

PRESS/TPRB/62
24 September 1997

TRADE POLICY REVIEW BODY
REVIEW OF CHILE
TPRB'S EVALUATION

The Trade Policy Review Body of the World Trade Organization (WTO) concluded its second review of Chile's trade policies on 23 and 24 September 1997. The text of the Chairperson's concluding remarks is attached as a summary of the salient points which emerged during the discussion.

The review enables the TPRB to conduct a collective examination of the full range of trade policies and practices of each WTO member country at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

The review is based on two reports which are prepared respectively by the WTO Secretariat and the government under review and which cover all aspects of the country's trade policies, including: its domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs and the external environment.

A record of the discussions and the Chairperson's summing-up, together with these two reports, will be published in due course as the complete trade policy review of Chile and will be available from the WTO Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, the following reports have been completed: Argentina (1992), Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Benin (1997), Bolivia (1993), Brazil (1992 & 1996), Cameroon (1995), Canada (1990, 1992, 1994 & 1996), Chile (1991 & 1997), Colombia (1990 & 1996), Costa Rica (1995), Côte d'Ivoire (1995), the Czech Republic (1996), Cyprus (1997), the Dominican Republic (1996), Egypt (1992), El Salvador (1996), the European Communities (1991, 1993 & 1995), Fiji (1997), Finland (1992), Ghana (1992), Hong Kong (1990 & 1994), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991 and 1994), Israel (1994), Japan (1990, 1992 & 1995), Kenya (1993), Korea, Rep. of (1992 & 1996), Macau (1994), Malaysia (1993), Mauritius (1995), Mexico (1993), Morocco (1989 & 1996), New Zealand (1990 & 1996), Nigeria (1991), Norway (1991 & 1996), Pakistan (1995), Paraguay (1997), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992 & 1996), Slovak Republic (1995), South Africa (1993), Sri Lanka (1995), Sweden (1990 & 1994), Switzerland (1991 & 1996), Thailand (1991 & 1995), Tunisia (1994), Turkey (1994), the United States (1989, 1992, 1994 & 1996), Uganda (1995), Uruguay (1992), Venezuela (1996), Zambia (1996) and Zimbabwe (1994).

TRADE POLICY REVIEW BODY

Review of Chile

CONCLUDING REMARKS BY THE CHAIRPERSON

The second Trade Policy Review of Chile was conducted on 23-24 September 1997. These remarks, prepared on my own responsibility, are intended to summarize the discussion and not to be a full report: this will be contained in the minutes of the meeting.

The discussion developed under four main themes: macroeconomic issues; the balance in Chile's trade policies among multilateral, regional and bilateral approaches; a discussion of specific trade-related measures and policies; and sectoral elements of trade policies.

Some Members noted that the focus of Chile's trade policies had moved towards regionalism in the past six years, while maintaining a strong commitment to the multilateral system. Chile was congratulated on its generally open and liberal system, and on the liberalization which had taken place in services trade; however, some Members noted that there were some areas of goods trade where few changes had occurred since the previous review.

Macroeconomic issues

Members commended Chile's remarkable macroeconomic performance since 1990, which had been assisted by progressive liberalization; the high rate of growth combined with growing social equity; and the reduction of unemployment and inflation. One member sought clarification regarding the use of indexation mechanisms in the economy and their relationship to inflation.

Members noted that, since the last review, there had been some diversification in export products and markets, but that Chile remained reliant on a small range of exports, especially copper. In this regard, the effectiveness of the Copper Stabilization Fund as a shock-absorber was highlighted; one member asked about the possibility of creating an offshore fund to reduce possible negative effects on exports from real exchange rate appreciation. It was noted that State involvement had decreased substantially throughout the economy; however, there were no plans to privatize CODELCO.

Members welcomed Chile's generally liberal and non-discriminatory foreign direct investment regime. Questions were raised regarding the use of a compulsory deposit or "encaje" system for investment funds; while some Members felt that this measure may have contributed to monetary stability, others expressed concern about its possible restrictive effects.

In reply, the representative of Chile noted that the authorities had put emphasis on growth with equity, as shown by an increase in per capita incomes and a marked reduction in the number of persons below the poverty line. However, the distribution of income was relatively unchanged; this was a priority concern. High savings and investment had contributed largely to economic growth: the importance of external factors had declined. While trade liberalization had contributed to growth it did not have the same effect across the economy, hence the importance of social programmes to spread the benefits of liberalization. Inflation had been controlled basically through monetary policy, with overall confidence generated by strict observance of inflation targets and by fiscal surpluses; the degree of indexation - based on past inflation - had been reduced. The representative confirmed that the role

MORE

of the Copper Stabilization Fund was, as covered in the documentation, to be a buffer against world price fluctuations. He explained that the "encaje" system, a central element of monetary policy, was a reserve requirement limited to portfolio capital inflows, and designed to minimize speculative flows; it benefited investors directly by reducing the risk of financial fluctuations.

Multilateralism, regionalism and bilateralism

Questions were asked regarding the balance in Chile's trade policies between multilateral, regional and bilateral approaches, and the emphasis currently given to the conclusion of agreements with regional entities. In this connection, specific questions were posed about Chile's relations with NAFTA, the recently concluded Free Trade Agreement with Canada, the status of negotiations for a framework agreement with the European Union, the network of agreements with Latin American partners, including the consistency with LAIA provisions of the complementarity agreements with some Members, and the new agreement with MERCOSUR. Members questioned the effects of the wide range of agreements on the transparency and predictability of Chile's trade policies. Chile's membership of APEC was generally commended; in this connection, clarification was sought on Chile's definition of "open regionalism".

A question was asked on the extent to which Chile was facilitating imports from least developed countries.

In reply, the representative of Chile said that multilateralism was Chile's top priority. However, Chile saw bilateral and regional agreements as essential to advance the opening of its own economy and new export markets. It was also important to recall the political dimension of such agreements in Latin America, in particular South America, and the relationship between open economies and the development of democracy.

He emphasized that most trade would be liberalized within 10 years, although a longer period was allowed for some sensitive items. He noted that the agreements within South America, and that with Mexico, were under LAIA, covered by the Enabling Clause. Tariff quotas covered imports under preferential rates; there were no restrictions on imports under MFN rates. He noted that there were no non-preferential rules of origin and gave details of the operation of preferential rules.

Specific trade-related measures and policies

In general Members commended Chile's open trade regime, in particular, the uniform tariff. Some Members sought clarification about the proposal to reduce the tariff by 3-4 percentage points. Noting the gap between WTO bound rates and the MFN applied rate, several Members asked if there were any plans to bind closer to the applied rate.

Some Members sought clarification regarding an apparent difference between taxation of domestic and imported spirits. Information was sought on Chile's implementation of the WTO Customs Valuation Agreement. Some Members also inquired why Chile had not signed the Plurilateral Agreement on Government Procurement and encouraged the authorities to do so. Members recognized that Chile's national requirements regarding standards were generally based on international provisions; however, some concerns were raised regarding the potential impact of health and sanitary requirements as a barrier to trade.

Clarification was also sought regarding the status of the Agreement on Implementation of Article VI of the GATT 1994 in Chilean law, progress with new anti-dumping legislation, and the use of anti-

MORE

dumping measures in light of provisions agreed upon in the Free Trade Agreement with Canada. The absence of safeguard legislation was highlighted by several participants.

Members noted the existence of certain export subsidies and sought clarification as to whether Chile had implemented any measures to eliminate them. In addition, Members sought clarification regarding the export promotion activities of PROCHILE, and the Agricultural Fund established in 1995 to promote agricultural exports.

On intellectual property, some Members sought information regarding progress in amending Chile's legislation to bring it into compliance with the TRIPS Agreement. Members welcomed the authorities' initiative to draft a new competition law.

In reply, the representative of Chile said that the average bound tariff of 25 per cent for industrial products represented a balance reached in the Uruguay Round. A draft law had been prepared to reduce the flat applied rate from 11 to 8 per cent; the Executive believed that this reduction would need to be offset to guarantee the continuity of social programmes. Concerning liquor taxation, a draft law had been sent to Congress which would ensure equal tax treatment, varying only according to the alcoholic content. Chilean customs valuation was in accordance with the relevant WTO Agreement; variations on transaction value were in line with the provisions of the Agreement. He explained the application of minimum customs values; these would disappear with the full application of the WTO Agreement. The WTO provisions were applied in Chile's agreements with Canada and MERCOSUR.

The representative confirmed that the WTO Agreements on anti-dumping and countervailing measures had the force of law in Chile and were the bases of procedures being applied. A draft bill had been brought to Congress to give operational effect to certain rules. Tariff surcharges may be applied for one year maximum within GATT bindings: they did not apply to FTA partners and were not "safeguards" in the sense of GATT Article XIX. They had not been used since 1993.

The representative gave details of Chilean government procurement procedures, which were based on transparency, non-discrimination, flexibility and decentralization. The same procedures applied across the public sector. State enterprises were required to be self financing and to operate on a private enterprise basis. Chile regarded the application of the GPA as complex, bureaucratic and costly; moreover, it did not guarantee MFN treatment below federal level. Chile thus hoped that any wider agreement would include not only the principles of transparency and non-discrimination, but also flexibility and decentralization.

The representative provided details of the operation of Chilean standards, sanitary and phytosanitary measures in relation to wine, beef and lamb, chicken and wheat; he gave assurance that national treatment was applied. The only preferential sectoral regime was the automotive programme, which was being phased out. Programmes for distant regions of the country covered taxation, customs facilitation and investment incentives and did not discriminate against foreigners. Exports benefited from a duty drawback system for imported inputs and a simplified system for minor exports. The simplified system was not sector-specific; any subsidy component was being phased out. Deferred tariffs on capital goods only involved a subsidy in those cases where a tariff waiver was granted on condition that the capital good was employed in the manufacture of exports; this would be reduced by the process of liberalization. He also explained the role of PROCHILE in providing governmental services to exports.

The representative of Chile also provided information on Chile's legislation and practices, as well as recent advances, in the area of intellectual property. Any changes required to bring legislation into line with the WTO TRIPS Agreement were being studied and would be completed by 1 January 2000,

MORE

as required for developing countries. TRIPS cases were handled by the ordinary courts, not by administrative processes. In the area of competition policy, Chile had extensive jurisprudence, but was drafting a new law to modernize the institutional and legal framework in the light of the international environment.

Sectoral elements

Some Members questioned the price band mechanism on some import-competing agricultural goods; they noted that the system could lead to high protection and affect resource allocation. This policy was contrasted with Chile's generally active support for international liberalization of agricultural trade, through the Cairns Group. Members asked whether consideration was being given to direct income support for poor farmers.

Some delegations asked about policies to promote the automotive industry, namely the export balancing scheme, domestic content requirements, export subsidies and the prohibition on imports of used cars. One member asked for details on the proposal for a royalty tax on mining. Another mentioned concerns regarding permission for the transshipment of fish in Chilean ports.

Several Members noted that Chile's liberalization efforts in the services sector were ahead of its WTO commitments and asked if this would be reflected in an improvement in Chile's GATS bindings. Details were requested on several specific aspects, for example, the elimination of horizontal restrictions regarding commercial presence, the maritime agreement between Chile and Brazil, the further liberalization of the telecommunications sector, Chile's involvement in the ongoing negotiations on financial services, the removal of the additional tax levied on insurance premia when insurance services were contracted abroad, and prudential requirements applied to foreign and domestic re-insurers.

In reply to questions raised regarding the price band mechanism, the representative stated that the mechanism (applying to wheat, wheat flour, edible oils and sugar) was established to buffer domestic prices against international price fluctuations. The representative noted that imports of goods covered under this mechanism were considerable, amounting in the case of edible oils to 92 per cent of domestic consumption. It was unlikely that the bound rate of 31.5 per cent could be breached by the mechanism. Regarding dairy products, the representative replied that Chile considered the 31.5 per cent bound level (against an applied rate of 11 per cent) appropriate given the sensitivity of this sector for Chilean agriculture. He also clarified policy regarding irrigation programmes and the Plan for the Recovery of Soil Productivity. The purchase price of sugar beet was set by IANSA, a private enterprise, in negotiation with producers and without government intervention.

The representative clarified the operation of the automotive programme, dating from the 1980s. Currently, only three enterprises benefited. He added that the programme would be phased out by the year 2000, in accordance with Chile's commitments under the TRIMS agreement. The prohibition on imports of used vehicles was for environmental reasons and there were no plans to lift this.

Regarding the services sector, the representative mentioned that in the last seven years telecommunications, infrastructure, transport and financial services had gone through an important process of legal reform. In telecommunications, the privatization of the local and international telephone companies had begun in 1985, and there was free competition in the sector. As a result of the reform, rates had decreased by 50 per cent and the number of lines had increased substantially. The financial sector had also been subject to important reforms, including the recent approval of a new banking law, covering three major areas: internationalization of the Chilean banking system, widening the scope of banking activities, and adoption of the Basle norms. Regarding maritime transportation, the delegate

MORE

clarified that Chilean legislation was based on the principle of reciprocity. Chile regretted that maritime transport negotiations had not been able to advance.

He added that Chile had participated actively in the WTO services negotiations. In the 1995 financial services negotiation, Chile submitted an improved offer, and in the context of the present negotiation Chile was elaborating a conditional offer, which it hoped to submit in October. Chile had assumed MFN commitments in international telephony and had reflected its open policy in its list of commitments in this area. He emphasized that Chile was willing to participate in any services negotiation to ensure progressive liberalization in this sector on a multilateral, plurilateral and bilateral basis.

To conclude, I should like to emphasize some main elements. First, Chile's focus, since 1990, on growth with equity is an exemplary combination of economic and social policies, going now well beyond the so-called "Washington consensus". I am sure Members will also welcome Chile's continuing emphasis on economic stability and the success that has been achieved. I also welcome the clear statements that have been made by Chile on the relationship between the multilateral and regional aspects of their policies, and the detailed answers given on specific questions, including those on government procurement, sanitary standards, regional and export support, intellectual property, and sectoral policies. Finally, I am sure that the discussion that we have held in the past two days will have contributed to the important transparency obligation that I stressed in my opening statement.

END