1. As instructed and in accordance with its terms of reference, the Committee on Balance-of-Payments Restrictions has carried out the consultation under Article XVIII:12(a) with Chile, initiated by the Council in May 1962 following a substantial intensification of its import restrictions. The Committee had before it: (a) a statement made by the representative of Chile at the Council meeting of 30 May 1962 (BOP/9), (b) a basic document supplied by Chilean authorities (BOP/18/Rev.1), (c) a list of permitted and prohibited imports into Chile (BOP/20 and Corr.1) and (d) documents provided by the International Monetary Fund as mentioned in paragraph 3 below.

2. In conducting the consultation, the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES. It also examined the balance-of-payments aspects of the request of Chile for a further extension of the waiver Decision of 27 May 1959 authorizing the use of certain import surcharges. The consultation was completed on 17 June 1963. The present report summarizes the main points of discussion on the quantitative restrictions of Chile. The views of the Committee relating to the requested waiver extension are set out in a separate report (C/33).

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Chile. In accordance

---

1Since the initiation of the consultation in May by the Council, Chile has signed the Protocol amending the Preamble and Parts II and III of the General Agreement on Tariffs and Trade. The consultation was, therefore, deemed to have been instituted under the provisions of paragraph 12(a) of Article XVIII (revised).
with the agreed procedures, the representative of the Fund was
invited to make a statement supplementing the Fund's document concerning the
position of Chile. The statement made by the representative of the Fund was
as follows:

"The International Monetary Fund has transmitted to the
CONTRACTING PARTIES the Executive Board decision taken at the
conclusion of its last Article XIV consultation with Chile, and a
paper dated May 17, 1963 giving background information on recent
developments in that country.

"It will be noted in that paper that, with two exceptions, the
import surcharges levied by Chile have reverted to rates no higher
than those existing prior to October 6, 1962. It will also be noted
that late in 1962 the Chilean authorities proceeded to formulate a
broad stabilisation program for 1963 designed to contain the
inflationary pressures then in operation and to permit full
implementation of Chile's Ten-Year Development Program without
jeopardy to internal and external financial equilibrium. In support
of this stabilization program, Chile entered on January 15, 1963
into a new one-year stand-by arrangement with the Fund for an amount
of $40 million. The Chilean authorities expect that, for 1963 as
a whole, a significant improvement in the balance of payments will be
achieved. Present prospects do not, however, indicate that net
international reserves, which have been negative for several years, will
rise. At best, it may be expected that there will be a sufficient
improvement to allow the backlog of import payments to be reduced,
but it is not likely that this backlog can be completely eliminated,
or that the compulsory deferment for import payments can be significantly
shortened. The paper indicates that during 1963 a budget deficit
of 280 million escudos, to be covered mainly by foreign borrowing, is
projected.

"The general level of the various restrictions and import
surcharge measures currently applied by Chile does not go beyond the
extent necessary at the present time to achieve a reasonable rate
of increase in its foreign exchange reserves. The revenue to be
derived from import charges is not expected to prevent a substantial
budget deficit in 1963.

"With respect to alternative corrective measures which may be
available, the Fund draws attention to the Executive Board decision
of January 14, 1963, taken at the conclusion of its last consultation
with Chile. The Fund has no additional alternative measures to
suggest at this time."
Opening statement by the representative of Chile

4. The representative of Chile opened the discussion with a detailed statement, describing developments in the Chilean economy in the last five years, the various problems with which the country had been and was confronted, and the measures which had been taken or were being considered in order to cope with these problems. The statement also outlined the present position and future prospects of the balance of payments of Chile, movements in the various sectors, the implications of the Ten-Year Development Plan for the country's external payments, and the reasons and circumstances necessitating the continued maintenance of the present system of prohibitions and import prior deposits. It was the view of the Chilean representative that, as a result of the stabilization programme and the exchange reform and other measures recently undertaken, the Chilean economy should, in the not too distant future, regain equilibrium, so as to enable the removal of the present impediments to trade. For the time being, the restrictions would have to be retained to enable a reasonable increase in the country's foreign exchange reserves. The complete text of the statement of the Chilean representative is annexed to the present report and should be deemed an integral part of the documentation on this consultation.

Balance-of-payments position and prospects

5. Members of the Committee thanked the representative of Chile for his very informative and comprehensive statement. They expressed understanding and sympathy for the many problems with which Chile was confronted, and appreciation for the efforts which Chile had been making to cope with these difficult problems. They expressed the hope that the measures adopted by the Chilean Government would be effective and would provide a solid base for long-run economic progress.
6. A member of the Committee noted that the estimated balance of payments for 1963, as given in the IMF document, showed a net outflow of $19.6 million on short-term private capital account which appeared to be in contrast with the persistent inflow of such capital in all previous years and enquired about the reasons for this development. The representative of Chile stated that the estimated net outflow of short-term private capital reflected the expectation that more repayment of short-term debts would be made in 1963 than in previous years, resulting in a reduction in the backlog of import payments.

7. A member of the Committee noted that in order to bring about a substantial improvement in the country's balance of payments, Chile needed increased borrowing from abroad especially on government account, and enquired whether in the view of the Chilean authorities this would be realizable in 1963. The representative of Chile explained that his country expected to revive long-term capital of about $110 million during the year 1963. Most of these loans were of a very long-term nature, running up to forty years and free of servicing for the first ten years. In the first quarter of 1963, $23 million had already been received on this account and it was hoped that the target figure of $110 million would be achieved during the current year. Apart from this, there also existed possibilities of further expansion of long-term credits; negotiations with some of the European countries and the United States were at present in progress.

8. The Committee discussed with the Chilean representative various questions concerning the prospects for Chile's principal exports, the development of export products and diversification of the economy. The representative of Chile stated that it was the intention of his Government further to increase the traditional exports as well as to develop new export items.
The Chilean Government had concluded an agreement with one of the main copper companies with a view to expanding copper production within the next three or four years and another agreement was being negotiated with the second largest copper concern in the country to this end. Production of iron ore would also be greatly expanded and offered bright prospects. Efforts were being made to expand production of newsprint and paper pulp for which a new plant had already been established. Fisheries in general were also being developed and it was estimated that in three years' time, Chile would be able to export fish meal to the order of $60 million a year. The Development Programme envisaged an increase of 40 to 50 per cent in Chilean exports by 1967.

9. A member of the Committee expressed appreciation for the efforts made by the Government of Chile in diversifying the economy, with a view to redressing the balance-of-payments disequilibrium. In the light of the achievements so far made, in the fields of infrastructure, in building activities, and in restraining wage increases, it would appear that the implementation of the Ten-Year Plan had so far met with considerable success. The CONTRACTING PARTIES might find it profitable to examine the experiences of Chile in the implementation of this Plan in another context of their activities. In the context of the present consultation, the Chilean Government might be urged constantly to examine the effectiveness of the measures in producing the desired results on which the future balance-of-payments situation of Chile so much depended.

10. In reply to questions concerning the Development Plan, particularly the weight given in it to the expansion of new lines of export production, as against traditional exports, the representative of Chile stated that the main purpose of the economic development programme was to strengthen certain industries which would contribute to the expansion of the country's
export trade. The programme aimed at raising export income from the 1962 level of $540 million to $672 million by 1967 (excluding exports coming from new investments of the large mining companies). The Government had entered into negotiations with the mining companies with a view to bringing about an increase in copper production by about 40 per cent from the present level. Present export earnings from copper were estimated at $300 million a year and with the expansion of production and exports, Chile could reasonably expect to increase its export earnings by another $120 million per annum. The exports of iron ore which amounted to $47 million were expected to reach the $94 million level by 1967. The expansion in the exports of fishery products and newsprint was expected to reach $65 million as compared with the 1962 figure of $22 million. These were the chief items of export but Chile had the potential to develop a whole set of minor industries which, when taken together, became important in the economy. They required large capital investment, new techniques of marketing and trade promotion which the Government intended to concentrate upon as soon as conditions permitted.

Alternative measures to restore equilibrium

II. During this part of the consultation, attention of the Committee was principally devoted to the Chilean request for a further extension of the waiver relating to the Chilean import surcharges which, according to the Chilean authorities, were maintained for the purpose of producing revenue and formed part of the measures applied under the stabilization programme aimed at restoring internal and external equilibrium. The Committee's views on the waiver extension request have been forwarded to the Council in a separate report.
System and methods of restriction

12. The Committee discussed with the Chilean representative the various changes which had been made in the Chilean import control system in the last two years on the basis of the description given in the "basic document" prepared by the Chilean authorities. The Chilean representative drew attention to the progress which had been made before January 1962 when prior deposit requirements had been removed for all but some fifteen items of imports; the replacement of this restrictive measure by surcharges had thus been virtually completed. In January 1962, however, the government was compelled by the pressures on the balance of payments to reintroduce prohibition on some 700 items and this was followed shortly by a reform of the foreign exchange system. The deposit requirement was not reintroduced until June 1962, and the rates had since been modified several times, resulting in the eight categories described in the "basic document".

13. In reply to questions, the Chilean representative explained that under the present system, payments for imports were not made until 120 days after shipment. This delay in payments was necessary in order to lessen the burden on the exchange holdings of the banking authorities and on the exchange rate. In the opinion of the Chilean representative, contrary to the views of certain members of the Committee, this system of import control involved no complicated procedures unnecessarily adding to the difficulties of importers or foreign exporters; decisions to change the regulations rested with the Executive Committee of the Central Bank which consisted of three persons, and any necessary decrees could be promptly issued by the authorities on its advice. Goods not on the prohibited list could be imported freely provided the deposit requirement was met and such transactions were completed at commercial banks.

14. A member of the Committee considered that this method of restriction, by its very nature, could not but have a discriminatory effect on imports from distant countries, particularly those which had no regular shipping service link with Chilean ports, since in such cases the deposit would remain immobilized for longer periods. He was of the view that while the reasons for resorting to this system was understandable, it would be preferable if some other form of restrictive system could be evolved for the purpose.
15. The Chilean representative further affirmed that the deposit requirement was being retained principally to maintain a market for government securities which otherwise would have to be redeemed. There was, of course, no intention of maintaining this restriction beyond the extent justifiable under the relevant provisions of Article XVIII:B of the General Agreement.

16. Some members of the Committee observed that the exemption from prior deposit requirement of certain imports from other IAFTA countries and the practice of permitting certain imports from those countries which were prohibited from other sources seemed to constitute an element of discrimination against third countries. The representative of Chile explained that these exemptions were given in accordance with Chile's obligations under the Montevideo Treaty. In the view of the Chilean authorities this was permissible under the General Agreement. Members of the Committee recalled past discussions on this aspect of discrimination in relation to the provisions of Article XXIV of the Agreement. They were of the opinion that whatever might be the legal position, such discrimination affected adversely the trade interest of other contracting parties and was detrimental to the long-term economic interest of Chile itself.

17. A member of the Committee, noting that imports effected through ECA in conformity with agreements for the sale of agricultural surpluses concluded with the Government of the United States of America were exempt from prior deposit requirements, enquired whether the Chilean authorities intended to make all their purchases of the products in question in this form or whether there were provision for commercial imports. The representative of Chile stated that this exemption was applied exclusively to imports of wheat under PL.480 of the United States of America which were normally arranged after taking account of domestic production and availability on the market. As trade in wheat was regulated by the State and prices of wheat, flour and bread were set by the Government the exemption from deposit requirements afforded no price advantage to PL.480 wheat in Chile.
Effects of the restrictions

18. Members of the Committee stressed the long-term disadvantages of permitting uneconomic industries to develop under the incidental protection of restrictive measures administered for balance-of-payments reasons. They expressed the hope that in formulating their import policies and applying the restrictive measures, the authorities of Chile would keep this problem in view. The representative of Chile stated that his Government had this problem under constant scrutiny.

General

19. The Committee thanked the representatives of Chile for the frank and co-operative manner in which they had engaged in the consultation and expressed understanding and sympathy for the many problems with which Chile was faced. They welcomed the noteworthy steps which Chile was taking to deal with its balance-of-payments problems, and to promote the development of the economy. The Committee noted the statement quoted in paragraph 3 above that "the general level of the various restrictions and import surcharge measures currently applied by Chile does not go beyond the extent necessary at the present time to achieve a reasonable rate of increase in its foreign exchange reserves". Members expressed the hope that improvements in the balance of payments would soon enable Chile to relax its import restrictions, and urged that in administering the import controls, particularly the advance deposits, the Chilean authorities would always seek to avoid discrimination. Any existing discrimination which was not consistent with the provisions of the General Agreement should be removed.

20. The representative of Chile thanked the Committee for the understanding and sympathy with which the consultation had been conducted. He stated that he would bring the views and suggestions made by the members of the Committee during the consultation to the attention of his Government.