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CUSTOMS DUTIES AND OTHER IMPORT CHARGES AND RESTRICTIONS
IN LATIN AMERICAN COUNTRIES: AVERAGE
LEVELS OF INCIDENCE

Category I	<u>Primary goods</u>
Group 1 :	Unprocessed foodstuffs
Group 2 :	Raw materials
Group 3 :	Unprocessed fuels
Category II	<u>Capital goods, intermediate goods and durable consumer goods</u>
Group 1 :	Intermediate products
Group 2 :	Processed fuels
Group 3 :	Capital goods
Group 4 :	Durable consumer goods
Category III	<u>Manufactured goods for current consumption</u>
Group 1 :	Processed foodstuffs (including drinks and tobacco)
Group 2 :	Finished products of the chemical and pharmaceutical industries
Group 3 :	Other goods for current consumption

These three categories correspond to those envisaged in the recommendations on the structure and basic principles for a Latin American common market made by the Working Group on the Latin American Regional Market at its second session in Mexico in February 1959.^{4/} The purpose of the subdivision into various groups is to determine the corresponding individual levels of incidence, in order to provide more background information for this and other studies, as well as for possible negotiations concerning the common market.

5. Special attention was paid, in placing the SITC items in these categories and groups, to the considerations that led the Working Group on the Regional Market to adopt the three categories referred to, and also to the content that the Group gave to those categories. Accordingly, the groups in category II include products for which, because of their nature and the degree of development of the industries concerned in the various Latin American countries, demand may be expected to grow relatively rapidly, or which offer a wide margin for import substitution. The groups in category III include manufactured goods for current consumption for which demand is likely to increase relatively slowly and the margin for import substitution has either disappeared or shrunk considerably. Hence yarns, threads and fabrics, although essentially intermediate products, have been classified in group 3 of category III with other goods for current consumption, instead of in group 1 of category II.

6. When the products included in the import sample had been classified under these groups and categories, the following information was provided for each of them:

^{4/} See The Latin American common market (United Nations Publication, Sales No.: 59.II.G.4) pp. 38 et seq.

(a) the code number of the corresponding SITC item, and its code number in the national customs and statistical classifications; (b) the volume, value and unit price of imports for the year or period in question; (c) the specific and/or ad valorem duties chargeable on its entry into the country on a given date (general duty according to the customs tariff and, when applicable, the agreed or negotiated duty payable under the most-favoured-nation clause, and preferential duty),^{5/} the ad valorem equivalent of the specific duty,^{6/} total customs charges expressed in ad valorem terms, and the amount collected by the customs under the most-favoured-nation clause; (d) other charges with an effect equivalent to import duty and the corresponding amount collected by the customs or cost; and (e) other restrictions that are not the equivalent of customs duties - prior permits, bans, tie-in purchase requirements, quotas, etc. - and all other features concerning the import régime of the product in question (exchange category, exemption from duty under certain conditions, etc.).

7. For each of the groups and categories referred to (see paragraph 4 above), and for the sample as a whole, separate calculations were made of the weighted averages (weighted by the value of the imports of each product) and arithmetic means, in respect of customs duties proper applicable under the most-favoured-nation clause, on the one hand, and in respect of other charges of similar effect, including the cost of financing prior deposits, on the other. The average levels of incidence for each country are shown in the tables concerned.

5/ The effective duty is deemed to be that to which each product is liable on a given date, under the customs tariff or, in the case of negotiated duties, under the trade treaties in force. Consequently, no account has been taken of exemptions or total or partial suspensions of duty granted on a temporary or sporadic basis, or under special exemption systems, in order either to facilitate imports of a product considered essential, in order to cover a temporary deficit, or to encourage domestic industry, or because the imports are made by Government or semi-Government bodies, etc. (see paragraphs 26 to 32 below). Such exemptions do not constitute changes in the customs tariff itself, as they are generally of an administrative nature, or are granted in each case by administrative decision, or depend on the nature of the importer or the fulfilment of certain conditions, etc., or are of a temporary nature.

6/ The ad valorem equivalent of the specific duty is obtained by dividing the latter by the unit value of the product, obtained in turn from import statistics. Thus, the equivalent value so obtained is only approximate, since for various reasons this unit or statistical value may not correspond to the real price of the product, or that price may have been subject to subsequent changes.

8. A separate annex has been drawn up for each country;* in addition to detailed information for each product and the table showing levels of incidence referred to in paragraphs 7 and 8, this annex includes an introductory note specifying the factors taken into consideration for the country concerned (minimum import value of the products, reference date selected for duties and other charges in force, etc.). These annexes also outline the general import régime (customs duties, charges of similar effect and other restrictions on imports), special régimes of liberalization or exemption, statistical and other problems met with, and how they are solved, and any other information considered relevant.
9. The present general study summarizes the main features of the import régimes of the countries in question, and elucidates, compares and analyses the average levels of incidence of import duties and charges calculated for the various countries. It also indicates the conclusions that can be drawn from the various background data used in preparing the present study, and from their processing and analysis.
10. This study was possible thanks to the valuable co-operation of the customs authorities in some countries and of the central banks or bodies responsible for tariff policy in others. In most cases it was in fact they who did the preliminary work in selecting the products, identifying the duties and other charges and restrictions applying to their imports, and solving statistical and other problems. Nevertheless, the information, interpretations and conclusions contained in the present document with respect to, for example, what is to be regarded as the import duty or régime applying to the individual products in each country, are not official, and the ECLA secretariat assumes full responsibility for them.

* Available in Spanish only.

I. STRUCTURE OF IMPORT REGIMES

11. The most striking features of the import régime in most of the countries studied were their complexity and their extremely restrictive character, resulting either from the very high level of the import duties or from the application of direct controls. Both features, particularly the second, are covered and analysed in greater detail below. This section will deal only with the main elements of the import régimes and their role in the import policy of the countries concerned.

1. Customs duties

12. The first of the component elements of these import régimes to be dealt with will be the customs duties and other charges of similar effect.

The duties set forth in the customs tariffs of the countries studied are predominantly of the mixed type, that is, a specific duty plus an ad valorem duty. The exceptions include Brazil, which has only ad valorem duties, and Venezuela, where the duties are mainly specific, with only an occasional mixed duty. The customs tariff in Chile is also almost entirely specific, unless the ad valorem tax on the nationalized value of the goods is regarded as a customs duty; this tax is in fact referred to in the customs tariff. The Argentine and Uruguayan tariffs do not include any mixed duties on any single item, but the duties are specific for some items and ad valorem for others. For the purposes of this study, ad valorem duties levied in those two countries on the basis of an official price, known as the "official base value" (aforo or valor de aforo), are regarded as specific duties, since the effect is similar. In Mexico also, the ad valorem duty is normally levied on the basis of an official price, although only when that price is higher than the value declared by the importer; furthermore, this official price is revised and brought up to date fairly frequently.

13. As in other parts of the world, and especially in Western Europe, the customs tariffs of Latin America show a fairly marked trend towards ad valorem duties. In some cases such duties have been introduced into tariffs that formerly consisted entirely of specific duties; in others, the frequency and level of ad valorem duties in mixed tariffs has been increased, and in a few cases tariffs that are wholly or predominantly ad valorem have been adopted.

14. From the early thirties on the customs tariff in most of Latin America, as in many other countries, became gradually less important as an instrument of trade policy. For reasons that are too well known to need repeating here, its function in this respect was largely usurped by exchange controls and other direct restrictions, or restrictions of other kinds. This movement was reversed during the fifties, when a

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number of Latin American countries abandoned direct controls or relaxed them considerably, obviously with the intention of once again forging the customs tariff into the basic instrument of import policy. However, this aim has been only partly achieved, because the factors that make the customs tariff a relatively rigid and inflexible instrument still persist. The most important of these factors is the consolidation of duties through the trade treaties in force, and the need for parliamentary approval to amend the tariff. In addition, customs tariffs, mainly because of the subsidiary role they continued to play as instruments for controlling imports, were, and in many cases still are, very out of date and ineffective. Before customs tariffs can once again function as basic instruments of trade policy, they will have to be redrafted, a task that will require several years if the new tariffs are to fulfil such functions properly.

2. Charges of equivalent effect

15. For the above reasons, the course usually followed in the Latin American countries that abandoned or considerably relaxed their exchange restrictions and other direct controls on imports has been to replace those measures by non-tariff import charges of similar or equivalent effect to customs duties. In some cases they have been replaced by prior deposits, that is, by restrictions whose principle purpose, like that of a customs duty proper, is not the direct limitation of imports, but their indirect limitation through increasing their cost. It is even commonly stated that such additional charges are merely interim measures until a new customs tariff can be drawn up and put into effect.

16. In other cases, such non-customs import charges are introduced as a special measure for revenue purposes or to limit imports on balance-of-payments grounds and in order to avoid recourse to direct controls. In these cases, in contrast to the first group, such charges do not appear to be used for protectionist purposes.

17. Whatever the reason for levying these various charges equivalent in effect to customs duties, they exist in varying number and diversity in all the countries considered here. In this study such charges include any duty or charge levied on the imported product either exclusively, or at a higher rate than on the similar domestic product, which does not represent payment for services rendered. The charges in force in Latin American countries include the so-called exchange surcharges, taxes over and above customs duties, taxes on the remittance of funds abroad to pay for imports, consular fees charged in the form of a percentage of the value of the goods, import taxes on certain products of which the proceeds go to the development of domestic production of similar goods, domestic taxes (for example sales taxes) levied on imported goods either exclusively or at a higher rate than on similar domestic products,

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loading and unloading charges, general supplementary taxes or surcharges on customs duties for certain specific purposes (harbour construction development of merchant shipping, etc.), forwarding charges, and other charges that do not represent payment for services rendered or that considerably exceed the cost of such services, etc.

18. Charges equivalent in effect to customs duties are also considered here to include the cost of financing prior deposits, calculated on the basis of the amount of the deposit, the period for which it is kept and the current rate of commercial interest. In practice, although such a measure is predominantly a monetary measure aimed at sterilizing means of payment and limiting the financial capacity to import, the prior deposit has a direct effect on the cost of the imports, and from this standpoint its impact is similar to that of an import charge.

19. Annexes I to XI indicate for each of the countries concerned, on the basis of the available information, the import charges equivalent in effect to a customs duty, in accordance with the criterion described (see paragraph 17 above), and for which the average levels of incidence have been calculated. In some of these countries (Brazil, Colombia, Mexico, Peru and Venezuela), such charges are few and relatively low, the weighted average not exceeding 3.5 per cent of the value of the imports. (For Brazil no account has been taken of the cost of financing the advance payment of the agio or the higher cost of the foreign currency of products placed in the special category). In other countries, such charges are both more numerous and higher. Thus, in Bolivia the average incidence is over 7 per cent and in Ecuador over 17 per cent, which in both cases represents almost half of the weighted average of the incidence of customs duties proper. In Paraguay, the average incidence of such charges exceeds that of the customs duties. The same applies, to an even greater extent, to Argentina, where the theoretical incidence of the so-called exchange surcharges is, on the average, eight times higher than that of the customs duties. For Chile it was not possible to arrive at a figure for the average incidence of the cost of the prior deposit and of the supplementary taxes that are replacing it, but there is no doubt that it is fairly high, and it may have a greater restrictive effect than the customs duties. Furthermore, if the Chilean import tax of from 3 to 30 per cent of the value of the goods after they have left the customs is not regarded as a customs duty, then non-customs charges on imports obviously far exceed the customs duties. Lastly, in Uruguay the average incidence of the surcharges and of the cost of financing the prior deposit established following the changes introduced by the decree promulgated at the end of September 1960 (that is, after the reference date selected for the import charges in force in Uruguay for the purposes of this study) undoubtedly exceed, perhaps by a considerable margin, the average incidence of the duties.

20. It may therefore be concluded that in four of the eleven countries concerned - Argentina, Chile, Paraguay and Uruguay - the incidence or restrictive effect of customs duties is less than that of other import duties and charges of equivalent effect. In at least one of these countries - Argentina - and to a lesser extent in Uruguay, customs tariffs are a very secondary means of controlling imports, non-customs duties and charges being the main channel through which import control is exercised. At the opposite end of the scale, duties and charges other than customs duties carry little weight in five of the countries concerned and are applied exclusively for revenue purposes. However, as will be shown later, this does not mean that customs tariffs are the only or even the chief means of import control in the countries concerned for in all of them except Peru imports are subject to exchange restrictions or direct controls.

3. Exchange and quantitative or direct controls

21. The countries covered by this report have shown a tendency in recent years to abolish, reduce or simplify exchange and quantitative controls and to replace them by protectionist customs duties or - as a first stage - by similar charges of equivalent effect. Notwithstanding this trend, exchange and quantitative controls are still applied in varying degrees in several of these countries or, more specifically, in four of the five countries in which, as indicated in the previous paragraph, non-customs charges have little effect, namely in Brazil, Colombia, Mexico and Venezuela, as well as in Ecuador. Controls of this type are not applied in the six other countries (Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay), except to a very small extent and in respect of a specific product, e.g. the ban in Argentina on imports of motor vehicles above a certain price level. All these countries except Peru, on the otherhand, levy fairly heavy charges other than customs duties on imports.

22. Hence, Bolivia and Peru are the only countries covered in this report in which customs duties are the chief or virtually exclusive method of restricting imports. In the other countries customs duties play a less important role than in those two countries, even a fairly secondary role in some of them, and imports are restricted less by customs duties than by other charges of equivalent effect or, alternatively, by exchange and quantitative controls. One of these countries - Ecuador - applies both types of restrictions simultaneously.

23. Only one of the countries under review - Brazil - uses a system of exchange control the application of which has, in practice, resulted in multiple exchange rates. The effect of this system is: (a) to limit the total value of imports requiring foreign exchange cover to periodically

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estimated amounts; (b) to subsidize some imports by means of a special or favourable rate of exchange and to discourage others by an exchange rate which raises their cost substantially. In Ecuador, Colombia and more recently in Venezuela, exchange control is applied which does not in fact limit imports, since the importer is at liberty to resort to the open exchange market; its purpose is rather to subsidize imports or to ensure that they are not affected, or their cost increased, by sudden fluctuations or devaluations on the open exchange market. To this end, the three countries concerned allow imports to be paid for in whole or in part on the official exchange market at a rate which is more favourable - by about 10 per cent in Ecuador and Colombia and 20 per cent in Venezuela - than the open market rate.

24. Direct import restrictions in the form of bans and prior licences are applied more frequently and thoroughly. There are import bans on a number of items in Colombia and Ecuador and on a few in Venezuela. A prior import permit or licence - with or without periodical quotas - is required for a long list of items in Colombia, Mexico and Venezuela, and, at least in the last two countries, one of its main purposes is to prevent or restrict imports of goods likely to compete with locally-manufactured items. Prior import permits or licences are also required in Brazil - for items included in the special category - and in Ecuador, but are usually granted as a matter of course in both countries. They must therefore be considered a potential rather than an actual restrictive measure.

25. Lastly, several countries apply other restrictions to a few items. These include the tie-in purchase requirements of Colombia and Venezuela - in Colombia the granting of an import permit is contingent upon an undertaking by the importer to purchase a certain quantity of a similar domestically-produced item -, State import monopolies, either de jure or de facto, the latter occurring when franchises are granted only to the State-owned enterprise, etc.

4. Exemption from import duties and charges

26. The policy of granting total or partial exemption from customs duties and other charges in respect of a number of imported items, depending upon their nature, their destination, the importer, etc., is one aspect of the import regulations in the countries under review, the significance and effect of which is so unusual as to constitute one of the chief means of protecting and stimulating domestic production.

27. The special exemption régimes now in force are listed for each country in the annexes to the present document. These régimes are numerous and varied, particularly in some countries. They usually provide for exemptions in respect of the following types of imports:

/(a) Goods

(a) Goods imported by governmental and semi-governmental organs (including State-owned petroleum, railway, shipping, electric power enterprises etc.);

(b) Imports of machinery, equipment, other capital goods and, in some cases, raw materials for new industries, for the expansion of existing industries, or representing investment of foreign capital. This type of exemption is common in every country and in some - Ecuador, Mexico, Paraguay and Peru - is embodied in legislation for promoting industrial development. Certain conditions must normally be fulfilled, such as registration of the investment or enterprise, or prior authorization for its establishment and perhaps the signing of a special contract with the Government, the use of a minimum percentage of domestic raw materials, the classification of the industry as essential or basic, etc. In some countries, such as Brazil and Uruguay, the exemption is extended to imports of machinery, equipment, etc., in general, while Venezuela accords particularly favourable treatment to imports of raw materials and semi-finished goods - as well as equipment and machinery - for industrial or agricultural enterprises;

(c) Imports of machinery, equipment, tools, etc., for agriculture - in Argentina, Chile, Peru and Uruguay - or for certain industries (e.g. fisheries, mining, petroleum, steel, motor vehicles, fertilizers, electric power, etc.,);

(d) Imports of some items, if imported by governmental organs, which leads to the de facto monopolies referred to in paragraph 25 - e.g. imports of wheat in Brazil -, if the items are considered essential and domestic supply problems exist or if the importer fulfils the requirement of purchasing a certain quantity of similar domestically-produced items (as in Brazil and Venezuela), etc.;

(e) Imports into the "free-zones" of Argentina and Chile and the "free sectors" of Mexico.

Lastly, some countries - Argentina, Chile, Peru and Uruguay - have a drawback system, under which import duties paid are refunded when the goods are re-exported in a finished state, and two countries - Argentina and Paraguay - exempt from surcharges all or some imports from adjacent countries.

28. The chief purpose of the exemption régimes referred to - which usually do not apply to goods which are also manufactured locally - is, as was indicated earlier, to promote domestic industry, supplementing the protection which this industry enjoys from import duties and other charges and restrictions by granting exemptions in favour of imports of items needed to establish the domestic industry, for its expansion and sometimes for its operation. In other cases, exemptions are designed to facilitate

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imports of some essential items or raw materials for industry in adequate amounts to make up for temporary or chronic shortages in domestic production, but without affecting outlets for domestically-manufactured goods. Exemptions in favour of goods imported by governmental or semi-governmental bodies seem to be based primarily on the very debatable contention that payment of duties and charges in such cases would merely be a book-keeping transaction.

29. An attempt has been made in the present document to measure the effect of these special exemption régimes by comparing the theoretical incidence of customs duties applied in the countries considered - as set out for each country in annexes I to XI - with their actual incidence, in other words with the relationship between the duties actually paid and the total value of the imports. While this comparison, shown in table 3, presents a number of serious difficulties and shortcomings,^{6/} it nevertheless gives some idea of the order of magnitude of duties which have not been collected because of exemptions.

30. This order of magnitude is indeed considerable in most of the countries under review, the most extreme case being Argentina where the actual incidence of exchange surcharges - virtually the only burden on imports - was in 1959 only one third of the theoretical incidence calculated for that country in this report. The actual incidence of customs duties - including the ad valorem tax on nationalized value - is about 40 per cent of the theoretical figure for Chile, 50 per cent for Brazil, Colombia and Peru, 55 to 60 per cent for Venezuela, 56 to 72 per cent for Paraguay, 72 per cent for Mexico and about 90 per cent for Ecuador. The figures for Bolivia and Uruguay could not be calculated for lack of data (see table 3 below). It may be assumed, however, that in these countries the relationship between the actual and theoretical incidence of non-customs import charges is about the same as that indicated in respect of customs duties.

31. It therefore seems obvious that, as a factor determining the composition of imports and as an instrument for the protection and promotion of

^{6/} In practice, the actual revenue from customs duties proper cannot be easily identified with any degree of accuracy from the tax statistics of most countries, nor is it possible in most cases to determine the revenue from other charges of equivalent effect. Available data on customs revenue relate to imports effected in earlier years, while the average levels of theoretical incidence have been calculated in this report on the basis of the duties in force in each country fairly recently - after having increased substantially in some countries - and of imports effected in earlier years, the composition of which may have been very different from what it is at present, etc. It has not been possible to calculate the actual incidence of non-customs charges - except in the case of the exchange surcharges levied in Argentina - for lack of information on the revenue from such sources.

domestic industry, the policy of import tax exemptions in most of the countries considered carries as much, if not more, weight than customs duties, non-customs charges and direct restrictions. Moreover, it appears to be largely responsible for further minimizing the use and effect of customs duties and/or charges of equivalent effect in the import policy of these countries, except in so far as such duties and charges are fixed for many products at levels which are in fact so prohibitive as to make it possible to import these products unless they are totally or partly exempt from such duties and charges. In other words, the import duty or charge is tantamount in such cases to a ban on imports and the exemption régime to a system of prior licences or permits. In fact this exemption - not normally automatic - is subject to the fulfilment of certain conditions by the importer and, in any event, to an administrative decision, since the decision whether or not to grant the exemption usually lies with some office or branch of the executive authority.

32. It may therefore be asserted that the system of direct import controls by means of prior permits operates de facto not only in the countries already mentioned (see paragraph 24 above) but also - in respect of goods subject to exemption régimes - in others, such as Argentina, Brazil, Chile, Peru and Uruguay.

33. There are two main reasons for this policy of establishing high and even prohibitive duties and other charges on a number of products - including capital goods - and then to facilitate or permit imports by means of total or partial exemptions. So far as raw materials, foodstuffs and semi-finished goods are concerned, the purpose of this system is to enable imports to be cut to the minimum required to make up the gap in domestic production and to protect domestic production and, at the same time, prevent or try to prevent a rise in the cost of the imported article. To achieve this purpose, exemptions are granted only to close the gap, or subject to the importer purchasing a specific quantity of the domestically-manufactured product, or in the case of goods imported by governmental or semi-governmental organs. With regard to capital goods, the exemption régime is a means of controlling or guiding the establishment and development of specific industries, which in many cases can be set up or expanded only if exemption is granted.

5. The rate of exchange

34. It is quite clear that the rate or multiple rates of exchange, as the case may be, at which goods are imported have a considerable influence on imports since they strengthen or weaken the restrictive effect of customs duties and other equivalent charges, unless there is a "neutral" exchange rate which does not affect imports in either direction. An exchange rate higher than the neutral rate, i.e. for an undervalued

/currency, means

currency, means an additional standard charge on all imports in direct ratio to the undervaluation. On the other hand, a lower exchange rate, i.e. for an overvalued currency, constitutes a standard subsidy for imports, also in direct ratio to the overvaluation.

35. The problem is to define and determine the neutral rate of exchange. In this connexion, and again from the point of view of its effect on imports, the most practical and closest concept would seem to be to define as neutral the rate of exchange which is equal to the general internal and external purchasing power of the currency, in other words one which equals the purchasing power of the different monetary units. According to this concept, a currency is overvalued if, more goods can be bought outside with a given amount of foreign exchange of a certain country, than inside the country. If the opposite is true, it is undervalued.

36. Whatever the criterion applied in order to define and determine the neutral rate of exchange and, therefore, to decide whether the exchange rate at which imports are effected in a given country is undervalued or overvalued, the neutral rate of exchange must clearly be taken into consideration in judging the level - whether average or specific for a given product - of duties and other charges levied by the country on its imports and in comparing that level with those prevailing in other countries. Thus, for instance, a high duty or a high average level of charges in a country with an overvalued exchange rate may be less restrictive or protectionist than a substantially lower charge or average level of charges in another country with an undervalued exchange rate.

37. The ECLA secretariat has recently completed a study on price levels and the purchasing power of currencies in ten Latin American countries - those covered in the present report (except Bolivia and Venezuela) plus Panama,^{7/} which provides a fairly accurate picture as regards whether their currencies are relatively undervalued or overvalued according to the criterion stated above (see paragraph 35), or at least an idea of the relationship maintained between the purchasing power of these currencies with respect to each other at the open market exchange rates. These exchange rates are the same as those at which imports are effected in the countries considered, except in Brazil, and, allowing for slight differences, in Colombia and Ecuador.

38. In accordance with the preliminary findings of the study and based on the open market exchange rates, with Mexico serving as the percentage basis, the price level indexes for the various countries covered by the report would be the following, taking into account both consumer and investment goods:

^{7/} Comparative prices and the purchasing power of currencies in selected Latin American countries: (E/CN.12/589).

Uruguay	81	Paraguay	87	Mexico	<u>100</u>
Argentina	84	Peru	92	Ecuador	103
Brazil	85	Colombia	99	Chile	131

As can be seen, there are considerable differences in the purchasing power of the currencies of the various countries. Taking Mexico as the base, these differences mean that the exchange rates for imports in Uruguay, Argentina, Paraguay and Peru strengthen, in decreasing order of magnitude, the duties and charges which these countries levy on imports. On the contrary, the official exchange rates in Colombia and Ecuador - more favourable to imports than the open market rates - and even more so in Chile, constitute an import subsidy which partly counteracts the effect of import duties and charges. The latter situation clearly prevails to an even greater extent in Venezuela. As for Brazil, the exchange rate for imports classified in the general category is not as favourable as the open market rate and therefore constitutes an additional import duty, and the same applies, though to a much greater extent, to the exchange rate for imports classified in the special category. On the other hand, the special or favourable rate for imports effected outside the exchange auction constitutes a heavy import subsidy.

39. The following section refers specifically to the average levels of incidence of duties and other charges on imports in the eleven countries covered in the present study. In interpreting and comparing these levels, the considerations set out with respect to the effect of exchange rates should be taken into account, although this has not been quantified in this report, nor has any attempt been made to adjust these levels of incidence to the effect of exchange rates.

II. AVERAGE LEVELS OF INCIDENCE OF CUSTOMS DUTIES AND OTHER IMPORT DUTIES AND CHARGES

1. Nature and significance of the average levels calculated

40. One of the main purposes of the present study was to calculate the average levels of incidence - both weighted and arithmetic - of the customs duties and other import duties and charges applied in the eleven countries dealt with, both in general and in respect of each of the categories and groups of goods to which allusion has already been made (see paragraph 4 above). These averages were calculated in accordance with the methodology outlined in the introduction and are given for each of the individual countries in Annexes I to XI. However, before the analysis and comparison of the results obtained is embarked upon, in order to ensure that they are not credited with greater accuracy than should really be attributed to them, nor their significance misinterpreted, some indication must be given of the meaning and scope of the average levels in question.

41. The first point to note is that these averages neither represent the degree of protection afforded or the restrictive effect produced by import duties and charges, nor constitute an accurate index of their relative level.

Thus, in the calculation of the weighted averages the weighting factor utilized was the value of imports of each of the goods included in the sample, which is directly influenced by the duties and other charges payable on entry, and, in addition, in many countries, by restrictions of other kinds, as well as by the franchises or exemptions granted. Effectively protectionist duties and charges, which severely limit importation or preclude it altogether, carry little or no weight in the computation of the average. It may therefore happen that for a country with a highly protectionist tariff - Brasil, for example - a lower average is obtained than for another with a tariff of a predominantly fiscal type, like Ecuador or Paraguay. Again, the fact that a country's imports of a given product may be scanty or non-existent does not necessarily mean that the importance of that product for its economy is slight.

The arithmetic mean has the serious defect that in its case the duty and/or charge on a good of secondary importance carries the same weight as that applied to one much more significant. While it is true that the arithmetic means obtained in the present paper - except in the case of the special study on Argentina, Brazil and Chile which appears in Appendix I - were calculated on the basis of a sample excluding products whose value within each country's imports is slight or nil, the defect persists in relation to the goods included. As regards those excluded from the sample,

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the same objection as has already been raised in connexion with the weighted average is applicable here.

42. Even if a satisfactory and practical solution for the problem of weighting were to be found - for example, by utilizing a weighting factor (such as the value of domestic production or consumption) which would reflect the relative importance of each product for the country's economy more faithfully than the value of imports - and even if imports were not subject to restrictions other than customs duties, the averages obtained for different countries would not necessarily indicate the protectionist effect of the national tariffs concerned. High duties in one country may not signify more effective protection or a greater barrier to imports than lower duties in another. Even with reference to specific goods, a relatively high duty may not afford sufficient protection if the industry producing the article in question operates in very unfavourable conditions, while a low duty may be protection enough for another activity which is in a better position to compete.

43. In this context, it should be recalled that the protectionist effect of the duty on a manufactured good is a function not only of the rate or level of the said duty, but also other variables, which include the percentage of value added to the product by domestic processing - ceteris paribus, the higher this percentage the less will be the protectionist effect of the duty - and the duty payable on the raw material, intermediate products, etc., used in its manufacture. Thus, the duty on a good may turn out to be high because it incorporates a "compensatory rate" whose purpose is to offset the effect of the duties payable on the raw material or intermediate products used.

44. Nevertheless, it seems an admissible assumption that as a general rule a high duty - the term being taken to include other charges having an equivalent effect - exerts a stronger protectionist or restrictive influence than a lower one. It likewise appears undeniable that the establishment of high duties with a view to protection for certain industries tends to force up the level of other duties also, so as to bring them into line with the changes in the relative prices of the factors of production of the activities concerned. This effect may be produced directly in some instances, through an increase in the cost of the raw materials or intermediate products utilized - compensatory duties are a case in point -, or indirectly, through the diversion of factors of production towards the new industries enjoying protection, and the rise in overall price levels brought about by the development of less efficient industries. In other words, the establishment of high duties for the protection of certain industries renders it necessary for protectionist duties to be imposed, or for those already existing to be

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increased, in respect of other lines of manufacture. Consequently, a high average level of duties in a given country indicates, in principle, that protection is given to many sectors of the economy, or at least to some which are both important and relatively inefficient.

45. To the foregoing limitations with respect to the significance of average levels of duties and other charges must be added, in the case of several of the Latin American countries covered by the present study, the reservation that such duties and charges constitute only a part - sometimes the least important - of the restrictions applied to imports.

This it comes about that in Mexico, where the average level of customs duties is relatively low, import restrictions for protectionist - or balance-of-payments - purposes operate mainly through the system of prior permits. This fact must never be lost sight of when any judgement on this average level of duties is formed, or when it is compared with that of other countries which do not apply direct import restrictions.

46. Another factor that must be borne in mind is the exchange rate in force for the imports concerned, since this, as has already been pointed out (see paragraphs 31 to 33 above), may represent an import subsidy or an additional import duty which offsets or strengthens the restrictive effect of duties and charges proper.

47. This does not hold good for the system consisting in exemption from duties and other charges. In accordance with the considerations set forth elsewhere (see paragraphs 31 to 33 above), when such a system is adopted duties and other charges are in fact generally replaced by prior permits, whose restrictive effect would seem to be determined by the theoretical level of the said duties or charges, that is, by the amount that would be payable on imports if exemption were not granted. In other words, the difference between the theoretical and the effective level of duties and other charges gives the measure of the restrictive effect of the prior permits required in order to obtain the relevant exemption or franchise.

48. To the above-mentioned limitations affecting the significance of the average levels of incidence of import duties and charges must be added others deriving from the nature of the data utilized and the methodology followed in the calculation of the average levels. The following should be taken into consideration: (a) the weighting factor used in the calculation of the weighted averages was the value of imports in a single year for some countries, a two-year average for the majority and a three-year average for others; (b) the period selected may not always be sufficiently representative of the composition of imports; (c) subsequently to and sometimes within the period to which the imports correspond, several countries increased or considerably modified their duties, charges and other restrictions,

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and one of them - Uruguay - radically altered its import régime, by all which reforms the composition of imports may have been appreciably influenced; (d) the ad valorem equivalence of specific duties was computed on the basis of the unit price of the good resulting from import statistics, which often differs - in some cases substantially - from the real price; (e) in several countries (Argentina, Brazil and Uruguay, for example), the classification or nomenclature used in import statistics is entirely different from that adopted for tariff purposes, so that for many products it was impossible to establish a satisfactory equivalence between the two - although in almost all countries this difficulty was less acute in the case of certain goods, owing to changes in the import tariff -, while in Chile the discrepancy between tariff nomenclature and that adopted for the purposes of application of prior deposits and additional surcharges prevented these from being taken into account in the computation of average levels of incidence of import duties and charges; and so forth.

49. If, in view of all these limitations and considerations and with due regard to the possibility of a certain margin of error, recourse is had to supplementary background data, the analysis and comparison of the average levels of incidence of import duties and other charges calculated in the present study proves very useful. It does in fact enable an approximate idea to be formed of the order of magnitude of tariff levels (including charges of equivalent effect) in the various countries, both for imports as a whole and for categories and groups of products, as well as of the role played by duties and other charges in import policy. Furthermore, in the course of the process of compiling, systematizing and processing the data used in the calculation of the averages in question it is also possible to form a fairly adequate and complete impression of the structure of tariff duties - and other charges - in relation to each country, of the level of duties on individual goods, of the approximate degree of protection granted to specific industries, of the criteria by which import policy is guided, etc. An attempt has been made to incorporate all this in the present paper, in the section dealing with the conclusions reached.^{8/}

50. Once again it should be noted that the significance of the average levels calculated in the present study should not be over-estimated or misconstrued. They may be considered representative of the level of tariffs (including other non-tariff import duties and charges) in the countries covered by this study,

^{8/} The more detailed special study of customs duties and other import duties and charges in Argentina, Brazil and Chile was carried out precisely in order to furnish some of these supplementary background data. With the same end in view, in the calculation of the arithmetic means of incidence for the countries referred to, the tariffs concerned were taken into account in their entirety (see Appendix I).

always provided that what is understood by tariff level is the average - arithmetic mean or weighted average, as the case may be - of the percentages of the value of the goods constituting the bulk of each country's imports which are represented by duties and other charges of equivalent effect.

51. The procedure followed in the present study for the computation of the weighted averages of import duties and other charges is similar to that adopted by the United States Tariff Commission to determine the effects of the tariff concessions accorded by that country up to 1952 inclusive (comparison of the weighted averages of the duties in force before and after the granting of the said concessions). It is also analogous to that applied by the Commission of the European Economic Community, inasmuch as the average incidence of the common external tariff approved for the Community in question in March 1960 was calculated on the basis of the imports effected by the States members in 1958.^{9/} The Latin American Free Trade Association has adopted the same procedure in the calculation of the weighted averages of the duties and other charges applied by member countries in their reciprocal trade, which must serve as the basis for computation of the annual reductions to be effected under the provisions of the Montevideo Treaty. It would also have to be followed in computing the average levels of tariff incidence which the signatories of a possible future agreement on the gradual establishment of the Latin American common market would pledge themselves to attain in an initial phase, if this undertaking were to be carried out in line with the recommendations of the Working Group on the Latin American Regional Market.^{10/}

52. It may be noted in this connection that although the results given by the method in question do not lend themselves to satisfactory inter-country comparisons, it is the best and perhaps the only practical way of measuring variations in a given country's tariff level. This is particularly true in respect of tariff variations resulting from concessions granted - for example, those deriving from trade treaties or from the agreement designed to establish a free-trade area -, if and when the same weighting factor is

^{9/} United States Tariff Commission, Effect of trade agreement concessions on United States tariff levels based on imports in 1952 (Washington, 1953) and Commission of the European Economic Community, Third general report on the activities of the Community (Brussels, 1960), p.238. Although neither of these two publications gives a detailed account of the procedure followed in calculating tariff levels, both indicate that duties were weighted by the imports effected in a selected base year.

^{10/} See "Treaty establishing a free-trade area and instituting the Latin American Free-Trade Association", Economic Bulletin for Latin America, Vol.V, No.1 (Santiago, Chile, March 1960), Protocol No.1, and The Latin American common market, op.cit.,
For a more detailed study of the problem represented by the measurement of tariff levels and information on other procedures differing from that adopted in the present study, see League of Nations, Tariff level indices (Geneva, 127-II.34) and Swedish Tariff Commission, Revision of the Swedish Customs Tariff (Stockholm, 1957).

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utilized, that is, provided that duties and other charges before and after their modification or reduction are weighted by the imports effected in a single year or period. This requisite is fulfilled, for instance, by the formula adopted in the Montevideo Treaty, which applies the same weighting factor to duties and other charges on imports from within the area, on the one hand, and to those in force for third countries, on the other.

2. Comparison between the weighted averages of incidence obtained

53. Tables 1 and 2 show, respectively, the weighted averages and arithmetic means calculated for the incidence of import duties and charges, broken down by groups and categories of products, in the case of each of the eleven Latin American countries included in the present study (see also annexes I to XI).

54. As was to be expected, in most instances the arithmetic mean is higher than the corresponding weighted average, but what is really significant is that a very close correlation between the two types of average can be observed. In fact, with few exceptions, they are in the same order of magnitude in each of the various countries, both for total imports and for groups and categories of products. This implies that the conclusions which can be deduced from examination and comparison of the weighted averages are corroborated, on the whole, by the arithmetic means.

55. The first noteworthy aspect of the results of the calculation is that most of the average levels of incidence of import duties and charges obtained are distinctly high. In two countries - Argentina and Paraguay - the weighted average exceeds 50 per cent and the arithmetic mean is over 60 per cent, and only in two others - Mexico and Uruguay - does the weighted average fall below 20 per cent. It must be noted that the average in question would have been a good deal higher in Uruguay's case, if the calculation had taken into account the surcharges and financing costs for the prior deposit imposed as from the end of September 1960, to replace the exchange controls, prior permits and import prohibitions which had previously been applied, particularly before the reform introduced in December 1959.

56. When classified in accordance with the magnitude of average levels of incidence of import duties and charges, the countries under consideration fall into the following groups:

A. By weighted averages

Over 50 per cent	Paraguay and Argentina
From 40 to 50 per cent	Ecuador
From 30 to 40 per cent	Chile and Colombia
From 20 to 30 per cent	Brazil, Venezuela, Peru and Bolivia
Under 20 per cent	Uruguay and Mexico

/Table I

Table 1

WEIGHTED AVERAGES OF THEORETICAL INCIDENCE OF CUSTOMS DUTIES AND OTHER DUTIES OR CHARGES OF EQUIVALENT EFFECT
ON THE C.I.F. VALUE OF IMPORTS IN SELECTED LATIN AMERICAN COUNTRIES ^{a/}

(Percentages)

Country and import year or period

	Argentina (1959)	Bolivia (1957-58)	Brazil ^{b/} (1957-59)	Chile ^{c/} (1957-58)	Colombia (1956-58)	Ecuador (1957-58)	Mexico ^{d/} (1957-58)	Paraguay ^{e/} (1957-58)	Peru (1957-58)	Uruguay (1957)	Venezuela (1959)
Duties and charges in force as at:	30.IV.60	31.XII.59	31.VIII.60	15.III.60	30.IX.59	1.IX.59	31.XII.59	30.IX.60	15.IX.59	15.VII.60	23.II.60
Category I: Primary goods	18.5	24.2	2.2	20.2	28.3	24.7	4.7	26.8	14.5	9.4	35.6
Group 1: Unprocessed foodstuffs	40.6	8.7	1.1	14.2	45.6	23.9	4.1	24.4	12.9	11.0	20.3
Group 2: Raw materials	42.7	16.6	22.0	16.1	19.3	36.2	6.5	50.0	22.7	12.4	68.1
Group 3: Unprocessed fuels	1.0	12.1	0.8	34.1	f/	f/	1.4	51.5	f/	0.1	f/
Category II: Capital, intermediate and durable consumer goods	64.7	13.4	36.2	33.6	28.3	40.7	14.1	61.2	18.6	19.3	12.6
Group 1: Intermediate products	49.6	7.6	26.1	40.6	32.9	38.0	14.2	54.6	18.6	15.8	23.2
Group 2: Processed fuels	1.2	14.1	22.8	40.1	12.1	70.2	6.9	76.2	15.4	15.9	32.0
Group 3: Capital goods	78.2	13.3	45.6	37.3	22.2	29.2	11.7	53.1	15.1	22.3	5.2
Group 4: Durable consumer goods	699.7	29.4	79.1	83.7	113.7	75.2	56.2	72.6	33.3	20.3	14.3
Category III: Manufactured goods for current consumption	66.5	34.2	40.4	56.8	48.2	62.3	30.8	59.2	35.2	19.2	66.3
Group 1: Processed foodstuffs and tobacco	142.4	19.1	50.5	62.8	160.5	114.0	132.8	55.4	26.2	23.3	87.3
Group 2: Chemical and pharmaceutical products	62.9	20.8	35.4	14.7	24.6	42.0	9.8	49.2	20.4	9.5	37.5
Group 3: Other goods for current consumption	63.6	62.6	37.3	55.1	41.1	59.1	24.0	64.6	44.3	18.4	61.3
Total	52.8	20.4	28.8	38.2	32.1	46.7	13.8	56.1	21.8	15.9	28.0

Source: Annexes I to XI.

- ^{a/} Except in the case of Chile, the cost of financing prior deposits in countries applying this type of restriction (Colombia, Paraguay and Uruguay) is included among duties and charges of equivalent effect to an import duty. In respect of Paraguay and Venezuela, the incidence on the f.o.b. value is converted into terms of the equivalent incidence on the c.i.f. value.
- ^{b/} Excluding the higher cost of foreign exchange for products imported under the special category and the cost of financing advance payment of the agio or premium on foreign exchange purchased under the auction system.
- ^{c/} Excluding the incidence of the cost of financing prior deposits and of the supplementary duty or surcharge, since it could not be computed owing to difficulties with respect to tariff classification equivalences; but including the 3 per cent or 30 per cent ad valorem duty on the value of the nationalized goods.
- ^{d/} Average incidence on the statistical value, not on the value as recalculated at official prices.
- ^{e/} Including the sales tax, whose incidence on the c.i.f. value of total imports is approximately 8 per cent as a weighted average and 12 per cent as a simple arithmetical average. Incidences are expressed in terms of the equivalent incidences on the c.i.f. value.
- ^{f/} There were no imports of sufficient magnitude to warrant their inclusion in the sample.

Table 2

ARITHMETIC MEANS AVERAGES OF INCIDENCE OF CUSTOMS DUTIES AND OTHER DUTIES OR CHARGES OF EQUIVALENT EFFECT
ON THE C.I.F. VALUE OF IMPORTS IN SELECTED LATIN AMERICAN COUNTRIES a/

(Percentages)

	Country and import year or period									
	Argentina (1959)	Bolivia (1957-58)	Brazil b/ (1957-59)	Chile c/ (1957-58)	Colombia (1956-58)	Ecuador (1957-58)	Mexico d/ (1957-58)	Paraguay e/ (1957-58)	Peru (1957-58)	Uruguay (1957)
Duties and charges in force as at:	30.IV.60	21.XII.59	21.VIII.60	15.III.60	30.IX.59	1.IX.59	31.XII.59	30.IX.60	15.IX.59	15.VII.60
Category I: Primary goods	54.2	21.1	13.4	40.8	43.3	34.0	7.8	48.2	18.1	12.3
Group 1: Unprocessed foodstuffs	40.4	17.8	9.5	33.5	68.0	32.9	12.8	47.1	15.1	13.8
Group 2: Raw materials	65.0	27.0	19.7	45.1	30.9	35.8	7.0	50.0	22.5	12.4
Group 3: Unprocessed fuels	6.9	12.0	10.2	53.5	f/	f/	2.0	52.5	f/	0.1
Category II: Capital, intermediate and durable consumer goods	96.9	17.6	40.8	45.9	33.9	44.3	16.8	58.8	22.0	24.0
Group 1: Intermediate products	62.1	12.1	31.0	45.3	35.9	43.7	17.2	59.1	23.6	22.7
Group 2: Processed fuels	4.0	14.8	29.3	45.5	11.4	61.0	7.1	59.1	15.9	21.2
Group 3: Capital goods	84.7	17.4	46.1	40.5	26.5	32.7	14.9	52.6	17.6	26.5
Group 4: Durable consumer goods	612.2	37.1	60.0	83.4	100.9	106.5	46.7	72.7	35.2	24.1
Category III: Manufactured goods for current consumption	110.0	52.5	50.4	66.2	58.9	73.1	33.2	66.1	40.9	22.7
Group 1: Processed foodstuffs and tobacco	136.4	35.9	56.3	126.4	137.6	124.8	121.6	70.2	29.1	18.4
Group 2: Chemical and pharmaceutical products	102.7	37.8	25.0	16.5	30.8	59.3	10.9	58.9	20.6	10.1
Group 3: Other goods for current consumption	108.6	58.7	52.0	64.5	57.1	67.6	28.3	65.5	47.9	26.0
Total	91.5	30.3	40.1	49.2	41.3	54.9	18.1	61.5	28.3	21.1
										56.0

Source: Annexes I to XI.

a/ Except in the case of Chile, the cost of financing prior deposits in countries applying this type of restriction (Colombia, Paraguay and Uruguay) is included among duties and charges of equivalent effect to an import duty. In respect of Paraguay and Venezuela, the incidence on the f.o.b. value is converted into terms of the equivalent incidence on the o.i.f. value.

b/ Excluding the higher cost of foreign exchange for products imported under the special category and the cost of financing advance payment of the agio or premium on foreign exchange purchased under the auction system.

c/ Excluding the incidence of the cost of financing prior deposits and of the supplementary duty or surcharge, since it could not be computed owing to difficulties with respect to tariff classification equivalences; but including the 3 per cent or 30 per cent ad valorem duty on the value of the nationalized goods.

d/ Average incidence on the statistical value, not on the value as recalculated at official prices.

e/ Including the sales tax, whose incidence on the o.i.f. value of total imports is approximately 8 per cent as a weighted average and 12 per cent as a simple arithmetical average. Incidences are expressed in terms of the equivalent incidences on the o.i.f. value.

f/ There were no imports of sufficient magnitude to warrant their inclusion in the sample.

B. By arithmetic means

Over 60 per cent	Argentina and Paraguay
From 50 to 60 per cent	Venezuela and Ecuador
From 40 to 50 per cent	Chile, Colombia and Brazil
From 30 to 40 per cent	Bolivia
Under 30 per cent	Peru, Uruguay and Mexico

57. Another striking feature is the considerable scattering of the averages, as well as the substantial difference between those registered in the countries at the upper and lower extremes of the scale.

58. However, such differences are understandable and will be seen to counterbalance each other to an appreciable extent, for the majority of countries, if account is taken of other restrictions which some of them apply to imports. For example, Mexico which has the lowest general level of incidence and applies the lowest or next to lowest rates to almost all groups and categories, prefers to use the system of prior permits as a means of controlling imports, to the extent that approximately 60 per cent of the total average value of imports for the period 1957-58 was constituted by goods thus controlled. It may also be supposed that this type of control prevented or severely restricted the entry of many other imports. Colombia, Ecuador and Venezuela also use this type of restriction to a greater or lesser extent and/or an import ban, while in Brazil the exchange control system acts as a brake, particularly on goods classified in the special category. If such restrictions were not in force, it is to be supposed that the aforementioned countries would make a much wider use of tariff protection, in which case the average level of their duties and charges on imports would be higher, and in some cases perhaps substantially higher, than those calculated in this report.

59. In judging and comparing the average levels of incidence in some countries, other factors must also be taken into account. In the case of Uruguay, it has already been explained that the averages had to be calculated before additional duties and charges and preliminary deposits had completely replaced direct restrictions and that these averages would be considerably higher if new calculations were to be made on the basis of the duties and charges now in force. In the case of Chile it was not possible, as has already been stated elsewhere, to include in the calculation of the averages either the cost of financing prior deposits or the amount of the additional tax. Both are fairly substantial and it may be assumed that, if they had been taken into account, the average rates of incidence for Chile would have been higher than for any of the other countries. (The cost of financing a prior deposit of 1,500 per cent for 90 days is the approximate equivalent of a 90 per cent charge on the c.i.f. value of the goods, and the additional tax in the case of many items is as much as 200 per cent.)

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60. The average levels for Paraguay include the sales tax on imported goods; it has not, however, been possible to determine whether or not an equivalent tax is also levied on domestically-produced goods. If such a tax exists, then the sales tax on imports should not be taken into account and the average levels of incidence would be appreciably reduced (from 56.1 to 48.1 per cent for the overall weighted average and from 61.5 to 49.3 per cent for the arithmetic mean) (for further details see the table in annex VIII).

61. In Argentina and Paraguay, exchange or additional surcharges - which in Paraguay amount to as much as 20 per cent of the f.o.b. value or the equivalent of 24 per cent of the c.i.f. value for almost all items - have been weighted by the total for all imports, in accordance with the method adopted throughout this paper; thus neither Argentina nor Paraguay applies such charges to imports from neighbouring countries. Furthermore, Argentina does not apply them to imports from Peru, nor Paraguay to imports from Uruguay. If these charges had been weighted only by imports subject to such charges, the average levels obtained would have been lower, particularly in respect of foodstuffs and raw materials. Similarly, these averages would have been smaller, although to a much lesser extent, not only for Argentina and Paraguay but also for Chile and Peru if, in calculating them, account had been taken of the preferential duties levied by Argentina on certain imports from Paraguay, by Paraguay to some items from Argentina, Brazil and Uruguay; by Chile to certain items from Argentina and Peru; and by Peru to a few imports from Chile.

62. Much larger adjustments would have to be made in the average levels of some countries to offset the impact of the exchange rate on imports (see above paragraphs 34 to 39). Such an adjustment would involve a substantial reduction in the average levels calculated for Venezuela and, to a lesser extent, for Chile, but would imply an increase in those for Argentina, Paraguay, Peru and Uruguay.

63. The adjustments which might have resulted from taking account of the foregoing observations might have led to some - and in certain countries a considerable - change in the average levels shown in tables 1 and 2 and would have reduced the differences between the extremes. For obvious reasons, the most important of these considerations could not be included, namely the effect of applying direct controls to exports. It seems, however, most probable that their inclusion would not have led to any substantial change in the order of magnitude of the average levels of incidence. The countries concerned would probably have continued to be grouped in much the same way as indicated in paragraph 56.

64. The most important feature of the averages shown would have continued and might even have been accentuated, namely, the high level of most of them. The weighted averages range from a minimum of 13.8 per cent to a maximum of

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56.1 per cent, the mean being of the order of 30 per cent. By way of contrast, the weighted average incidence of the common external tariff approved in March 1960 for the European Economic Community - resulting from its application to all the Community's imports in 1958 - is no more than 7.4 per cent,^{11/} and the average of duties in force in the United States as on 1 January 1953, weighted by imports for 1952, is only 5.1 per cent.^{12/}

65. These pronounced differences and the consequent conclusion that the level of duties and charges on imports is extremely high in the majority of the Latin American countries under consideration are borne out by the results obtained from the arithmetic means if these are calculated on the basis of all the tariff items, as is done in appendix I. The arithmetic means for the three Latin American countries to which that appendix refers - Argentina, Brazil and Chile - are 151, 60 and 93 per cent respectively. Accordingly, they turn out, as was to be expected, to be higher than the weighted averages and the arithmetic means calculated solely on the basis of principal imports (see tables 1 and 2), but they remain in the same order for the three countries and maintain much the same proportional relationship to each other. For France, however, - which country was included in the special study for comparative purposes as a European country applying relatively high duties - the arithmetic mean, calculated in the same way, is not more than 18 per cent.

66. Differences of a similar order may be obtained by comparing the average levels of incidence by groups of products. For instance, the weighted average incidence of duties on raw materials in the common external tariff of the European Economic Community is negligible, while for the Latin American countries covered in this paper it ranges from 6.5 per cent for Mexico to 43 per cent for Argentina, 50 per cent for Paraguay and 68.1 per cent for Venezuela if unprocessed foodstuffs are excluded. (See table 1). The weighted incidence of import duties on capital goods, in only four of the countries under consideration - Bolivia, Mexico, Peru and Venezuela - , is less than 20 per cent. It reaches 45 per cent in Brazil, 53 per cent in Paraguay and 78 per cent in Argentina. The average rate for equipment and other industrial products in the common external tariff of the European Economic Community - where a greater degree of protection than in the Latin

^{11/} Commission of the European Economic Community, op.cit., p.238. According to the Third General Report on the Activities of the Community, the weighted average incidence varies from one group of products to another. It is negligible in the case of raw materials, 5.9 per cent for manufactures and from 13.6 to 17.2 per cent for equipment and other industrial goods.

^{12/} United States Tariff Commission, op.cit. This average covers all imports including those free of duty, in accordance with the practice followed in this paper. Excluding free imports, the average incidence for imports paying duties and other charges is 12.2 per cent.

American countries is justifiable for imports of capital goods - is from 14 to 17 per cent. The arithmetic means calculated in appendix I, taking all tariff items into consideration, are - for each and every one of the ten groups and three categories considered in this paper, as also for all the sections and practically all the chapters of the Brussels Tariff Nomenclature higher and frequently considerably so in the three Latin American countries considered in appendix I than in France. So far as these three Latin American countries are concerned the order of magnitude is usually higher for Argentina than for Chile and higher for Chile than for Brazil.^{13/}

67. The same conclusions regarding the high level of import duties and charges in the majority of the Latin American countries dealt with in this paper may be reached by comparing such duties and charges for each one of the tariff items. By whatever standard they may be judged, duties and charges on imports are too frequently excessively high. Confirmation of this is to be found, for example, in the relevant analysis for Argentina, Brazil and Chile in appendix I. Although in those three countries such excessive duties and charges would seem to be commoner with levels in all cases higher than in the other Latin American countries, it cannot be denied that they are fairly representative of the general situation.

68. One important reservation must be made. Many of the excessively high duties and charges to be found in the Latin American countries and particularly in the three countries covered in appendix I are or appear to be in many cases considerably higher than the rates that would be required to protect domestic industry and make imports prohibitive. In other words, the average rates of incidence obtained for a number of the Latin American countries are artificially high as a result of duties and charges greater than would be required to fulfil the purpose for which they were introduced. If such duties and charges were reduced to a level closer to that really required to ensure effective protection, the average rates of incidence would also fall to an appreciable extent without the restrictive effect of such duties and charges being nullified.

69. It is to be expected that this fall would be greater in the case of the arithmetic means calculated in appendix I for all tariff items. The same would also occur in the case of the weighted averages, as these include many products liable to prohibitive duties and charges but which are none the less imported - sometimes in large quantities - under one or other of the exemption régimes already referred to (see above paragraphs 26 to 33). In computing the average incidence, calculations are made as if such imports paid the duty or charge concerned because it exists and is in force. The exaggeratedly high level of the duty raises the average, particularly in respect of intermediate

^{13/} See appendix I. It should be noted that in that special study it was not possible to take into account for Chile the additional tax or the cost of financing prior deposits.

goods, capital goods and durable consumer goods for Argentina, in respect of processed and unprocessed foodstuffs, raw materials and intermediate goods for Venezuela, and in general in respect of capital goods and, to a lesser extent, intermediate goods for the remaining countries. The conclusion therefore seems obvious that, if exemptions were not granted - which apply most frequently, particularly in Argentina and Venezuela, to goods liable to very high or prohibitive duties and charges - the products enjoying such exemptions would not be imported or would be imported on a much smaller scale. The weighted averages would consequently probably be much lower than those shown in table 1, 70. The wide use of exemptions from import duties and charges in the majority of the Latin American countries included in this paper undoubtedly has an appreciable and varied effect on the magnitude of such duties and charges and on their theoretical levels. Some of these practices have already been described. Much more important than such exemptions is the fact that, in the majority of cases, the efficient use of special exemption régimes as an instrument of protection and guidance in industrial development requires the levying of high and even prohibitive import duties and charges; only if they exist and by authorizing total or partial exemptions from them can imports of given quantities for certain purposes be possible, the only alternative being to subject importation to a number of other conditions. Consequently, the level of duties and charges has to be higher than that which would prevail if such control did not operate through the granting of exemptions but rather through a direct system of prior import permits, as occurs, for example, in Mexico. As a result, the exemptions system is in itself a factor determining the high level of import duties and charges.^{14/}

71. In such circumstances, the level of the duty would, as has already been pointed out (see above, paragraph 47), give an approximate measure of the restrictive effect of the prior permit which is normally necessary in order to benefit from the exemption. However, in some of the countries studied, the existence of exemption régimes for goods imported by public bodies, State or semi-State enterprises, or for certain types of activity or industry - for example, railways, power, petroleum exploration and extraction, etc. - seems to give rise to theoretically high duties and charges on such products which are more noticeable for their absence than for their incidence. Accordingly, it is reasonable to suppose that at least part of the surcharges of 150 per cent theoretically applicable to the importation of many items into Argentina are attributable to the fact that, as such items are normally only imported under the exemption régime, it was not considered necessary to include them specifically in the lists of items free of surcharge or liable to rate of surcharges less than 150 per cent.

^{14/} It may happen that, when a new customs tariff is drawn up or the existing tariff substantially modified, protective duties are levied in favour of industries not yet established but whose development it is proposed or thought desirable to stimulate. Later, pending the establishment of the new industry concerned, exemptions are granted to import the product which it is proposed to manufacture in the country. Or else, exemptions may also be granted if after the establishment of the new industry, it is not yet in a position to satisfy demand completely, and the exemption will then cover the difference between domestic output and demand.

Table 3

THEORETICAL AND ACTUAL INCIDENCE OF CUSTOMS DUTIES IN
CERTAIN LATIN AMERICAN COUNTRIES

(Percentages)

Country		Weighted average of theoretical incidence of duties and charges <u>a/</u>	Approximate average of actual incidence <u>b/</u>	Proportion between actual and theoretical incidence
Argentina	Customs duties	4.6	2.8	61
	Exchange surcharges	47.3	16.6	35
Bolivia		13.0
Brazil		25.9	12-12.5	46-48
Chile		38.2 <u>d/</u>	15.0 <u>d/</u>	39
Colombia		28.7 <u>e/</u>	13.7	48
Ecuador		29.7	26.8	90
Mexico		13.8	10.0	72
Paraguay		27.8	16-20	56-72
Peru		21.2	10-11	47-52
Uruguay		10.0 <u>e/</u>
Venezuela		20.0 <u>f/</u>	11-12	55-60

a/ For further details see Annexes I to XI.b/ Actual customs revenue in the most recent year or years for which data are available, expressed as a percentage of the total value of imports for those years.c/ Duties in force in September 1959, after an appreciable increase in such duties in May 1959.d/ Including the ad valorem tax on the nationalized value.e/ Including the exchange surcharges in force as on 15 July 1960.f/ Incidence estimated approximately on the basis of the duties in force prior to 1 September 1959; the incidence calculated on the basis of duties in force in February 1960 amounts to 28 per cent of the c.i.f. value.

72. In any case, although it may be thought reasonable not to adjust, totally or partially, the theoretical levels of incidence of the import duties and charges so as to take into consideration the effects of the exemption régimes, it is obviously very interesting to compare the theoretical levels with the revenue from the duties and charges levied in practice. In general, this comparison has had to be confined - except in the case of Argentina - to the theoretical and real levels of customs duties proper, since there is no information available on the revenue from duties and charges of equivalent effects (see table 3). Moreover, even in the case of the revenue from customs duties, official statistics are not as precise as they might be in defining the items included under the head of "customs revenue", nor does this revenue necessarily correspond to the customs duties considered in the present study. Even so, a comparison of this type gives a fairly close idea of the scale of the exemptions and of the relation between the theoretical and real levels of incidence of import duties and charges in the case of the countries under review.

73. The difference between the averages for theoretical incidence as given in table 3 and those in the last line of table 1 is due to the fact that the latter include duties and charges that have an effect equivalent to customs duties. The difference therefore indicates the average incidence of the said duties and charges. It may be assumed that the special exemption régimes act in the same way on these duties and charges as on customs duties, and that their real incidence must therefore differ from their theoretical incidence in approximately the same proportion as in the case of customs duties.

74. All the consideration, limitations and reservations mentioned with respect to the general averages of incidence of import duties and other charges are applicable, albeit to a varying extent, to the individual averages computed for each of the categories and groups in tables 1 and 2. This should also be borne in mind when making any analysis or comparison of these averages.

75. The analysis and comparison of individual averages leads to one observation - referring primarily to the weighted averages in table 1, although these averages bear out the arithmetic means in table 2 - and that is that, in most cases, the averages for the different categories and groups are inter-related, within each country, in such a way as to correspond, grosso modo, to what may be considered as the rational structure of the customs tariff and of other import duties and charges; in other words, the average incidence of such duties and charges is less for primary goods than for manufactures, etc. This conclusion is, however, subject to important limitations and reservations in view of

/the exceptions

the exceptions that are made and of the high level - unduly so in a large number of countries - of the averages for certain groups of products - unprocessed foodstuffs, raw materials and capital goods - for which a much more favourable treatment might be expected.

76. It is true that this situation is very largely attributable to the fact that the use of exchange and quantitative controls, as well as of special exemption régimes, has a far-reaching effect, as already noted, on the structure of import duties and charges in the countries under consideration. It is also evident that in most of these countries, the structure in question suffers from serious shortcomings and in some ways has had and continues to have an adverse influence on their economic development.

77. Thus, although the average for the duties and charges on primary goods (Category I) is considerably less than that for manufactured goods for current consumption (Category III) in every country, this is primarily due not to the fact that duties and charges on goods in Category I are low - which indeed they are not - but to the exceedingly high level of duties on those in Category III, particularly processed foodstuffs (including beverages and tobacco).

78. Within Category I, the averages for the duties and charges levied in the majority of the countries on unprocessed foodstuffs and raw materials are surprisingly high. Although, in several countries, many of these charges are not applied or are applied partially through the exemptions régime, their high level is in any case indicative of heavy protection for the domestic production of such articles which does not seem very compatible with the countries' status as primary producers. Moreover, this protection for primary goods tends, as is only natural, to raise the level of duties and charges required to give adequate protection to intermediate and manufactured goods.

79. Another striking fact is the exceedingly high average level of duties and charges for capital goods in general, contrary to what might be expected in the case of countries that are developing economically but are not yet ready to produce such goods themselves. In fact, in four countries only are the charges less than 20 per cent and, in one alone, less than 10 per cent.^{15/} At this juncture it might be useful to recall once again that, since the duties and charges are, however, theoretical in many cases, imports are frequently protected by the exemption régime.

^{15/} In this paper, the capital goods group includes components, spares and parts for such goods. These components, spares and parts are usually subject to fairly heavy duties and charges in the countries that manufacture items of this kind, which tends to raise the average incidence of duties and charges for the group as a whole.

/Nevertheless, as

Nevertheless, as pointed out before, exemptions are seldom granted automatically, as special authorization has to be obtained and certain requirements fulfilled.

80. Although in eight of the eleven countries studied, the average for the duties and charges on raw materials is less than for intermediate goods, in some instances the difference has been reduced. In the three remaining countries - Bolivia, Peru and Venezuela - the relation is the antithesis of what would be expected of a rational structure. Conversely, there is a more consistent and logical relation between the average for duties and charges on raw materials and intermediate goods, on the one hand, and on durable and non-durable consumer goods, on the other - excluding chemical and pharmaceutical products which are often given preferential treatment as a group. There is one exception to this rule: in Venezuela the average for raw materials is higher than for other current consumer goods. Nevertheless, the exemption régime plays a major part as regards raw materials in that country.^{16/}

3. Distribution of imports by categories and groups of products

81. It is clearly very difficult to form an opinion on and make a satisfactory interpretation of the average levels of incidence of import duties and charges for different groups and categories of products. This is because any comparison of averages has to be constantly adjusted in the light of fresh information and because the picture that emerges tends to be rather confused. The ideal solution would be to quantify or measure, for each group and category of products, the average level of the aggregate effect on imports of the different restrictions applied - customs duties, other charges, exchange and quantitative controls, etc. - and of the exemption régimes.

82. Although this solution is impracticable, a fairly close idea of the combined effect of the different elements that go to make up a country's import policy may be obtained from the composition or structure of its imports, as indicated in table 4 for the countries considered in this study. Admittedly, the composition of imports is only the outcome of the different measures that compose an import policy, but policy has a preponderant influence on composition and, in some cases, directly determines it. Moreover, the composition of imports is also largely

^{16/} The existence of serious defects in the structure of import duties and charges has been confirmed, in the case of Argentina, Brazil and Chile, by the analysis of these duties and charges made in appendix I, as well as by the calculations of average incidence for the categories and groups to which this study refers and for the chapters and sections of the Brussels Tariff Nomenclature, due account being taken of all items on the relevant tariffs.

Table 4
LATIN AMERICA: IMPORT DISTRIBUTION BY GROUPS AND CATEGORIES OF PRODUCTS IN SELECTED COUNTRIES
(Percentages)

	Argen- tina (1959)	Boli- via (1957- 1958)	Bra- zil (1957- 1959)	Chile a/ (1957- 1958)	Colom- bia (1956- 1958)	Ecuad- or (1957- 1958)	Mexi- co a/ (1957- 1958)	Para- guay (1957- 1958)	Peru (1957- 1958)	Uru- guay (1957)	Vene- zuela (1959)
<u>Category I - Primary goods</u>											
Group 1: Unprocessed foodstuffs	26.1	8.7	24.4	20.1	10.2	5.6	13.6	14.6	11.6	34.3	6.5
Group 2: Raw materials	3.5	7.3	11.3	8.9	3.7	5.2	7.6	13.2	9.7	19.0	4.4
Group 3: Unprocessed fuels	7.6	1.2	2.2	5.7	7.2	0.4	4.8	1.3	1.9	9.3	2.1
	14.9	0.3	10.9	5.5	-	-	1.2	0.1	-	6.0	-
<u>Category II- Capital, intermediate and durable consumer goods</u>											
Group 1: Intermediate goods	70.2	56.4	70.1	65.4	70.5	62.7	80.6	49.8	66.5	54.3	67.6
Group 2: Processed fuels	34.2	14.9	21.2	16.3	31.2	21.4	22.3	11.6	18.2	22.4	21.4
Group 3: Capital goods	7.7	3.2	10.8	5.5	4.5	6.8	5.2	11.1	4.5	2.1	0.9
Group 4: Durable consumer goods	27.2	33.1	36.8	41.8	33.3	28.9	51.9	18.8	34.6	26.2	34.9
	1.0	5.3	1.4	1.8	1.6	5.6	1.2	8.4	9.2	3.6	10.5
<u>Category III - Manufactured goods for current consumption</u>											
Group 1: Processed foodstuffs and tobacco	3.7	34.8	5.4	14.5	18.6	31.7	5.8	35.6	21.2	11.4	25.2
Group 2: Chemical and pharmaceutical products	0.1	19.2	1.4	8.6	1.6	4.2	0.7	9.8	6.5	3.0	7.7
Group 3: Other goods for current consumption	0.5	3.6	0.8	1.0	3.7	7.5	2.5	5.3	2.9	0.6	3.1
	3.1	12.0	3.3	4.9	13.3	20.0	2.6	20.5	12.5	7.8	15.1
<u>Total</u>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Sample as a percentage of total imports	93.9	91.9	92.9	53.2	94.3	87.5	83.8	86.2	85.1	87.3	86.6

Sources: Annexes I to XI.

a/ Excluding imports into free zones and sectors.

/dependent on

dependent on a country's production structure and degree of economic development, both of them factors that, in turn, are closely linked to import policy, through the reciprocal operation of cause and effect.

83. The period covered by the data in table 4 is, of course, short - one year for Argentina, Uruguay and Venezuela; the annual average of a three-year period for Brazil and Colombia and that of a two-year period for the other countries - and therefore perhaps insufficiently representative. Nevertheless, it does show that the different countries have an import composition that is very much what might have been expected in view of their production structure, the respective stage reached by their economic activities and the criteria and considerations underlying their import policies.

84. A salient consideration has been and still is, in the majority of the countries, their balance-of-payments difficulties. Many of the restrictions on imports are imposed with these difficulties in mind. For this reason, the restrictions are applied selectively so as to limit imports of non-essential goods as far as possible while leaving the way open to goods that are essential for production or consumption (foodstuffs, raw materials, intermediate goods, fuels, capital goods). This explains, for instance, the high proportion of unprocessed foodstuffs in Uruguay's imports during 1957.

85. Of the percentages in table 4, those which best illustrate the general structure of production and the degree of economic development reached by each of the countries, as well as the effect of the import restrictions imposed for protectionist purposes or to stabilize the balance of payments, are undoubtedly the percentages for durable consumer goods (Group II-4), other current consumer goods (Group III-3), and, to a lesser extent, processed foodstuffs (Group III-1). The share of these groups in total imports is decidedly low in the more industrialized countries and high in the relatively less advanced countries.

86. The percentage for imports of capital goods (Group II-3) is also very high. In every country - except Argentina and Paraguay - this group of products is pre-eminent in the imports effected during the period to which the national data in table 4 refer. In the case of Argentina, the exception coincides with its economic situation in 1959. In every country, as pointed out before, these imports are given preferential treatment, either through the application of low duties and charges, or more commonly, through complete exemption from such charges, which would otherwise have a very limiting effect.

87. Lastly, it should be pointed out that, in the case of unprocessed foodstuffs (Group I-1) and fuels (Groups I-3 and II-2) - despite the fact that the relative magnitude of imports is primarily determined by structural

/or institutional

or institutional factors - their importation on a large scale coincides with relatively low levels of duties and charges for such items, as may be seen from table 1. Only one of the countries under discussion - Colombia - levies on its imports of unprocessed foodstuffs duties and charges that are high in comparison with those levied on nearly all the other groups of products, as part of a protectionist policy and as an incentive to domestic production. Consequently, Colombia's imports of unprocessed foodstuffs are relatively smaller than those of the other countries, with the exception of Argentina.

III. CONCLUSIONS

88. On various occasions in the course of this study, conclusions have had to be drawn and comments made with respect to the general structural characteristics of the measures by means of which the import policies of the different countries are implemented, as regards the levels of duties and charges, etc. These conclusions and comments will be presented in a more systematic way in the following paragraphs, on the basis not only of the considerations outlined above but also of the many other background data collected during the preparation of this document.

89. The first point worth noting is the great complexity of the import systems in force in nearly all the countries considered. In most of them, there is a great multiplicity of import duties and charges and/or controls of other kinds, supplemented by the wide application of various administrative measures, particularly that of exemption from payment of duty.

90. As a result in only two of the eleven countries studied - Bolivia and Peru - is the customs tariff the prime instrument of trade policy and the principal determinant of the composition of imports. In all the others, these functions have been largely and even almost entirely usurped by non-customs duties and by restrictions and measures of other kinds. In some countries, the role of the customs tariff and its influence on the composition of imports are unquestionably of minor importance, and as an instrument it is often thought of, in such cases, as out of date or or ineffectual.

91. Nevertheless, there is a marked tendency to eliminate exchange and other direct controls, as well as to restore to the customs tariff its onetime importance as the principal element in an import policy: This is not being done immediately; controls are first replaced during an interim period by non-tariff duties and charges and prior deposits. This transitional procedure is considered necessary primarily because the formulation of a new customs tariff requires much time and effort, and also because of the seeming persistence of a preference for restrictions - such as non-tariff duties and charges and prior deposits - that can be established, amended and applied by administrative decision, and are outside bounds set by the obligations contracted in trade agreements with respect to customs duties.

92. Another characteristic of the import régimes studied is their marked instability not only as regards their overall structure but also, and more particularly, with respect to the treatment accorded to individual products. In fact, in most of the countries, frequent changes are made in the lists of surcharges, additional taxes, prior deposits and permits, etc. and, in some, even in customs duties. This is apparently largely due to the fact that, precisely because of the ease with which these restrictions

/can be

can be modified by administrative decision, the sectors concerned are continually pressing for more favourable treatment. Another factor is the desire to adjust the treatment accorded to the different products so as to bring it into line with the changes in the economy. Whatever the case, the untoward use of the flexibility inherent in a system that is subject to arbitrary administrative decisions foments uncertainty with all its consequent ill-effects on the national economies.

93. The foregoing considerations, and above all the way in which the majority of the countries have been devising and applying the different instruments of trade policy, explain why there has been no rational and well-planned import policy in these countries, in other words, a policy that derives from an integrated and well-balanced concept of economic development requirements.

94. It may be noted, indeed, that nearly all the countries in question lack a soundly conceived, planned and formulated policy of protectionism. On the contrary, protection is frequently provided in a haphazard and extremist way without sufficient regard for the more rational and efficient utilization of resources or the programming of economic development.

95. It is therefore customary in the countries under consideration for imports of goods that compete with those of domestic industry to be banned or subjected to a system of prior permits which is in practice tantamount to banning. In fact, one of the habitual prerequisites for authorizing imports is the assurance that the product has no domestic counterpart. Wherever direct controls have been abandoned, they have been replaced by a system of duties, charges, prior deposits, etc. which is prohibitive in its effects. In other words, the policy adopted is usually that of preventing or forestalling any real or potential competition from foreign goods.

Appendix I

ANALYSIS OF IMPORT DUTIES AND CHARGES IN ARGENTINA, BRAZIL AND CHILE

Note: This Appendix is available in Spanish only (E/CN.12/554/Add.12).

/Appendix II

Appendix II

CLASSIFICATION BY SITC ITEMS OF GOODS IN THE CATEGORIES AND GROUPS
CONSIDERED IN THE PRESENT STUDY

Note: This Appendix is available in Spanish only. Part II of the Spanish version contains a list of the code numbers of the corresponding SITC items, which can be looked up in the Standard International Trade Classification (United Nations Publications, Sales No.: 1951.XVIII.1).

Annexes I - XI

Note: These annexes are available in Spanish only. Each deals with customs duties and other import charges and restrictions in one of eleven different countries, and is issued as a separate document, as follows:

Annex I	Argentina	(E/CN.12/554/Add.1)
Annex II	Bolivia	(E/CN.12/554/Add.2)
Annex III	Brazil	(E/CN.12/554/Add.3)
Annex IV	Colombia	(E/CN.12/554/Add.4)
Annex V	Chile	(E/CN.12/554/Add.5)
Annex VI	Ecuador	(E/CN.12/554/Add.6)
Annex VII	Mexico	(E/CN.12/554/Add.7)
Annex VIII	Paraguay	(E/CN.12/554/Add.8)
Annex IX	Peru	(E/CN.12/554/Add.9)
Annex X	Uruguay	(E/CN.12/554/Add.10)
Annex XI	Venezuela	(E/CN.12/554/Add.11)

