policies - affecting soybeans production is evident. It is to be expected that data for 1990 and 1991 would show a reduction in the negative impact of export taxes, although these remain at a level of 6 per cent for unprocessed oilseeds. On the other hand the exchange rate component should be near zero under current policies.

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5See Note V.3 for an explanation of the PSE concept.
Note V.3: Producer Subsidy Equivalent for Agriculture

The concept of Producer Subsidy Equivalent (PSE) has come to be used quite extensively in recent years as a gauge of the level of support to the agricultural sector. It is a concise way of expressing the value of transfers from Government policies to producers of a given commodity or group of commodities. The PSE can be measured: (i) by tracing the direct and indirect Government expenditures to producers; or (ii) by imputing the effects of policies by calculating the difference between actual domestic prices and what they would have been in the absence of trade interventions. Its advantage over measures of nominal protection is that it captures both the transfers from Government expenditures as well as the transfers from price distortions.

The calculation of a PSE

Webb, Lopez and Penn (1990) define the percentage PSE as the total transfers from Government programmes divided by a commodity's value to producers. The value to producers is the commodity's market value plus any direct Government payments, such as deficiency payments. It can be expressed mathematically as:

\[
\text{PSE} = \frac{\text{Total transfers}}{\text{Value to producers}} = \frac{Q(P_d - P_w X) + D + I}{Q P_d + D}
\]

where:

- \( Q \) is the quantity produced
- \( P_d \) is the producer price in domestic currency units
- \( P_w \) is the world price in world currency units
- \( X \) is an exchange conversion factor
- \( D \) is direct Government payments
- \( I \) is indirect transfers through policies such as input subsidies, marketing assistance or exchange rate distortions.

It should be noted that changes in world prices, exchange rates or domestic production can change the PSE even when Government policies remain unchanged. Also, since indirect transfers appear only in the numerator, the PSE can be altered by shifting transfers from indirect programmes to price support programmes or direct payments.

A negative PSE means that a commodity is being taxed instead of supported by Government policies, directly or indirectly.
293. The rapid growth in production of soybeans and sunflowers can be seen in Table V.3. Soybean production has grown from a bare 1,000 tons a year in 1960 to 9.8 million tons in 1988. Even in the 1980s, from a higher base, the average annual rate of growth in production reached 13.8 per cent. Sunflower production, from a higher production base than soybeans, expanded at 7.4 per cent a year in the 1980s. (The 1984 industrial census data indicate a value of production of US$1.6 billion and employment of 8,427. However, it seems likely, given the rapid growth of the sector, that these figures understate the present situation of the industry).

294. Argentina's share of world trade in soybeans (excluding soybean flours and oils) is 9.8 per cent, up from 8.6 per cent in 1980. The share was negligible in 1970. The value of its exports declined from US$605 million in 1980 to US$550 million in 1988 as prices declined. The major export items within the sector are vegetable oil residues (exports - US$1.4 billion), soybean oil (US$415 million), sunflower oil (US$374 million) make Argentina the world's leading exporter of vegetable oils.

Source: Roberts and Trapido (1991)
295. The potential for increased productivity from increased fertilizer use and more capital intensive methods in grain production in Argentina - mentioned above - also applies to oilseeds.

296. There are some imports of palm oil and coconut oils, but overall imports amounted to only US$8.4 million in 1988. Tariffs, based on 101 tariff lines, are zero for the whole sector (Table V.4).

297. The sector is now free of quantitative restrictions, but in 1988 Argentina reported having quantitative restrictions affecting 6 out 18 4-digit CCCN categories in the oilseeds sector (Table AV.5).

298. Health and safety regulations are applied to oils and fats of animal origin. Importers have to be registered with SENASA which issues import authorizations. For each operation the importer has to provide specifications of the product volume, country of origin and the name of the foreign producer. The export establishment has to be approved by the health authorities of the exporting country. For this reason, a sanitary certificate issued in the country of origin is required.

299. Table V.5 and Table AV.2 show an effective rate of protection of 17.7 for ISIC sector 31151 - Vegetable oils. As noted earlier, there appear to be some errors in the effective rates calculations. In view of the zero rates applying in this sector, the more likely correct result is that the effective rates are zero or even negative.

300. This higher level of export tax on soybeans than on soybean oil and meal led to United States' industry complaints that this benefitted the processor in Argentina through lower prices and an investigation was launched in 1986 under Section 301 of the United States Trade Act. The case was dropped after modifications in the taxes. The European industry took legal action to attempt to force the EC Commission to countervail Argentina for similar reasons, claiming that the differential taxes amounted to a subsidy for the crushing industry. This was rejected by the European Court of Justice.

(ii) Grains

301. Grains represent Argentina's second most valuable export, having slipped into second place after oilseeds, oils and fats. Exports declined from US$1.6 billion in 1980 to US$922 million in 1988, mainly because of the decline in international prices. The comments in the overview to this chapter, concerning the economic efficiency of the traditional Argentine farm sector and its implicit and explicit taxation in the past, apply particularly to grains. Argentina has a number of bilateral agreements for the supply of grains to other countries at negotiated prices.
302. Table V.2 and Chart V.1 show producer subsidy equivalents (PSE) of the trade and exchange rate régime for wheat, maize and sorghum (as well as oilseeds) over the period 1982-1989. The strong negative impact of policies in the grain sector is evident. However, variations in both the export tax and exchange rate components reflect the frequent shifts in policies in the 1980s in reaction to the repeated crises. It is to be expected that data for 1990 and 1991 should show a considerable reduction in the negative impact of export taxes, as these have now been eliminated for grains. The exchange rate component - reflecting the under- or over-valuation of the currency - became negative in 1988 with the re-introduction of a dual exchange rate penalising agriculture and then became positive in 1989. This should be near zero under current policies.

303. The effects of past policies are to some extent evident in production data. Wheat and sorghum production over the 1980s has been stagnant (Table V.3) although there have been substantial annual fluctuations. In the case of sorghum, total production remained steady, while acreage dropped by 50 per cent, because of the introduction of high-yield varieties. However, maize production expanded at an average rate of 4.6 per cent a year from 1980 to 1988. Rice production, while still of minor importance, also expanded at 4.7 per cent a year in the 1980s.

304. Argentina's share of world trade in maize was 4.9 per cent, up from 4.4 per cent in 1980, despite a decline in the value of its exports from US$513 million in 1980 to US$382 million in 1988. Maize exports dropped from 6.4 to 4.2 per cent as a share of Argentina's total exports. Argentina's share in world trade in wheat declined from 5.2 per cent in 1980 to 2.5 per cent in 1988, falling in value terms from US$861 million to US$355 million. As a share in Argentina's total exports wheat dropped from 10.2 per cent to 3.9 per cent. These data reflect price declines in the international market, in part associated with policy interventions by other countries. (There can be little doubt that reduced export returns in this sector have contributed to Argentina's recent balance-of-payments crises, particularly with other rigidities in the economy).

305. Apart from the domestic policy component, the grains sector has also been adversely affected by inefficient internal transport as well as the ports. However, most grains are now exported via private ports; some of this disadvantage has been reduced. Roberts and Trapido (1991) state that continually increasing costs of transporting sorghum to the coast, caused by the steady deterioration in Argentina's infrastructure, contributed, along with declining international prices, to farmers abandoning production of sorghum.

306. Another factor operating in the grain market is the rôle of the National Grains Board (Junta Nacional de Granos). This was originally set
up in the 1930s to fix and support basic prices for agriculture (and still has this power, although its use has become limited), thus pre-dating the main drive to import substitution in the manufacturing sector, and other populist government policies which drove down domestic grains prices. The Grains Board was the sole buyer and exporter of major grains until the 1970s. Today, the Grains Board operates in the market as a "witness operator" alongside private traders.

307. Previously the Grains Board had operated as the sole port elevator operator. However, some of the grain elevators were sold off to farm cooperatives in 1979 and the private sector was allowed to construct its own elevators. Grain lading capacity and efficiency increased in consequence.

308. The Grains Board has other functions, including the establishment of grading systems and marketing regulations. It also operates as the executing agency for government support programmes for marginal farmers. The Grains Board operates a barter programme whereby small- and medium-size farmers could exchange grains for production inputs such as diesel fuel, fertilizer and seed. Roberts and Trapido (1991) estimate that as much as 30 per cent of Argentina's farmers use some type of barter programme. It is understood that the role of the Grains Board is under further examination.

309. The potential for increased productivity in grain production in Argentina comes from two sources. One is that fertilizer use has been quite limited by world standards. Anderson (1991) shows that in 1985 chemical fertilizers were applied to arable land and permanent crops at an average rate of only 4 kg per hectare. This compares with 21 kg per hectare in Thailand - the next lowest country usage - 24 kg per hectare in Australia, 50 kg per hectare in Canada, 94 kg per hectare in the United States, and up to over 400 kg per hectare in Japan and Switzerland.  

310. Table V.3 also gives a clue to a second factor which could lead to increased agricultural productivity in Argentina. This is that tractor usage is also somewhat below average for Latin America, particularly in relation to its share of crops subject to extensive agriculture. The World Bank indicates that the stock of tractors is relatively old (with an average age of 18 years in 1987) and new investment could lead to increased productivity. Sturzenegger, Otrera and Mosquera (1990) confirm

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6 Data on overall fertilizer tonnage used in Argentina and other countries of Latin America confirms that the percentage share used in Argentina is considerably lower than its share of production (Table V.6).
productivity increases (and a reduction in the rural workforce) through increased mechanization (mainly supplied by machine contractors).

311. On the import side, there are relatively few imports of grains, principally some maize. Tariffs are now zero for the whole sector. The sector is now free of quantitative restrictions, but in 1988 Argentina reported having quantitative restrictions affecting all 7 4-digit CCCN categories in the grains sector (Table AV.5).

312. A phytosanitary certificate issued by the Fiscalization and Commercialization Service of the Secretariat of Agriculture, Livestock and Fisheries is required for imports. The importer also has to provide a sanitary certificate issued by the technical authority in the exporting country.

(iii) Animal and animal products

313. This sector includes live animals, fresh, chilled and frozen meats and meat products. It is one of the largest export sectors with exports valued at US$614 million in 1988, albeit down from US$972 in 1980 (Table V.1). Export growth had reached an annual average rate of 7.7 per cent between 1970 and 1980, and the slump since then represents an annual average rate of decrease of 5.6 per cent by value. As was noted earlier, one of the main constraints on Argentina's exports of beef is the fact that foot and mouth disease is considered to be endemic in parts of the country. Accordingly, in the United States and some other markets imports of beef from all parts of Argentina are banned. Imports amounted to only US$6.7 million in 1988, down from US$58.2 million in 1980.

314. Production in the industrial part of the sector (i.e., excluding grazing) in 1984 amounted to US$3 billion, dominated by meat slaughtering, where employment amounted to 49,246 out of a sectoral total of 64,515. The number of establishments in the sector was 1,392 (Table AV.4).

315. The average nominal import tariff for the sector, covering some 95 tariff lines, is 1.2 per cent, with a relatively low standard deviation (3.4), while the minimum and maximum tariffs in the sector are zero and 11 per cent, respectively. The average effective rate of protection for the meat processing sector is 10.6 per cent. This estimate is based mainly on meat slaughtering, which has an effective rate of 13.1 per cent or
45.5 per cent if tariff type measures and taxes are also included. It lies a little below the average of 12.4 per cent for all industry.

316. As might be expected the entire sector is covered by health and safety regulations. There are prohibitions on imports of live animals - mostly affecting neighbouring countries. Such temporary provisions depend on prevailing health conditions in the country of origin. In 1988 quantitative restrictions affecting 10 out of 15 4-digit CCCN categories in the sector (Table AV.5). Today the sector is free of quotas.

317. The National Meat Board (Junta Nacional de Carne), operating under the Secretariat of Agriculture, Livestock and Fisheries, has various control and service functions in the meat slaughtering industry. It covers livestock yard-sale supervision, meat classification, export quality control and information services. It is financed from a slaughterhouse levy of 1 per cent of animal value, and receives no budgetary allocation. Sanitary controls are the responsibility of SENASA.

(iv) Fish, shellfish and products

318. This sector includes fresh, chilled or frozen fish, crustaceans and molluscs, as well as the same products prepared or preserved in other ways.

319. Production in 1984 amounted to a modest US$388.4 million (Table AV.4). This is for the industrial part of the sector - canning, prepared and preserved fish, etc. - but excluding fishing itself. However, more recent trade figures suggest this could have expanded since the industrial census was taken. The workforce in 1984 was 11,842 and the number of establishments was 244.

320. Exports of fish, shellfish, etc., are substantial and are also growing strongly (Table V.1 and Table AV.3). In 1988 overall exports were US$265.8 million - showing an average annual rate of growth of 8 per cent since 1980 (and 43.9 per cent annually between 1970 and 1980). Of this, fresh chilled and frozen fish is the most important sub-sector with exports of US$161.3 million in 1988 (although the average annual growth rate had slowed to 3 per cent in the 1980s - down from an average annual rate of growth of 43.9 per cent in the period 1970-80). Fresh, chilled or frozen shellfish is the fastest growing sub-sector with annual average rates of growth of 25.5 per cent in the 1970s and 34.2 per cent in the 1980s. Exports in 1988 were worth US$87.8 million. Imports, which had been

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7Live animals are not included in industrial statistical classifications.
growing strongly in the period 1970-80, fell at an average annual rate of
10.4 per cent in the 1980s to US$9.6 million in 1988.

321. The average nominal import tariff for the sector - covering 55 tariff
lines - is 5.4 per cent, but there is significant dispersion and
escalation (Tables V.4 and AV.1). The minimum rate is zero and the maximum
is 22 per cent. Preserved or prepared fish attract an average duty rate of
16.5 per cent, while preserved or prepared crustaceans and molluscs have an
average rate of 12 per cent. Both of these sub-sectors have a minimum rate
of 11 per cent and a maximum of 22 per cent. Other sub-sectors have zero
rates.

322. The average effective rate is 3.5 per cent (11.2 per cent if other
tariff type measures are included - see Table V.5). Again, this is well
below average, meaning that this is a relatively economic sector which
remains penalized by the overall structure of industrial protection.

323. The sector is now free of quantitative restrictions, but in 1988
Argentina reported having quantitative restrictions affecting all 5 of the
4-digit CCCN categories in the sector (Table AV.5). While these have been
removed, health and safety regulations still affect the entire sector.
There is an inspection by SENASA at ports and airports. In the case of
processed fish products it is required to have an approval from the
Ministry of Public Health to guarantee that the product is "Safe for human
consumption".

(v) Foodstuffs

324. As might be expected, the production of foodstuffs in Argentina is a
relatively efficient sector of the economy. Following the tariff reform of
April 1991, the simple average nominal tariff protection for foodstuffs is
1.4 per cent, compared with an average of 9.5 per cent for the economy as a
whole (Table V.4). Average effective protection, based on tariffs only, is
estimated at 1.1 per cent compared with a production weighted average for
all sectors of 12.4 per cent.

325. Imports of foodstuffs come under 248 tariff items covering fruits,
vegetables, coffee, tea, cocoa, sugar, flours, cereal preparations, eggs,
honey, etc. The minimum nominal rate of duty in the sector is zero while
the maximum nominal rate is 22 per cent. However, high tariffs are unusual
and the tariffs are narrowly dispersed around the average. Among the
sub-groups, sugar confectionery has the highest average (11 per cent)
followed by coffee and tea extracts (8.8 per cent), prepared vegetables
(4.7 per cent), sugar (3.4 per cent), and semi-processed preserved fruits
(2 per cent. Other sub-groups have zero rates (Table AV.1).
326. There is some tariff escalation. Raw materials - about half the tariff lines - attract an average nominal rate of zero per cent. Semi-manufactured goods have an average nominal protection of 1.7 per cent, while the corresponding rate for finished goods is 3.4 per cent (Table V.6).

327. The highest level of effective tariff protection in the sector is 3.5 per cent for sugar refining (8.4 per cent if other tariff-type measures are included - Table AV.2). Bakery products and biscuits have negative effective tariff protection. However, with the sectoral average being little more than one quarter than that of industry as a whole, this sector remains penalized by the higher levels of protection available to other industries.

328. With respect to non-tariff measures, there are now no quantitative restrictions on imports. This compares with a situation in 1988 when 52 out 67 4-digit CCCN categories (77.6 per cent) in the foodstuffs sector were affected by quantitative restrictions (Table AV.5). The foodstuffs sector remains entirely affected by health and safety regulations, with the single exception of sugar confectionery. Imports of potatoes require a phytosanitary certificate. Natural dry yeast from Mexico has been under an anti-dumping investigation since January 1989.

329. Imports of foodstuffs by Argentina amounted to some US$173 million in 1988 - minor by comparison with exports which amounted to US$470 million in the same year. Imports and exports declined by annual average rates of 10 per cent and 6 per cent, respectively, from 1980 to 1988 (Table V.1 - for a more detailed breakdown, see Table AV.3). The main imports in 1988 were coffee (US$64.1 million), maté (US$26.1 million) cocoa butter and paste (US$11.3 million). Imports of potatoes - subject to strict phytosanitary requirements - fell from US$29.6 million in 1980 to some US$200,000 in 1988. The five main export groups by value were dry leguminous vegetables (US$67.6 million), fresh apples (US$56.5 million), fresh fruit, n.e.s. (US$54.7 million), raw sugar (US$54.6 million) and natural honey (US$28.9 million). However, there were substantial export sales of a range of foodstuffs. There were some significant items which showed strong export growth. These items - typical of the non-traditional sector - include prepared breakfast food (18.9 per cent average annual rate of growth in 1980-88), preserved fruits and nuts n.e.s. (18.2 per cent), fresh grapes (17 per cent), fresh fruit n.e.s. (7.4 per cent), and honey (5.5 per cent).

330. A "voluntary" restraint on the export of dessert apples to the EC is no longer applied.
331. Production in the processing part of the sector (as distinct from growing) amounted to US$5.7 billion in 1984 of which sugar refining was the most significant with a value added of US$1.5 billion. The workforce in 1984 was 138,349 - 11.8 per cent of industrial employment, making it also the largest employer in the Argentine industrial sector. In terms of employment the largest foodstuffs sub-sector was bakeries with 35,200 employees. The number of establishments in the sector was 18,404 (Table AV.4).

332. A National Sugar Fund was established in 1972 under Law No. 19.597. This was financed principally by a tax on domestic sales, originally set at 6 cents per kg, but variable up to 4 per cent of the sales price by the Government. A number of objectives were set for the fund, including: to study techniques of growing, harvesting and manufacture, as well as varieties; to finance approved mills; to finance small growers in improving techniques; to assist infrastructure projects; and to make up shortfalls from export sales and as compensation for exports of products containing Argentine sugar (Article 11e) of Law 19.597). The extent to which export growth of sugar or products containing sugar can be attributed to the operation of the latter feature of the Fund is not known. However, a certain amount of production must be exported annually. This is based on the United States' import tariff quota assigned to Argentina.

333. Sugar imports had been prohibited under this law, but the sector is now free of quantitative restrictions. Another feature of the law, with the intention of avoiding the accumulation of surplus production, was the prohibition of the installation of new refineries for a period of 10 years, but this did not limit the increase in production through improved efficiency of existing plants. According to the law, annual sugar production quotas are fixed on 31 March each year (Article 16) by the National Sugar Directorate in the Commerce Ministry (sic) (Article 2), under rules laid out in the law. Account is taken of expected consumption, stock maintenance and export requirements. The quotas are distributed among the producing provinces, and are transferable under certain conditions.

(vi) Cut flowers, plants, vegetable materials

334. This sector includes cut flowers, plants, natural gums and resins, vegetable plaiting materials, vegetable materials used in pharmaceuticals manufacture, and other crude vegetable materials n.e.s.

335. The sector is of minor importance in the trade of Argentina, with some US$14 million in imports in 1988 and US$6 million of exports (mostly vegetables materials used for pharmaceutical manufacture). Exports have
been relatively stable in the 1980s, but imports declined at an average annual rate of 7.4 per cent.

336. Nominal import tariffs throughout the sector - covering 102 tariff lines - are zero.

337. There are health and safety regulations. In particular, imports of plants are prohibited if soil is attached to the roots. However, the sector is now free of quantitative restrictions, whereas in 1988 Argentina reported having quantitative restrictions affecting 4 out of 10 4-digit CCCN categories in the sector (Table AV.5).

(vii) Beverages and spirits

338. This sector includes fruit and vegetable juices, wine, and other beverages and spirits.

339. Production in 1984 amounted to US$1.7 billion, with non-alcoholic beverages (including fruit juices and soft drinks) accounting for US$840 million and wine US$556 million. The total workforce in the sector was 39,058, with 19,199 employed in the non-alcoholic beverages sub-sector and 13,233 in wine-making. The number of establishments was 6,272 (Table AV.4).

340. Exports of beverages and spirits are of some importance to Argentina and are also growing strongly, particularly fruit and vegetable juices and wines (see Table V.1 and AV.3 for more details). In 1988, overall exports were US$96.4 million, showing an average annual rate of growth of 6.7 per cent since 1980 (and 31.5 per cent annually between 1970 and 1980). Of this fruit and vegetable juice exports were the more important with US$82.8 million in 1988 while wine exports were US$12.8 million. Imports, which had been growing strongly in the period 1970-80, fell rapidly in the 1980s to only US$4.5 million.

341. The average nominal import tariff for the sector - covering 54 tariff lines - is 10.6 per cent, but there is significant dispersion (Table V.4). The minimum rate is zero and the maximum is 22 per cent.

342. The average effective rate is 1.6 per cent or 5.6 per cent, if other tariff-type measures are included (Table V.5). Since this is well below average, this means that this is a relatively economic sector which remains penalized by the overall structure of protection in the economy. Within the sector the production of beer and cider is relatively efficient with effective rates of 0.9 per cent. Spirits and wine production have effective rates of 4.4 per cent and 4.5 per cent, respectively - still economic by overall standards for Argentine industry.
343. Imported spirits, wines and juices require an Analysis Certificate provided by the country of origin. A sample of the product is analysed in Argentina, and, if the results fulfil the national regulations (enacted in accordance with the Codex Alimentarius), a Certificate of Free Circulation is issued. The sector is now free of quantitative restrictions, but in 1988 quantitative restrictions affected all 10 4-digit CCCN categories in the sector (Table AV.5).

(viii) Dairy products

344. This sector includes fresh, evaporated, condensed or dry milk and cream as well as butter, cheese and curd.

345. Production in 1984 amounted to US$1.5 billion. The workforce was 20,880 and there were 1,892 establishments (Table AV.4).

346. Exports of dairy products have grown rapidly (Tables V.1 and AV.3). In 1988 overall exports were US$57.8 million - showing an average annual rate of growth of 13.4 per cent since 1980 (and 27.25 per cent annually between 1970 and 1980). Of this, dried milk and cream and cheese and curd exports were the most important items with US$30.5 million and US$25.8 million, respectively, in 1988. Imports, which had been growing strongly in the period 1970-80, fell in the 1980s to only US$5.4 million, dispersed relatively evenly among different products.

347. Nominal import tariffs for the sector - covering 34 tariff lines - are zero. As might be expected the production of dairy products is highly economic in Argentina, and this sector is also penalized by the general structure of protection in the economy.

348. There has evidently been some import competition in the past, although modest. Minimum prices were set for certain cheeses coming from Austria, the European Communities, Finland and Switzerland in 1981, while an investigation of subsidies was proceeding. It is understood that this terminated shortly thereafter. 8

349. Health and safety regulations affect imports of all products in the sector. The sector is now free of quantitative restrictions, but in 1988 Argentina reported having quantitative restrictions affecting all four 4-digit CCCN categories in the sector (Table AV.5).

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8 See Guia Practica No. 412, page 12, reference X 44 for details.
350. Support prices are set for butterfat under Law 23.359 and Decree 1611/86 by the Milk Policy Commission (Comisión de Concertación de Política Lechera - COCOPOLE) under agreement between the producers and manufacturers. If agreement is not reached, the Secretariat for Agriculture, Livestock and Fisheries sets the price. Prices are set for the base level of production - also determined by the commission - and for surplus production. The details of price setting are not known to the GATT Secretariat. The Commission also determines the distribution of the resources of the Dairy Activity Promotion Fund (Fondo de Promocion de Actividad Lactea - FOPAL). According to the Government, this is essentially a compensatory private fund established by the private sector. There are no government subsidies involved.

351. As noted in Chapter II, Argentina is a member of the International Dairy Agreement, created at the end of the Tokyo Round.

(ix) Tobacco

352. This sector includes unmanufactured tobacco as well as manufactured tobacco in the form of cigars, cigarettes, etc.

353. Production (excluding growing of tobacco) in 1984 was valued at US$898 million - of which cigarette production was US$843 million - and total employment was 6,150 of which 2,060 person were employed in the preparation of leaves and 3,846 in cigarette manufacture. The number of establishments in the preparation of leaves was 97, but there were only 7 cigarette manufacturing facilities (Table AV.4).

354. Unmanufactured tobacco makes up almost all of the sectors' exports, which were worth some US$47 million in 1988 (see Table V.1 and Table AV.3 for more details). Exports of unmanufactured tobacco have also been growing quite strongly, at an average annual rate of 7.3 per cent in the 1980s and 15.5 per cent in the period 1970-80. Imports, which had been growing strongly in the period 1970-80, fell in the 1980s to only US$832,000.

355. The average nominal import tariff for the sector - covering 17 tariff lines - is 9.7 per cent, but there is significant dispersion and escalation (Table V.4). The minimum rate is zero and the maximum is 22 per cent. Unmanufactured tobacco attracts an average rate of 9 per cent, while the average rate for manufactured tobacco is 11 per cent.

356. The average effective rate is 30.4 per cent (48.9 per cent if other tariff type measures are included - see Table V.5 and Table AV.2). While the preparation of leaves is efficient by the standards of all Argentine industry - with an average effective rate of 1.7 per cent - the manufacture
of tobacco ranks as the most uneconomic sector of Argentine industry, drawing resources away from the rest of the economy.

357. Imported tobacco, whether manufactured or unmanufactured, is subject to government inspection procedures. In 1988, manufactured tobacco (but not unmanufactured tobacco) was also subject to quantitative import restrictions.

358. A Permanent National Advisory Commission on Tobacco was established in 1972 under Law No. 19.800 - which with Law 23.074 of 1984 governs the industry. The Advisory Commission has a number of technical functions concerned with grading tobacco and improving quality, etc. The same law established a Special Tobacco Fund to finance support prices - fixed by the Government - for the growing industry. A maximum percentage was set for the share of this support in each producer’s income, on a diminishing scale starting at 56 per cent in 1974 to 40 per cent in 1978. An additional emergency amount was also established. It is understood that the fund is principally financed by a 7 per cent tax on the sales price of each packet of cigarettes. This is not applied to export sales.

(x) Other agricultural products of animal origin

359. This sector includes uncombed coarse hair, bones, ivory, horns, etc., and animal materials, n.e.s.

360. Trade in the sector is of minor importance and declined in the 1980s. Exports amounted to US$10.1 million in 1988 while imports were US$2.4 million.

361. Nominal import tariffs for the sector - covering 41 tariff lines - are zero.

362. Health and safety regulations affect imports. See the description in the case of oilseeds, above. The sector is now free of quantitative restrictions, but in 1988, Argentina reported having quantitative restrictions affecting 7 out of 12 4-digit CCCN categories in the sector (Table AV.5).

(xi) Other agricultural products of vegetable origin

363. This sector includes green and dry hay fodder, plants for dyeing and tanning, seeds for planting, food waste and feed, bran, pollard, sharps, etc., and meat or fish meal fodder.

364. In 1988, overall exports were US$45.5 million, down from US$116 million in 1980 and lower even than the 1970 figure - see Table V.1
(and Table AV.3 for more details). The decline was mostly concentrated in bran, pollard, sharps, etc., where exports declined at an average annual rate of 21.2 per cent in the 1980s. Imports - mainly seeds for planting - which had been growing strongly in the period 1970-80, fell rapidly in the 1980s to US$16 million.

365. Nominal import tariffs for the sector - covering 17 tariff lines - are zero.

366. There are no health and safety regulations affecting imports. The sector is now free of quantitative restrictions, but in 1988 Argentina reported having quantitative restrictions affecting 7 out of 14 4-digit CCCN categories in the sector (Table AV.5).

(3) Industry

(i) Coal, petroleum, natural gas

367. The energy sector draws on Argentina's own extensive reserves of oil, gas, hydro-electric power and uranium, with about half the energy supply being derived from oil and one third from gas. The State-owned institutions - which are to be privatized (see Chapter I) - have been a drain on the State's resources because, hitherto, there was no coherent linkage between the prices they charged and international prices, for example, in the case of oil, or to marginal costs. The institutions were unable to resist pressures by special interest groups for special prices. Accordingly, complex distorted pricing evolved, covering neither production costs nor opportunity costs. Taxation also tended to favour gas and electricity over oil. "Energy taxation is characterized by a high level of taxation, a complex system of specific taxes, inflexible earmarked funds, and multiple taxation at many stages. The overall impact of the pricing and taxation system is to create severe distortions for both producers and consumers, to create financial problems for public energy companies and to lead to wasteful energy use" (World Bank (1990a)).

368. Whereas final consumers of gas and electricity paid prices below economic costs, consumers paid more than costs for refined petroleum because of taxes, while the private petrochemical companies paid below economic and financial cost. (For example, fertilizer producers paid only about 75 per cent of the economic cost of petrochemical feedstocks, while methanol producer paid less than half. However, more than full costs were being recovered from the cement, power, general industrial, commercial and residential sectors). The consequence was significant distortion of energy supply and demand with economy-wide effects.
369. Through the pricing policies of the State-owned energy institutions, the Government had been providing large subsidies to the private sector (and the provinces). It has been estimated that the subsidies in the petroleum sector alone were worth US$2,200 million a year (World Bank (1990)), of which US$1,300 went to the private sector through under-pricing, US$327 to the provinces as excess royalty payments and US$5-600 million for the costs of the "Compre Argentino" policy.

370. The economics of exploration and production have been severely affected by past pricing policies and, in consequence, investment has lagged behind energy needs. During the 1980s the production of crude oil declined although the number of production wells increased. Gas supplies have been increasing at a rate of 5 per cent a year, but reserves are now thought to be some 25 per cent below initial estimates. Thus, increased investment in oil and gas exploration is required to maintain and, if possible, to expand production.

371. Production of oil refineries in 1984 was valued at US$7.8 billion and US$246 million in petrochemicals. The workforce in refineries was 8,152 and 2,439 in petrochemicals. There were only 12 refineries and 140 petrochemical establishments (Table AV.4).

372. Exports of the sector were worth US$156.5 million in 1988 (Tables V.1 and AV.3) and covered a range of products, including gasoline, residual fuel oils, crude, distillate fuels, etc. Kerosene exports (US$243.8 million in 1980) dropped to a mere US$7.2 million in 1988. This is the main reason for the overall decline in exports of the sector, since exports of a number of products grew strongly in the 1980s - albeit from relatively low levels. Imports, mainly of natural gas (US$224.1 million), residual fuel oils (US$78.4 million), coal (US$74.7 million), amounted to US$500 million in 1988 - less than half of the 1980 value. The overall figure was clearly affected by the reduction in crude petroleum imports from US$533.5 million in 1980 to some US$3,000 in 1988. This cannot be directly linked to increased production; petroleum production declined from 28.6 millions of cubic metres in 1980 to 26.1 millions of cubic metres in 1988 (Table V.7). The level of economic activity in the country was most certainly a contributing factor, but cannot fully explain this decline. It seems likely that import controls were applied to curtail imports in the sector for economic reasons. In 1988 6 out of 15 4-digit CCCN items in the sector were subject to quantitative restrictions (Table AV.5)).

373. The average nominal import tariff for the sector - covering 85 tariff lines - is 1.9 per cent, but there is significant dispersion (Table V.4). The major items are duty free, while products derived from coal, petroleum or gas attract average rates of 3.1 per cent for semi-manufactures and
9.5 per cent for manufactures, and there is significant dispersion of rates in those sectors between the minimum of zero and the maximum of 11 per cent.

374. The average effective rate is 0.2 per cent (10.2 if other tariff type measures are included) - see Table V.5 (and Table AV.2 for more details). This would make petrochemicals one of the most economic sectors of Argentine industry, which is to be expected given the sector's access to natural gas and petroleum resources. Historically, petrochemical prices have been high, but industrial re-structuring or closure of small-scale plants could lead to a more outward-oriented sector.

(ii) Ores and metals

375. The ores and metals sector covers a wide range of products from all ferrous and non-ferrous ores through various stages of processing to basic metal manufactures. Argentina has significant deposits of non-ferrous metals - although minor by Latin American standards (Table V.7) - but no iron ore. Iron and steel exports are therefore produced from imported ore (and coking coal). With substantial exports and imports of similar iron and steel products, Argentina's intra-industry trade in this sector amounts to 30 per cent in 1988, compared with an economy wide-average of 22 per cent.

376. In the industrial part of the sector (excluding ores), the number of establishments was 15,021 in 1984, with an average workforce of 131,823 (11.2 per cent of the total industrial workforce) and a value added of US$6 billion, according to the 1984 industrial census (Table AV.4). Basic iron and steel was the largest sub-sector with 270 establishments, a workforce of over 40,000 and a value of production of US$2.4 billion.

377. Some data on production of wire rod, pig iron, steel, flat and non-flat rolled steel from 1970 to 1988 are included in Table V.8, as well as comparator data for Latin America as a whole. Production of wire rod, pig iron and steel production continued to grow from 1960 through 1988. Production of pig iron and steel did not expand so rapidly in the 1970s and 1980s as it had in the 1960s. There was a slow down in the 1988. Production reached 458,800 tons of wire rod, 1.7 million tons of pig and 3.7 million tons of steel in 1988. Production of rolled steel stagnated in the 1980s at a level of 1.4 million ton for flat rolled steel and 1.2 million tons of non-flat rolled steel in 1988.

\footnote{Calculations by the GATT Secretariat - see Chapter I for a discussion.}
378. The ores and metals sector is the third largest export sector with exports of US$919 million in 1988, after oilseeds and grains. It is also growing rapidly: exports from the sector achieved an average annual rate of growth of 23.1 per cent in the period 1970-80 and 12.1 per cent annually in the 1980s (see Table V.1 and Table AV.3 for details). The largest export items by value in 1988 are seamless iron and steel tubes (US$184.8 million), unwrought aluminium alloys (US$135.7 million), and thin, uncoated iron and steel plate (US$122.5 million).

379. This is also the third largest sector in terms of imports (after non-electrical machinery and chemicals). Imports, which had been growing strongly in the period 1970-80, fell in the 1980s to only US$832,000. The largest import item by value in 1988 was iron and steel coil for re-rolling (US$231.4 million), followed by iron ore (US$102.3 million).

380. The average nominal import tariff for the sector - covering 768 tariff lines - is 10.7 per cent, but there is significant dispersion (Table V.4). The minimum rate is zero and the maximum is 22 per cent. Metallic ores, iron and steel scrap, etc., are duty free, but most of the rest of the sector enjoys some protection. The sub-sector with the greatest level of tariff protection is cutlery with an average rate of 18.8 per cent, followed by household equipment with 18 per cent. Tools attract an average rate of 16.6 per cent. Most unwrought and semi-manufactured non-ferrous metals are dutiable at 11 per cent, with the exception of semi-manufactured copper whose nominal protection is an average of 4.8 per cent. Unworked iron and steel attracts an average nominal rate of 10.2 per cent, ferro-alloys an average rate of 8 per cent and iron and steel semi-manufactures a rate of 9.6 per cent.

381. The average effective rate is 3.1 per cent (6.8 per cent if other tariff type measures are included) (see Table V.5 and Table AV.2 for more details). Most sub-sectors are lower than the average, but the basic iron and steel has an effective rate of 4.8 per cent (although not all firms within the sector would be equally efficient). Thus, the ores and metals sector ranks as one of the more economic sectors of Argentine industry, and is also penalized by the general structure of protection.

382. The relative sensitivity of iron and steel has resulted in some anti-dumping actions in the sub-sector. For example, an anti-dumping investigation on seamless steel tubes for petroleum - NADI item 73.18.01.01.00 - from Japan was launched in 1981 (Guia Practica No. 412, Note X 11). An anti-dumping investigation on seamless steel tubes other than for petroleum - NADI item 73.18.01.01.00 - from Japan was launched in 1981 (Guia Practica No. 412, Note X 7). Pending an anti-dumping investigation initiated in 1981, minimum export prices were set for export of some zinc coated iron and steel plates - NADI items 73.13.05.02.01 and
03.05 - coming from the European Communities and South Africa (Guia Practica No. 412, Note X 17). The preventative minimum c.i.f. values were set at US$592 per ton for sheets less than 0.65 mm, US$559 per ton for sheets from 0.65 mm to 1 mm, and US$539 per ton for sheets greater than 1 mm thick. Also, in 1981, an anti-dumping investigation was launched against some cold-draw iron and steel tubes - NADI items 73.18.01.01.26 and 28 - from Germany and Japan. None of these actions are current, since anti-dumping actions are terminated within two years under the Customs Code (Law 22.115, Article 721).

383. Imports of some unwrought aluminium products require authorization. There are also technical standards applying to imports of aluminium sheets.

384. The sector is now free of quantitative restrictions, but in 1988 Argentina reported quantitative restrictions affecting some 48 out of 121 4-digit CCCN categories (39.7 per cent) in the sector (Table AV.5).

(iii) Precious stones and precious metals

385. This sector includes diamonds and other precious and semi-precious stones, precious metals and their ores (with the exception of gold). It also covers imitation jewellery, carved and moulded goods, and non-gold coin.

386. Trade in the sector is minor. Exports amounted to US$707,000 in 1988 while imports were US$3.6 million (see Table V.1 and Table AV.3 for details).

387. The average nominal import tariffs for the sector - covering 38 tariff lines - is 10.7 per cent, with substantial dispersion around the mean. There is some tariff escalation with the average rate on items classified as raw materials estimated at 7 per cent, while the average rate on semi-manufactured items is 8.1 per cent, and the rate on finished goods is 22 per cent (Table V.6).

388. There are no known non-tariff measures currently operating in the sector, but in 1988 Argentina reported quantitative restrictions affecting 9 out 14 4-digit CCCN categories in the sector (Table AV.5).

(iv) Raw hides and skins, leather and furskins

389. This sector includes all kinds of hides and skins, as well as some leather manufactures such as belts, harnesses, leather and fur clothing and accessories. However, travel goods and footwear are classified elsewhere.
390. Production in 1984 amounted to US$766 million, of which 85 per cent was generated by tanneries. The workforce in the tanneries was 13,474 and there were 519 such establishments (Table AV.4).

391. Exports of the sector are substantial, amounting to US$441.2 million in 1988 while imports were US$2.3 million (see Table V.1 and AV.3 for details). Exports, which grew strongly in the 1970s, fell at an average annual rate of 2.6 per cent in the 1980s. The major sub-sector is bovine leather, whose exports continued to grow in the 1980s and which were worth US$359.2 million in 1988.

392. The average nominal import tariff for the sector - covering 50 tariff lines - is 12.1 per cent, with only a narrow dispersion of rates around the mean. The minimum rate is zero and the maximum is 22 per cent. There is some tariff escalation with the average rate on items classified as raw materials and semi-manufactures estimated at 11 per cent, while the average rate on finished goods is 17.9 per cent.

393. The average effective rate for the sector is 11.8 per cent (21.8 per cent counting other tariff-type measures) (see Table V.5 and Table AV.2 for more details). Within the sector tanneries are the least economic sub-sector with an effective rate of 13.8 per cent (25.5 per cent counting tariff-type measures) - just above the average for the whole industrial sector. Other sub-sectors are quite economic and suffer from the general structure of protection.

394. Imports of raw hides, furskins and semi-manufactures articles require prior import authorization for health and safety reasons. No quantitative restrictions remain, whereas in 1988 16 out of 17 4-digit CCCN items were reported as subject to quantitative restrictions (Table AV.5).

(v) Rubber

395. This sector includes natural and synthetic rubbers and a number of semi-manufactured and manufactured rubber articles, such as tyres, belting, clothing, including gloves, and hygienic unhardened rubber.

396. Production in 1984 amounted to US$772 million of which tyres accounted for US$453 million. The workforce was 17,629 of which tyres was 36.3 per cent, and the number of establishments was 845 (with only 35 establishments in the tyres sub-sector) (Table AV.4). Tyre production was just under 5 million units in 1988, down from 5.6 million in 1980 (Table V.8).

397. Trade in the sector is modest. Exports amounted to US$65.3 million in 1988 while imports were US$91.8 million (see Table V.1 and Table AV.3
for details). On the export side, tyres and tubes ((US$34.8 million in 1988) and synthetic rubber (US$19.1 million) are the most important, and both grew strongly in the 1980s - 47.2 per cent and 18.8 per cent annual average growth rates, respectively. Natural rubber is the principal import (US$40.8 million in 1988) and continued to grow at an annual average rate of 12 per cent in the 1980s. Other rubber imports declined in the 1980s.

398. The average nominal import tariff for the sector - covering 98 tariff lines - is 9.1 per cent, with considerable dispersion of rates around the mean. The minimum is zero and the maximum rate is 22 per cent. There is tariff escalation in the sector with the average rate on items classified as raw materials estimated at 2.9 per cent, while the average rate on semi-manufactured items is 8.3 per cent, and the rate on finished goods is 12 per cent.

399. The average effective rate for the sector is 7.8 per cent (15.4 per cent counting other tariff-type measures) (see Table V.5 and Table AV.2 for more details). This level - still significantly below the industrial average and therefore indicative of a relatively economic activity - is heavily influenced by tyres, whose effective rate is 9.7 per cent, more than double that of the next nearest sub-sector.

400. There are no known non-tariff measures currently operating in the sector, but in 1988 Argentina reported having quantitative restrictions affecting 13 out 16 4-digit CCCN categories in the sector (Table AV.5).

(vi) Wood and cork

401. This sector includes a wide range of products and activities from logging operations through to manufacturing, including prefabricated housing, doors and windows. Among the products are fuel wood, charcoal, pulpwood, logs, plywood, pit props, poles, posts, railway sleepers, lumber, veneer sheets, fibreboard, boxes, cork and cork manufactures, etc. The sector does not include furniture.

402. Production in 1984 amounted to US$671 million of which the activities of saw mills accounted for US$241 million. The workforce was 35,164 (3 per cent of the total for all industry) and the number of establishments was 9715 (Table AV.4).

403. Trade in the sector is modest. Exports amounted to US$40.0 million in 1988 while imports were US$41.6 million (see Table V.1 and Table AV.3 for details). Exports, mainly of pulpwood, have been growing strongly although from a very low base - at an annual average rate of 43.8 per cent in the 1970 and 31.4 per cent in the 1980s. Imports are quite diversified within the sector(except for pulpwood). They had been growing at an annual
average rate of 9.9 per cent in the 1970s, but they declined at an annual average rate of 17.3 per cent in the 1980s.

404. The average nominal import tariff for the sector - covering 119 tariff lines - is 11.9 per cent, with only a narrow dispersion of rates around the mean. The minimum is zero and the maximum rate is 22 per cent. There is virtually no tariff escalation with the average rate on items classified as raw materials estimated at 11 per cent, while the average rate on semi-manufactured items is 10.6 per cent, and the rate on finished goods is 13.2 per cent.

405. The average effective rate for the sector is 4.5 per cent (8.5 per cent counting other tariff-type measures) (see Table V.5 and Table AV.2 for more details). Sawmills and carpentry have the highest effective rate - 6.7 per cent and 5.7 per cent, respectively - still well below the industrial average and therefore relatively economic.

406. Pinewood imports are subject to inspection procedures. Cork in the rough is subject to health inspection, and there are technical standards for semi-manufactured cork products. Otherwise, there are no known non-tariff measures currently operating in the sector, although quantitative restrictions affecting 21 out 29 4-digit CCCN categories in the sector in 1988 (Table AV.5).

(vii) Pulp, paper and paperboard

407. Apart from different types of pulps, papers and paperboards, this sector also includes newspapers, magazines and printing and binding.

408. Production in 1984 amounted to US$2.9 billion. Paper and cardboard manufacture was the most significant with a value added of US$888 million while printing and binding was not far behind with US$813 million. The workforce was 52,560 - 4.8 per cent of industrial employment. The print and binding sub-sector was the largest employer with over 21,000 and the number of establishments was 3,774 out of a total of 5,206 for the sector (Table AV.4). Pulp production, however, grew rapidly - at an annual rate of 8.5 per cent in the 1980s - to reach 615,000 tons in 1988 (Table V.8). Newsprint production expanded at a similar rate to reach 223,400 tons in 1988.

409. Exports amounted to US$136 million in 1988 - up 9.6 per cent in the 1980s - while imports declined from US$395.5 million in 1980 to US$103.3 million in 1988 (see Table V.1 and Table AV.3 for details). Sulphite wood pulp exports were US$42.8 million in 1988 and had not previously been exported. Kraft paper and paperboard was significant at US$23.1 million in 1988 (and growing at an annual average rate of
12.9 per cent in the 1980s), followed by paper containers (US$18.5 million - up from US$365,000 in 1980) and printed books (US$15.6 million, in decline at an annual rate of 12.4 per cent in the 1980s). Imports of newsprint - the major import at US$20.7 million in 1988 - have dropped rapidly in the 1980s and are now less than half the 1970 figure. While there is a range of paper imports almost all sub-sectors declined in the 1980s.

410. The average nominal import tariffs for the sector - covering 203 tariff lines - is 7.3 per cent, with a wide dispersion of rates around the mean. The minimum is zero and the maximum rate is 22 per cent. There is significant tariff escalation with the average rate on items classified as raw materials - mainly paper pulp - estimated at zero, while the average rate on semi-manufactured items is 7.5 per cent, and the rate on finished goods is 8.7 per cent.

411. The average effective rate for the sector is 2.3 per cent (5.3 per cent counting other tariff-type measures) (Table V.5 and Table AV.2 for more details). In general, this appears to be an industry with a natural comparative advantage and a long history in Argentina. However, not all production units in the pulp and paper sector are of minimum efficient scale of production and some re-structuring may be necessary as the industry is opened up to further competition. The recession has had adverse effects on demand, but exports are continuing to climb while imports are falling.

412. No import quotas currently affect paper pulp, compared to the 1988 situation when quantitative restrictions affecting 23 out 30 4-digit CCCN categories in the sector (Table AV.5).

413. There is a surcharge of 30 per cent on the normal tariff rate affecting the import of Spanish-language books printed in non-Spanish-language countries.

(viii) Textiles and clothing

414. This sector includes all kinds of fibres, textiles and manufactured articles from blankets, carpets and rugs, clothing and ropes.

415. Production in 1984 amounted to US$6,234 million, of which textile fabrics (US$1,558 million) and other clothing (US$1,460 million), and spinning (US$978 million) were the three largest sub-sectors in terms of value of production. The workforce was 134,825 - 11.5 per cent of the national industrial workforce - and there were 14,921 establishments (Table AV.4).
416. Trade in the sector is substantial. Exports amounted to US$510.7 million in 1988 while imports were US$82.1 million (see Table V.1 and Table AV.3 for details). Exports grew strongly in the 1970s - at an annual average rate of growth of 14.6 per cent - but the growth rate dropped back to 1.1 per cent annually in the 1980s. Among the large value items which achieved maintained high rates of growth in the 1980s wool yarns, with an export value of US$56.9 million in 1988 stands out with an average growth rate of 46.9 per cent. Woven fabrics are also growing impressively but they still are modest in value terms. Imports, which are quite diversified throughout the sector, dropped dramatically in the 1980s from US$434.7 million in 1980 to US$82.1 million in 1988. The decline occurred in virtually all sub-sectors.

417. The average nominal import tariff for the sector - covering 1,112 tariff lines - is 17.9 per cent, with a relatively narrow dispersion of rates around the mean, although the minimum is zero and the maximum rate is 22 per cent. There is significant tariff escalation, particularly between the raw materials and later stages. The average rate on items classified as raw materials estimated at 8.5 per cent, while the average rate on semi-manufactured items is 18.4 per cent, and the rate on finished goods is 19.3 per cent.

418. The average effective rate for the sector is 4.8 per cent (8.1 per cent counting other tariff-type measures) (Table V.5 and Table AV.2 for more details).

419. Non-tariff measures applying to imports are now of minor importance in the sector, but in 1988 Argentina reported having quantitative restrictions affecting all 87 out 108 4-digit CCCN categories (80.6 per cent) in the sector (Table AV.5). Today, cotton is subject to health inspection. Used clothing requires a certificate of disinfection. Acrylic fibre tops from Mexico were subjected to an anti-dumping duty of 23.99 per cent on 30 August 1991 (Table IV.9).

420. Argentina has signed agreements with the European Communities and the United States under the MFA. Bilateral export restraint agreements with the EC cover cotton textiles, cotton yarns and woollen tops. Bilateral export restraint agreements with the United States affect women's and children's woollen trousers.

(ix) Mineral products and fertilizers

421. This sector includes stone, sand, gravel, lime, hydraulic cements, glass and crude and manufactured fertilizers and pesticides. The manufacture of ceramics, bricks, tiles and refractory products is covered.
422. Production in 1984 was valued at US$2,125 million, the workforce was 70,208 and there were over 11,000 establishments (Table AV.4). Glass, a well developed sub-sector with a value added of US$379 million and a workforce of 11,625, is the largest sub-sector. In terms of value of production, cement is the second largest sub-sector (with a production value of US$341 million), followed by ceramics (US$282 million), non-metallic mineral products (US$274 million and fertilizers/pesticides (US$219 million). However, in terms of employment, ceramics was the second largest sub-sector with a workforce of 10,857, followed by articles of cement (8,123) and cement (6,388). The cement industry produced 6.5 million tons of cement in 1988, down from almost 7 million tons in 1980 - a contraction which is most likely associated with the general slowdown in economic activity. Fertilizer production reached 43,400 tons in 1988, showing an annual average growth rate of 6.5 per cent in the 1980s (Table V.8).

423. Because of the relatively high weight/value ratio for many products of the sector, trade is somewhat constrained. Also transport costs and frequency of service on some routes are believed to have hindered attempts to develop glass exports (especially bottles). Exports amounted to US$57.5 million in 1988 (achieving a growth rate of 6.7 per cent on average in the 1980s) while imports were US$145 million, down from US$273.4 million in 1980 (see Table V.1 and Table AV.3 for details). Exports were diversified within the sector, with the single largest item being non-refractory bricks (US$13.6 million). Chemical fertilizers were the largest block of import items with a combined value of US$48.5 million. However, imports were also quite diversified.

424. The average nominal import tariff for the sector - covering 325 tariff lines - is 6.7 per cent, with significant dispersion of rates around the mean. The minimum is zero and the maximum rate is 22 per cent. Tariff escalation is pronounced with the average rate on items classified as raw materials estimated at 0.2 per cent, while the average rate on semi-manufactured items is 5.4 per cent, and the rate on finished goods is 11.4 per cent.

425. The average effective rate for the sector is 1.0 per cent (2.5 per cent counting other tariff-type measures; see Table V.5 and Table AV.2 for more details). The highest effective rate within the sector is 2.3 per cent for glass. The implication is that this is a highly economic sector which is also adversely affected by the general structure of protection in the economy.

426. There are health and safety restrictions on the import of crude and manufactured fertilizers. All importers, exporters, traders and producers have to be registered at the Fertilizer Directorate in the Secretariat of
Agriculture, Livestock and Fisheries. In 1988 Argentina reported having quantitative restrictions affecting 67 out of 86 4-digit CCCN categories (77.9 per cent) in the sector (Table AV.5).

(x) **Chemicals**

427. This sector includes a wide range of products: organic and inorganic chemicals, tanning materials, colouring materials, paints, varnishes, medical and pharmaceutical products, plastics, essential oils, perfumes, cosmetics, soaps, cleaning preparations, etc.

428. Production in 1984 amounted to US$7,409 million, making chemicals the second largest industrial sector after oil refining. The workforce was 108,503 and the number of establishments was 5,506 (Table AV.4). The largest sub-sectors were pharmaceuticals, with a value of production of US$1,385 million (and 21,391 employees), other basic chemicals - US$1,385 million production (and 8,848 employees) and plastic products with a value of production of US$1,235 million (and 31,704 employees).

429. Trade in the sector is substantial and diversified, both with respect to exports and imports. Chemical products were Argentina's fourth largest export group, amounting to US$658.8 million in 1988, up from US$383.8 million in 1980. Imports were valued at US$1.2 billion, only slightly down from the level in 1980 (Table V.1 and Table AV.3 for details). The largest export sub-sector in 1988 was products of polymerization with a value of US$155.3 million. It was also the fastest growing sub-group with an annual average growth rate of 59.6 per cent from a relatively low base. Other large sub-groups include hydrocarbons (with exports of US$152.1 million in 1988 and a growth rate in the 1980s of 7.6 per cent), vegetable tanning extracts (US$38.4 million, but negative growth in the 1980s), inorganic esters (US$32.4 million and a growth rate of 8.9 per cent in the 1980s), nitrogen function compounds (US$28.6 million and a growth rate of 37.4 per cent), chemical elements n.e.s (US$27.2 million and a growth rate of 27.3 per cent), and ethers, epoxides and acetals (US$21.7 million, but a negative growth rate of 7.5 per cent). The largest import sub-sector in 1988 was organic and inorganic compounds with a value of US$145.4 million. It recorded substantial growth even in the 1980s with an annual average growth rate of 15.5 per cent from a high base. Other large sub-groups include products of polymerization with an import value of US$124.7 million in 1988, but with slightly negative growth in the 1980s, nitrogen function compounds (US$111.3 million but zero growth), alcohols, phenols, etc., (US$81.9 million and a growth rate of 17 per cent).

430. The average nominal import tariff for the sector - covering 3,480 tariff lines - is 3.6 per cent, with significant dispersion of rates around
the mean. The minimum is zero and the maximum rate is 22 per cent. There is little tariff escalation with the average rate on semi-manufactured items is 3.5 per cent, and the rate on finished goods is 4.1 per cent. No items in the chemicals sector are classified by GATT as raw materials.

431. The average effective rate for the sector is 1.0 per cent (2.5 per cent counting other tariff-type measures; see Table V.2 and Table AV.2 for more details). The highest effective rate is for plastic products - 2.8 per cent, followed by soaps and cosmetics - 2.6 per cent. The plastics sub-sector is a relatively new industry in Argentina, but with access to local feedstocks which are competitive - with the exception of some chemicals - the export potential is not yet fully exploited.

432. The sector is now free of quantitative restrictions as such, but in 1988 Argentina reported having quantitative restrictions affecting 115 out of 149 4-digit CCCN categories (77.2 per cent) in the sector (Table AV.5). The sector remains heavily affected by a range of non-tariff restrictions. Various chemicals are subject to health and safety requirements. There are health and safety as well as labelling requirement for perfume materials, perfumery, cosmetics, soaps and cleaning preparations. The import of explosives and chemical compounds for use in explosives needs authorization from the Ministry of Defence (Direccion General de Fabricaciones Militares). The requirements are: - the names of the importer and exporter, the quantity and serial number of the explosives, the f.o.b. and c. and f. or c.i.f. values, and identification of the storage place. There is a prohibition on the importation of dangerous drugs and chemicals used in their manufacture, except under special authorization. There is a prohibition on the manufacture, importation and sale of hexachlorocyclohexane and dietilestilbestrol (a phenol alcohol). A certificate is required for the importation of ammonium chloride and bismuth oxichloride if for use in the manufacture of fertilizers. In 1989, imports of polypropylenes within NADI item 39.02.07.01.00 from Brazil and Mexico were declared subject to an anti-dumping investigation (Guia Practica No. 412, Note X 14). No results have yet been announced.

433. Argentina does not provide patent protection for pharmaceutical products. Only the manufacturing process can be patented, but this protection lapses if the process is not used (i.e., the pharmaceutical product is not manufactures) within two years of the grant of the patent. This provision has provoked some concern in the United States and together, with two other areas of concern, has led to Argentina being investigated in 1988 under the provisions of Section 301 of the United States Act of 1974.
as amended. However, plans to provide protection for intellectual property rights for pharmaceuticals led to the United States' industry withdrawing its petition in September 1989. Nevertheless, Argentina was placed on the "watch list" under the "Special 301" of the 1988 Omnibus Trade and Competitiveness Act.

(xi) Non-electrical machinery

434. This sector includes a wide range of manufacturing activities: steam generators, stoves and radiators, engines and turbines, agricultural machinery, metal working machinery, industrial machinery, office machinery, scales, etc.

435. Production in 1984 amounted to US$1.9 billion. The total workforce was 51,746 or 4.4 per cent of industrial employment, and the number of establishments was 3,652 (Table AV.4). Industrial machinery was the largest sub-sector with a value added of US$622 million and 18,484 employees, followed - in terms of production value - by agricultural machinery (US$433 million production and 13,737 employees) and engines and turbines (US$323 million production and 4,139 employees).

436. Trade in the sector is substantial and diversified, both for exports and imports. Exports amounted to US$333 million in 1988 while imports were US$1 billion (see Table V.1 and Table AV.3 for details). Exports showed modest growth - 2.3 per cent annual average - in the 1980s after strong growth (19.7 per cent annual average) in the 1970s. To some extent imports are related to overall economic growth in the country, but evidence of replacement by domestic production is evident in some sub-sectors which also achieved significant export growth. Whereas imports had matched export growth in the 1970s they declined at an average annual rate of 7.5 per cent in the 1980s. On the export side the largest sub-sectors are statistical machines (US$88.9 million in 1988) and growing at 10.8 per cent annual in the 1980s), machine tools for metal working (US$35.4 million, growth rate 3 per cent), piston engines, other than for aircraft (US$35.3 million up from zero in 1980), and pumps and centrifuges (US$29.6 million, growth rate 1.6 per cent in the 1980s). The largest value imports in 1988 were: power tools (US$111.1 million, but declining at an annual average rate of 4.3 per cent in the 1980s), textile machinery (US$99.3 million with a modest growth rate of 0.2 per cent), machine parts and accessories n.e.s. (US$83.0 million, but declining at a rate of

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The other cases involved the export tax on soybean oil and meal (see earlier) and the level of fees on private international air carrier shipments.
4.5 per cent), and statistical machines - the largest export item (US$72.1 million), declining at 10.3 per cent annually in the 1980s.

437. The average nominal import tariff for the sector - covering 2,288 tariff lines - is 15.4 per cent (compared with 9.5 per cent for the economy as a whole), with substantial dispersion of rates around the mean. All tariff items in the sector are classified as finished goods, so that no estimates are made of tariff escalation.

438. The average effective rate for the sector is 4.3 per cent (7.5 per cent counting other tariff-type measures), well below the industrial average of 12.4 per cent (Tables V.5 and AV.2). Within the sector, there is considerable variation in effective rates, with average as low as 0.2 per cent for the production of scales up to a still modest 5.8 per cent for agricultural machinery. This is one of the sectors where import substitution was important and protection was a driving force, and manufacturing was low-scale and diversified. However, from the data it is evident that there are economic sub-sectors with export potential.

439. There are no known non-tariff measures currently operating in the sector, but in 1988 quantitative restrictions affected 61 out of 68 4-digit CCCN categories (89.7 per cent) in the sector (Table AV.5).

(xii) Electrical machines and apparatus

440. This sector includes the manufacture of elevators, refrigerators, sewing machines, electrical industrial machinery, radios, televisions, communications equipments and all kinds of electrical appliances.

441. Production in 1984 amounted to US$2.6 billion, the workforce was 60,563 (5.2 per cent of total industrial employment) and the number of establishments was 3,557 (Table AV.4). The production of radios and televisions had the highest value added (US$550 million) and employment of 7,362, while refrigerator manufacture generated the highest level of employment (and the second highest value of production - US$385 million).

442. Exports were a modest US$53.6 million in 1988 after declining at a rate of 3 per cent in the 1980s (although they had increased at a rate of 24 per cent in the 1970s). Imports dominated the sector with a value of US$517 million in 1988, albeit less than half the 1980 figure. Exports are predominantly of industrial machinery, while the main imports are of telecommunication equipment and transistors and valves (presumably for inputs into domestic radio and TV production which is concentrated in Tierra del Fuego and benefits from special incentives (see Table V.1 and Table AV.3 for details).
443. The average nominal import tariff for the sector - covering 935 tariff lines - is 10.1 per cent, with a wide dispersion of rates around the mean. Following the April 1991 tariff reform the minimum was zero and the maximum rate was 22 per cent. However, with the removal of reference prices for a variety of electronics products (see below) the maximum rate was increased to 85 per cent. Sufficient details are not available at the time of writing to re-compute the tariff average for the sector. All goods are classified as manufactured and accordingly no estimates have been made of tariff escalation.

444. The average effective rate for the sector, based on the April 1991 rates, is 1.5 per cent (3.2 per cent counting other tariff-type measures) (see Table V.5 and AV.2 for more details).

445. In calculating effective rates for this sector, no account was taken of industrial incentives nor of the reference price system, and it is clear that, without the special incentives for production in Tierra del Fuego, much of the TV/radio, etc., industry would not survive import competition without radical re-structuring and probably would relocate to nearer Buenos Aires, the major domestic market. At the same time, some electrical machinery has been exported, indicating that there are some efficient sub-sectors.

446. In 1988 the entire sector was subject to quantitative restrictions, which have now been removed. A reference price system covered a wide variety of consumer electrical and electronics goods and inputs for such goods until it was terminated in 1991. Products covered included "fly-back" transformers for colour television sets, low frequency amplifiers, parts and cabinets for loud speakers, television sets, portable radios, car radios, telecommands, synthesizers, micro-wave ovens and parts therefore. These items mostly fall within Chapter 85 of the NADI - see Guia Practica No. 412, Note Z 10.

447. Preventative anti-dumping duty of 26 per cent was imposed on 21 May 1991 on compressors for household refrigerators imported from Brazil and the investigation is still current (Table IV.9).

(xiii) Transport equipment

448. This sector includes shipbuilding, railroad equipment, automobiles, commercial vehicles, tractors, motor cycles and aircraft.

449. Production in 1984 amounted to US$5.3 billion, the total workforce was 111,995 (9.5 per cent of the total for Argentine industry) and the number of establishments was 4,195 (Table AV.4). This was the sixth largest industrial sector by value of production and the fifth largest
employer. Within the sector automobiles accounted for US$2.4 billion and auto parts US$1.6 billion, while employment in these two sub-sectors was 22,562 and 45,541, respectively.

450. Trade in the sector was modest by comparison with production (which is a value added figure, whereas trade corresponds to output (or turnover) which is higher than value added. Exports amounted to US$170 million in 1988 (almost identical to the 1980 figure) while imports were US$242 million - less than 25 per cent of the 1980 figure (Table V.1 and Table AV.3 ). The largest sub-sector was automotive parts n.e.s. with US$84.6 million in 1988 and - exceptionally for the sector - this sub-sector also managed to grow at an annual average rate of 7.1 per cent in the 1980s. This was followed by automobiles (passenger motor vehicles exc. buses) with US$26.6 million, and ships and boats other than warships with US$12.1 million. As noted in Chapter IV, some bus exports, which amounted to US$6.4 million in 1988, have been part of a countertrade deal with Peru. Automotive parts made up almost 75 per cent of imports in the sector with a value of US$242 million in 1988. Since imports had been US$215 million in 1980, this sub-sector had one of the smallest drops in imports of the entire sub-sector. This feature is most likely associated with the sectoral local content plan (see below).

451. The average nominal import tariff for the sector - covering 362 tariff lines - is 10.6 per cent, with substantial dispersion of rates around the mean. The minimum is zero and the maximum rate is 22 per cent. Transport equipment is entirely classified to finished goods so that no estimates were made of tariff escalation.

452. The average effective rate for the sector is 5.5 per cent, based on the April 1991 tariff rates alone (10 per cent counting other tariff-type measures; see Table V.5 and Table AV.2 for more details). As noted in Chapter IV, there has been a revision of the rates (and reduction of the number of items subject to quota) in the sector and the maximum rate is now 35 per cent. Sufficient details were not available at the time of writing to recompute the averages. Within the sector most effective rates - based on tariffs - are low. The exception is the manufacture of automobiles with an average effective rate of 8.9 per cent.

453. However, tariff rates undervalue considerably the level of protection afforded to automobile manufacture. Even under the recent liberalization of trade, this is the only sector to retain quantitative restrictions which now affect 9 tariff lines covering the main items of production - see Chapter IV for details (compared with 25 lines after the April 1991 reform and up to 264 lines in 1988 - Table AV.5). However, this represents a progressive opening up of a sector which has hitherto been heavily protected from foreign competition by import prohibitions, particularly in
the main items. The opening up of the sector stems from an agreement with the industry signed in April 1990 and given force in Ministry of Economy (ME) Decree No. 569 of October 1991, under Law No. 21.932 of January 1979. Another facet of the opening of the market is the Automotive Protocol signed with Brazil. Under this protocol trade in parts and finished vehicles will be increased and all tariff, para-tariff barriers and quantitative restrictions will be eliminated. It is expected that the agreement with Brazil will become the driving force for change in the industry in the next few years and that there will need to be some rationalization of lines of production.

454. Under the ME decree, as from 1 January 1991, exports by an enterprise must match imports in the relation 0.5:1, 0.8:1 and 1:1 in the years 1991, 1992, and 1993, respectively. Enterprises which fail to reach these levels will only be able in future years to use imported parts up to the value imported in 1991. Those enterprises which surpass this export-import ratios, will be able to opt for tariff reductions on imports which would otherwise still be dutiable or they will be able to increase the import content or some combination of the two possibilities.

455. Producers of finished vehicles will be able to incorporate imported parts up to pre-established limits per class of vehicle, although there is some flexibility in the scheme. In principle, vehicles in category A (passenger cars plus pick-up trucks with a carrying capacity up to 1,500 kg. derived from passenger cars) may include up to 20 per cent of imported parts in 1991, rising by one percentage point a year up to 24 per cent in 1994. The base percentage for categories B (pick-up trucks with a carrying capacity up to 1,500 kg. not derived from passenger cars) and C (chassis and trays for cargo or public transport with a carrying capacity in excess of 1,500 kg.) are 30 per cent and 42 per cent, respectively, in 1991, rising annually by two percentage points up to 1994. (These percentages are much lower in the case of trade with other member countries of LAIA). The value of exports is supposed to be equal to or greater than the value of imports to ensure self-financing and a payments balance up to 1993. Exports may include parts imported under the temporary admission régime but these are not counted in the export value.

456. In addition to the above arrangements, under the Automotive Protocol with Brazil, an import quota is established, by category of vehicle, according to the physical number of units produced domestically. Thus, the equivalent of 4.5 per cent of domestically produced vehicles may be imported in 1991, 5.5 per cent in 1992, 6 per cent in 1993 and 1994. According to the Government, these figures can be considered as minima and can be modified depending on the market conditions. For example, the 1991 quota of 10,000 units for Brazil was increased to 18,000 units in the
course of the year. The initial minimum quota for 1992 is 25,000 units for categories A and B.

457. With respect to other countries, under Decree No. 997/91 import quotas in the vehicle sector were initially fixed at 7,200 units, of which 6,800 are for automobiles and 1,200 are for utilities (pick-up trucks, vans, etc.) with a maximum cargo weight of 1,500 kg but the quota was subsequently increased to 8,000 units. A decree is yet to be established governing the importation of trucks and buses. Within the automobile sub-sector, a quota of 6,120 cars has been set aside for manufacturers' representatives or official distributors leaving only 680 cars to be imported by others, including the public at large. In the utility sub-sector a quota of 1,080 (out of the total of 1,200) has been reserved for manufacturers' representatives or official distributors. No single enterprise may receive more than 15 per cent of the total quota. With respect to the quota for persons other than manufacturers' representatives or official distributors, individuals may import one vehicle only, while legal persons (companies, etc.) may import two, provided that one of the two is in the utility category.

458. The mechanism for allocation of quotas is unusual and is not based on any auctioning system designed to maximize quota rents. Those who wish to obtain an allocation place in a sealed envelope the details of the vehicles which they wish to import. They must also indicate the date on which they are willing to pay - in advance of importation - the associated taxes. The sealed offers are opened in public to ensure transparency in the operation of the system, and the allocation is made on the basis of the dates on which prospective importers indicate they are willing to make the anticipated tax payments to the National Customs Administration. (The taxes involved are: customs duty, the statistical tax, the national export promotion fund, value added tax corresponding to the units that are proposed for import). Selected importers make the anticipated tax payment to Customs and are issued with an import certificate. Separate proceedings are held for the allocations of quotas for the commercial and the private sectors.

459. Imports of second-hand tractors are prohibited and new tractors must be imported directly from the country of origin.

460. Imports of aircraft are subject to approval by the air force.

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11This description is based on the Government Press Release, announcing the first sessions for the opening of the sealed "bids" on 17 June 1991 for the trade and 8 July 1991 for others.
461. There is an open countervailing measure investigation on imports of bicycle pinions from India and Italy.

(xiv) Professional, scientific and controlling instruments, photographic apparatus, clocks and watches

462. Production in 1984 amounted to US$187.3 million in 1984, the workforce was 6,584 and the number of establishments was 525 (Table AV.4). Production was mostly concentrated in the scientific equipment sub-sector which had a value of production of US$147 million and employed 5,161 persons.

463. Exports amounted to US$20 million in 1988 while imports were US$156 million (see Table V.1 and Table AV.3 for details). Imports and exports both declined during the 1980s. The main export item was measuring and controlling instruments (US$8.3 million). The main imports were electrical measuring and controlling instruments (US$55.1 million) and measuring and controlling instruments (US$54.7 million).

464. The average nominal import tariff for the sector - covering 668 tariff lines - is 12.1 per cent, with a wide dispersion of rates around the mean. The minimum is zero and the maximum rate is 22 per cent.

465. The average effective rate for the sector is 10.7 per cent (20 per cent counting other tariff-type measures; see Table V.5 and Table AV.2 for more details). This is associated with effective protection of 13.2 per cent in the scientific equipment sub-sector.

466. Imports of measuring and calculating instruments are subject to approval by weights and measures inspectors.

467. An anti-dumping investigation was initiated against the import of disposable syringes from Columbia in 1991. (Guia Practica No. 412, Note X16). Also, there is an open anti-dumping investigation on the import of alarm clocks from Brazil. These are still active (Table IV.9).

468. The sector is now free of quantitative restrictions, but in 1988 Argentina reported having quantitative restrictions affecting 34 out of 39 4-digit CCCN categories in the sector (Table AV.5).

(xv) Footwear and travel goods

469. Production in 1984 amounted to US$709 million, the workforce was 29,889 and there were 2,897 establishments - although only about one third of these would be on an industrial scale. The principal sub-sector was the manufacture of shoes. The value of production of leather shoes and plastic
shoes was US$385 million and US$241 million, respectively, and the level of employment was 23,396 and 18,082, respectively (Table AV.4).

470. Exports were substantial at US$39.3 million, of which footwear accounted for US$17.8 million and parts of footwear US$19.2 million in 1988. Both sub-sectors grew strongly - at an average annual rate of 54.5 per cent and 32.7 per cent, respectively, in the 1980s. Imports were a modest US$1.2 million (see Table V.1 and Table AV.3 for details).

471. Nominal import tariffs for the sector - covering 35 tariff lines - are all 22 per cent (Table V.4).

472. The average effective rate for the sector is 13.1 per cent (20.5 per cent counting other tariff-type measures) - see Table V.5 (and Table AV.2 for more details). Leather shoes have an average effective rate of 17.2 per cent and plastic shoes 10.6 per cent. Otherwise, effective rates are low. The rate on leather shoes is high by Argentine standards, and somewhat surprising, given the amount of exports. Since the country is a major exporter of hides and there is considerable expertise in the industry, the effective protection seems high - perhaps suggestive of unused protection in the sector. However, in the past the industry has complained of high domestic leather prices and problems with exchange controls.

473. There are no known non-tariff measures currently operating in the sector, whereas in 1988 the whole sector was affected.

(xvi) Photographic and cinematographic supplies

474. This sector includes photographic and cinematographic film, etc., as well as developed cinema film (movies). It does not include cameras, etc.

475. No data was recorded in the industrial census of 1984.

476. Exports amounted to US$31.9 million in 1988 - almost entirely photographic film - while imports - also mostly photographic film were US$29.4 million (see Table V.1 and Table AV.3 for details).

477. The average nominal import tariff for the sector - covering 50 tariff lines - is 4.6 per cent, with substantial dispersion of rates around the mean. The minimum is zero and the maximum rate is 22 per cent.

478. An anti-dumping investigation on offset printing plates from Brazil was initiated in 1989. (Guia Practica No. 412, Note X 14). According to data provided by the Government (Table IV.9) this investigation is still active. There are special taxes on cinematographic films. The sector is
now free of quantitative restrictions, but in 1988 Argentina reported having quantitative restrictions affecting 3 out of 7 4-digit CCCN categories in the sector (Table AV.5).

(xvii) Furniture

479. This sector includes furniture, mattresses and metal furniture.

480. Production in 1984 amounted to US$503 million. The workforce was 23,396 and the number of establishments was 7,059 (Table AV.4).

481. Trade in the sector was low. Exports amounted to US$6 million in 1988 while imports were US$2 million (Table V.1).

482. The average nominal import tariff for the sector - covering 9 tariff lines - is 19.6 per cent, with only a narrow dispersion of rates around the mean. The minimum is 11 per cent and the maximum rate is 22 per cent.

483. The average effective rate for the sector at 13.8 cent (27.4 per cent counting other tariff-type measures) is somewhat above the industrial average of 12.4 suggesting a marginally uneconomic activity (see Table V.5 and Table AV.2 for more details).

484. There are no known non-tariff measures currently operating in the sector, although the sector was entirely affected by quantitative restrictions in 1988.

(xviii) Musical instruments, sound recording or reproduction apparatus

485. Production in 1984 amounted to US$103 million, the workforce was 4,183 and the number of establishments was 658 (Table AV.4).

486. Exports amounted to US$2.1 million - mostly recordings - in 1988 while imports were US$93.8 million of which recording equipment were the most important, followed by recordings (see Table V.1 and Table AV.3 for details).

487. The average nominal import tariff for the sector - covering 151 tariff lines - is 12.9 per cent, with a wide dispersion of rates around the mean. After the tariff reform of April 1991, the minimum was zero and the maximum rate was 22 per cent. However, it is understood that the maximum rate for some products has been increased to 35 per cent. Details were not available at the time of completion of this report to allow a recalculation of the averages.
488. The average effective rate for the sector is 15.2 per cent (29 per cent counting other tariff-type measures) - above average for Argentine industry and a cost to the economy (Table V.5).

489. The sector is now free of quantitative restrictions, but in 1988 quantitative restrictions affected 10 out 12 4-digit CCCN categories in the sector (Table AV.5). However, as with consumer electrical and electronics goods, there was a reference price system - cancelled during 1991 - in operation for recording equipment and parts. These items mostly fall within Chapter 92 of the NADI - see Guia Practica No. 412, Note Z 10. This is also part of the special régime for production in Tierra del Fuego. No account of this reference price system has been taken into account in the calculation of the effective rates.

(xix) **Toys**

490. Production data only cover the sporting good sub-sector for which the value of production in 1984 amounted to US$22 million. The workforce was 784 and there were 132 establishments (Table AV.4).

491. Trade in the sector was minor. Exports amounted to US$1.6 million in 1988 of which US$1.5 million was toys. Imports were US$3.3 million of which US$3.3 million was toys and US$3.9 million was sporting goods. Imports had dropped from US$97 million in 1980 (see Table V.1 and Table AV.3 for details).

492. The average nominal import tariff for the sector - covering 87 tariff lines - is 13.4 per cent, with only a narrow dispersion of rates around the mean. The minimum is 11 per cent and the maximum rate is 22 per cent.

493. The average effective rate for the sector is 13.8 per cent (27.4 per cent counting other tariff-type measures; see Table V.5 and Table AV.2 for more details).

494. There are no known non-tariff measures currently operating in the sector, compared with 100 per cent coverage in 1988.

(xx) **Works of art and collectors' pieces**

495. Trade in the sector is minor - only jewellery is recorded. Exports amounted to US$310,000 in 1988 while imports were US$10,000.

496. Nominal import tariffs for the sector - covering 9 tariff lines - are zero (Table V.4).
497. Special documentation is required for works of art with a value exceeding US$2,500.

(xxii) Arms and ammunition

498. The recorded production of armaments in 1984 amounted to US$102 million, but it seems unlikely that this covered Government-owned establishments. The workforce was listed as 3,009 and the number of establishments was 29.

499. Recorded exports amounted to US$2.3 million in 1988 while imports were US$1.3 million. It seems likely that most military activity is not recorded in public trade statistics, although a "war firearms, ammunition" sub-group is listed with exports of US$1.5 million and imports of US$565,000.

500. The average nominal import tariff for the sector - covering 29 tariff lines - is 19.7 per cent, with moderate dispersion of rates around the mean. The minimum is zero and the maximum rate is 22 per cent.

501. The average effective rate for the sector is 24.1 per cent (39.7 per cent counting other tariff-type measures), making this the most uneconomic sector of the Argentine economy (Table V.5).

502. The importation of military equipment requires authorization by the military. No quantitative restrictions apply, compared to a coverage of four out of eight 4-digit CCCN items in 1988.

(xxii) Office and stationery supplies

503. Production in 1984 amounted to US$143.6 million and employed 5,219 in 1,329 establishments.

504. Recorded exports amounted to US$1.3 million in 1988 while imports were US$3.6 million.

505. The average nominal import tariff for the sector - covering 15 tariff lines - is 16.9 per cent, with moderate dispersion of rates around the mean. The minimum is 11 per cent and the maximum rate is 22 per cent.

506. There are no known non-tariff measures currently operating in the sector, whereas 6 out of eight 4-digit CCCN items were affected in 1988.
(xxiii) **Other manufactured articles**

507. Exports amounted to US$5.1 million in 1988 while imports were US$21.1 million (see Table AV.3 for details).

508. The average nominal import tariff for the sector - covering 84 tariff lines - is 14.9 per cent, with a wide dispersion of rates around the mean. The minimum is zero and the maximum rate is 22 per cent.

509. The average effective rate for the sector is 6.5 per cent (11.4 per cent counting other tariff-type measures) (see Table V.5 and Table AV.2 for more details).

510. There are no known non-tariff measures currently operating in the sector, while 89.7 per cent of 4-digit CCCN items were affected in 1988.
VI. TRADE DISPUTES AND CONSULTATIONS

511. Argentina has no special domestic procedures for conducting consultations or negotiations with trade partners in the event of trade disputes.

(1) GATT Dispute-Settlement

512. No formal complaint has ever been made against Argentina in any GATT Dispute Settlement procedure. However, Argentina has been a complainant under the dispute settlement procedures of Article XXIII of the General Agreement.

513. Together with nine other contracting parties, Argentina initiated a complaint against the sugar régime of the European Communities in April 1982 and held consultations with the EC in September 1982. Following these consultations, Argentina, along with other complainants, reserved their rights under the GATT.

514. On the enlargement of the EC through the accession of Spain and Portugal, Argentina requested a panel (GATT document L/6201 of 8 July 1987) under Article XXIV.6 of the General Agreement, but bilateral consultations led to the December 1987 Compensation Agreement and the request for a panel was dropped. However, Argentina was dissatisfied with the implementation and requested consultations under Article XXII.1 of the General Agreement. Argentina is seeking compensation for the impairment of its rights through the withdrawal of Spain's concessions on maize and sorghum. Argentina reserved its rights and consultations are still ongoing.

515. At the time of the implementation of the Harmonized System by the EC, Argentina expressed concern about the treatment of certain beef products. Argentina reserved its rights and asked for Article XXII.1 consultations with the EC. No outcome of any such consultations has been reported to the GATT.

516. Argentina was an interested party and made submissions in two dispute settlement cases:

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1The complaint was also made by Australia, Brazil, Colombia, Cuba, the Dominican Republic, India, Nicaragua, Peru and the Philippines. See GATT document MTN.GNG/NG13/W/4/Rev.1.

2See GATT documents C/M/161 and L/5309 and Adds.1-5.

Argentina made a submission to the panel which investigated an EC complaint against United States restrictions on sugar and sugar-containing products. The panel found, inter alia, that United States actions conformed to the terms of the waiver which it had been granted in 1955.4

Argentina was an interested party in the case brought by the United States on the EC's Payments and Subsidies paid to Processors and Producers of Oilseeds and Related Animal-feed Proteins.5 In this case the panel found that the EC's payments to seed processors were inconsistent with Article III.4 of the General Agreement, that benefits to the United States under Article II of the General Agreement were impaired and that the Community should adjust its regulations to conform to Article III.4 (which it held could also eliminate the impairment of tariff concessions).

(2) Other Concerns raised by Argentina in GATT

517. In the Sub-Committee on Protective Measures of the Committee on Trade and Development, Argentina has raised a number of concerns about protective measures taken by other countries affecting Argentina's exports. In general, no action was taken as a result of this notification process. The notifications are listed in Table VI.1.

518. Argentina also raised in the GATT Council its concerns about trade restrictions applied by Australia, Canada and the European Communities against Argentina under Article XXI of the General Agreement. This occurred in 1982, during the time of the war in the South Atlantic. Following the end of the war, the issue was dropped in GATT.

(3) Dispute-Settlement outside GATT

519. The Latin American Integration Association (LAIA) has dispute settlement procedures under which members can bring cases concerning alleged non-observance of some rules or principles of the Montevideo Treaty, but no such cases have ever been initiated. Under Annex III of the Treaty of Asuncion, establishing MERCOSUR, any disputes between member States may be referred to the Common Market Group, and, in the event of the Group's inability to find a solution, to the Council of the common market.

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