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INTER-LATIN AMERICAN PAYMENTS

Annex II

FOREIGN TRADE SYSTEMS IN SELECTED COUNTRIES

(Argentina, Bolivia, Brazil, Chile, Paraguay, Uruguay)

CONTENTS

/ARGENTINA

A R G E N T I N A

Argentina's main instrument for regulating its foreign trade is the exchange system, which is used not only to protect the balance of payments but also for other purposes. The protection of domestic output, the encouragement of certain exports and, in general, the greater part of Argentine trade policy are based primarily on exchange measures. These comprise mainly the provisions adopted by the Central Bank of the Argentine Republic in accordance with the regulations laid down in the decrees and resolutions on which the present exchange system is based and with the contractual commitments which Argentina has entered into with other countries. 1/ In addition to the exchange measures adopted by the Central Bank - or in some cases, decreed by the Executive or by the Ministry of Finance - there are also quantitative restrictions in the form of quotas or licences (<u>certificados de necesidad</u>) issued for the most part by the Department of Industry and Mining (<u>Secretaría de Industria y Minería</u>). No provision is made for imports of many other commodities so that in fact they are prohibited. The tariff has lost its value as an instrument of trade policy and even as a source of revenue, for reasons which will be explained later.

The present exchange system dates from the end of October 1955, when an official market was established with a single exchange rate of 18 pesos to the dollar (or its equivalent in other currencies) and a free market in which transactions in foreign currencies are conducted freely at the rates and in the currencies agreed upon by buyers and sellers. The exchange rate for currencies on the free market is determined by supply and demand. In mid-1958 it fluctuated around 44 pesos to the dollar.

Imports and exports are effected mostly through the official market. During 1957, about 74 per cent of the total value of imports and slightly

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1/ Legislative decree No. 13.126 of 22 October 1957 reorganized the Central Bank and brought its charter into line with Argentina's reformed banking system. Article 2, paragraph (c), which lays down the functions to be discharged by the Central Bank in exchange matters, states that the Bank is to apply the acts, decrees, resolutions and other measures promulgated by the Ministry of Finance in this field.

/more than

more than 80 per cent of exports involved goods in respect of which foreign currencies were negotiated on the official market. Export items not specifically included in the official market are sold abroad through the free market. Imports not included in the official market system may be effected through the free market, always provided they are included in the relevant schedules. Items which are not specifically included in the official market or in the free market may not be imported since no provision is made for such a contingency.

In the case of both imports and exports the policy followed has been to transfer commodities from the official exchange market to the free market to the extent that circumstances permit and with due regard to foreign currency supply and demand, supply needs, industrial requirements or domestic production, etc. Financial transactions and other movements of funds from and to foreign countries are included within the free market.

The Central Bank makes an annual estimate of the income and expenditure in foreign currency on both exchange markets - free and official - and for each monetary area. Every month it calculates the imports to be effected by each market - in the case of the official market, on the basis of the exchange permits granted for the quotas set for imports of fuel, etc. - for the purpose of anticipating foreign currency needs. In order to ensure equilibrium between its pledges to provide currencies and the available supply, the Bank may suspend imports of certain items, require licenses, limit imports from certain monetary areas, use the surrender value (aforo) method, transfer imports of some articles from the official to the free market, regulate the utilization of banking credit by importers and also increase prior deposits and exchange premiums etc.

1. System and procedure for items imported through the official exchange market

Items imported through the official exchange market, i.e. those in respect of which foreign currencies are allocated at the official rate of 18 pesos to the dollar (or its equivalent in other currencies), are set forth in the schedule annexed to Central Bank Circular 2304, dated 28 October 1955, and its subsequent amendments. Among the items covered in the official market particular mention may be made of fuels, pharmaceutical

/products and

products and most raw materials and foodstuffs. Before an article can be imported, a circular from the Central Bank must have authorized payment for it in the official market and have established the regulations or procedure under which importation can be effected (countries from which importation is authorized, who may import, whether price controls should be applied or a surrender value set, whether a licence is necessary, etc.). Items covered by the official market but in respect of which the Central Bank has not issued a circular authorizing importation - i.e. where no provision is made for such a contingency - may not be imported.

In the circular authorizing importation of an item covered by the official exchange market, the country of origin of the item is specified in some cases; in others it may be imported from any country. In still other cases, items may be imported only from one or several of the 15 groups of countries or monetary areas classified together in Argentina for the purposes of the import system. Each country or monetary area may appear in more than one group and this actually happens in the majority of instances. Group 1 comprises the sterling area, the countries of continental Europe - excluding Spain, Portugal, Turkey and Greece - and the countries bordering on Argentina, and Japan and Israel; group 2 consists of the sterling area, Austria, Belgium-Luxembourg Economic Union, Bolivia, Brazil, Czechoslovakia, Chile, Denmark, Federal Republic of Germany, Finland, Hungary, Israel, Italy, Japan, Netherlands, Norway, Paraguay, Poland, Romania, Sweden, Switzerland, USSR, Uruguay, Yugoslavia and the French franc zone; group 3 includes Chile, Paraguay and Bolivia; group 4, Bolivia, Brazil, Chile, Paraguay and Uruguay; group 5, the countries bordering on Argentina and the sterling area; group 7, the dollar and sterling areas; etc. In most cases, imports are authorized from the countries or monetary areas in groups 2, 3, 4 or 13 or indeed from any source. In other words, the area from which no provision is made for imports is normally that of the dollar. In addition, there are certain items - coffee, cacao, fruit, timber (up to the beginning of 1958), semi-processed copper, etc. - imports of which are allowed only from one or all of the countries bordering on Argentina. On the other hand, the neighbouring countries are included among the sources of practically all the permitted imports, except in a few cases of no practical importance (for example, jute sacking may be imported only from India and Pakistan).

/Imports of

Imports of articles covered by the official market may usually be effected by importers and users registered with the Customs Department (Dirección General de Aduanas) and by co-operatives registered with that Department and with the Central Bank. In other cases, authorization to import is granted only to registered importers and, in a few rare instances only, to a public or private body such as the Department of Industry and Mining (Secretaría de Industria y Minería), the Department of Military Manufactures (Dirección General de Fabricaciones Militares), the Sociedad Mixta Siderúrgica Argentina, etc.

Generally speaking, there are no quota limitations nor quantitative restrictions - except import prohibitions which are applied temporarily or permanently to numerous items importation of which is not provided for - since the system of quotas and their distribution among the persons concerned has already been abolished. Furthermore, in order to import certain articles it is necessary to present a licence (certificado de necesidad) which is normally issued by the Department of Industry and Mining (e.g., for copper ingots and electrolytic copper from Chile, artificial fertilizers, acids), by the Department of Agriculture and Livestock (Secretaría de Agricultura y Ganadería) (for seed potatoes), by the Energy Department (Dirección Nacional de Energía) (for coal and coke) or by the Ministry of Social Welfare and Public Health (Ministerio de Asistencia Social y Salud Pública) (for certain medicinal products, opium, coca, etc.). Licences (certificados de necesidad) are issued for such reasons as that of protecting domestic industry or facilitating the internal distribution of a given commodity (as in the case of Chilean copper) or in the interest of public health. Petroleum and its derivatives are imported according to annual quotas fixed by the Energy Department. This body also divides up the aggregate quota among authorized importers (Yacimientos Petrolíferos Fiscales and private petroleum companies) and for this purpose issues individual import permits. Moreover, the Fuel Co-ordination Committee (Comisión Coordinadora de Combustibles) has to approve each exchange application - also for coal and coke imports - bearing in mind the price, volume and area from which imports are requested, etc.

/In order

In order to import through the official market, it is necessary to obtain an exchange permit issued by the Central Bank. This permit is granted automatically (automatic agreement system) provided that the conditions laid down for the importation of the item have been complied with. In general permits are valid for six months but in exceptional cases this period may be extended. If the item has a surrender value (aforo), i.e. a maximum price in respect of which the Central Bank grants foreign currency at the official exchange rate [2], and the application submitted by the importer quotes a price less than or equal to the surrender value, then the application is granted forthwith - at the price quoted by the importer if it is less than the surrender value; when the surrender value is less than the purchase price, the importer may negotiate the difference through the free market. As regards items which have no surrender value, there is a price control system supervised by a Committee consisting of one Central Bank official and representatives of private groups which vary according to the item involved. The Central Bank issues the exchange permit if this Committee approves the price quoted by the importer in his application, in other words, if it considers that the price is not excessive or artificially high. By these means, it seeks to ensure that the foreign exchange allocated by the Central Bank at the official rate represents the real value of the commodity imported and not an exaggerated value, part of which may be remitted later to Argentina and negotiated at the free-exchange rate.

Since 2 January 1958, it has been necessary to make an advance deposit in national currency equivalent to 20 per cent of the f.o.b. import value. (This deposit is 100 per cent for merchandise imported through the

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2/ The system of aforos, which was applied during the 'thirties at the time of the first period of exchange control was reinstituted in August 1956 by circular 2572. Instead of price controls, a surrender value or maximum price was fixed periodically for each article by the Exchange Control and Permits Office (Gerencia de Normas y Permisos de Cambio) of the Central Bank. The main object of this system is to avoid exchange manipulations.

/free market).

free market).[3] These deposits, which may be made by importers in any Argentine bank are transferred every day to the Central Bank and must be kept for a minimum of 120 days. They are returned once the merchandise is actually on its way to its final destination, i.e., after it has been cleared by customs. Consequently, they may not be used for the payment of duties nor for exchange agios or premiums on the free market.

The advance deposit, established by the Central Bank in its circular 3116 of 17 December 1957, is designed to restrict imports because of the deficit in the balance of payments. In addition, there are certain limitations on the granting of banking credit to finance imports, both through the free and official markets. No such deposit is required for imports of fuel and newsprint - among other items covered by the free market - nor, under the terms of circular 3140 of 16 January 1958, for imports of goods originating in Bolivia, Brazil, Chile, Paraguay and Uruguay, and articles designed for use and/or consumption south of the 42nd parallel. Since 1 August, certain imports, for which equal amounts are payable through the official and free markets respectively, have also been exempt from the deposit.

With regard to the actual procedure applying to imports paid for through the official exchange market, it has already been pointed out that any such imports require an exchange permit from the Central Bank, which is tantamount to an import permit since it enables the importer to obtain the foreign currency necessary to ship the merchandise from abroad.

Once the licence has been obtained (where necessary), the importer submits his application for an exchange permit to the Central Bank through an agent or authorized bank. At the same time, he undertakes to use all the exchange covered by the permit - with a margin of 10 per cent - or to pay 20 per cent compensation on the unused portion. He also promises to return the permit once it has been used so that the Central Bank can register the operation as completed. According to the relevant rules, the

3/ In the case of imports only partially financed through the official market - goods to which surrender values or similar devices apply - the deposits are increased proportionately by the exchange percentages and rates corresponding to each market.

/importer must

importer must submit to the Central Bank, together with his application for a permit, the guarantee of a bank authorized to engage in exchange operations. 4/ When the application for an exchange permit reaches the Central Bank, there are two alternative procedures. If the item has a surrender value, the total amount of foreign exchange necessary to cover this surrender value or the price quoted by the importer, whichever is less, and the volume of the goods imported are determined. The permit is then issued after a delay of about three days. If the item has no surrender value, it comes under the jurisdiction of the price control Committee. The latter may approve the price quoted by the importer or reject the application if it considers that the price is too high. In that case, the importer may request reconsideration of his application. As the Committee meets at least once a week and on each occasion considers applications submitted as late as the day before, the maximum delay in issuing the permit, in addition to the two or three days required by the Central Bank, is one week.

As already pointed out, the exchange permit is valid for six months except when conditions on the world market are such that goods cannot be imported within this period. 5/ Once the permit has been obtained, the

4/ The Central Bank, in issuing the exchange permit, also used to give the importer a guarantee in respect of the exchange rate - i.e. guaranteeing the availability of foreign exchange at the rate for which the permit was issued - for the period of validity of the permit. The importer paid interest at the rate of 1.25 per cent per month for the guarantee. This automatic or compulsory guarantee was abolished as from 2 December 1957 by circular 3127 of 3 January 1958 and was replaced by a system which enabled importing firms, which so desired, to cover exchange risks by purchasing fixed-term exchange in the official market by means of an application (form 1340) made through an institution authorized to engage in exchange operations. These applications for purchases of fixed-term exchange are valid for nine months excluding the month of their acceptance and may be submitted when the importer already is in possession of the appropriate exchange permit. For this sale of fixed-term exchange the Central Bank charges interest at the rate of 0.04 per cent per day from the date of the application until final payment or cancellation.

5/ There are imports for which exchange permits are issued with a shorter period of validity. These shorter periods are laid down in the specific regulations applying to such imports which include, for example, bananas, pineapples and oranges from Brazil.

/importer waits

importer waits until the shipping documents and the merchandise arrive in order to clear it from customs and forward it to the place of destination. Before this may be done, a certificate must be presented to the customs authorities to show that the advance deposit amounting to 20 per cent of the f.o.b. value of the goods in question has been made. As already stated, this deposit is not required for imports from countries bordering on Argentina. Once the goods have been cleared, the customs authorities issue a forwarding certificate (certificado de despacho a plaza), which the importer presents to his bank so that the latter may obtain from the Central Bank the foreign exchange needed to pay the foreign exporter. The Central Bank provides the exchange coverage by transferring the requisite currency abroad once it has received the forwarding certificate. Presentation of this certificate is also necessary to allow the Central Bank to return the 20 per cent deposit to the private bank and thence to the importer always provided that at least 120 days have elapsed since it was made. 6/

2. System for items imported through the free exchange market

The items which may be imported through the free exchange market are set forth in the schedules annexed to circulars 2305 and 2306 issued by the Central Bank on 28 October 1955 and subsequently amended.

Circular 2305 relates to items which may be imported through the free market without charge; circular 2306 concerns items on which an exchange premium (recargo de cambio) is levied. In most cases, this premium is between 20 and 40 pesos per dollar of the c.i.f. value of the item. On motor-vehicles, accessories and spare parts the premium ranges from 10 to 300 and in some cases 450 pesos per kilogramme. When the premium is charged per dollar, the price Committee which operates in the official market intervenes and controls the price on which the premium is charged. The premium is paid by the importer when he clears the merchandise from customs.

6/ See below the description of the interim system set up on 1 August 1958 for imports through the official market.

/Items imported

Items imported through the free market are mostly capital goods (machinery and motor-vehicles and their respective spare parts), chemical products, various raw materials and, in general, non-essential finished goods. Imports of industrial machinery through the free market is subject to a series of special regulations set forth in circular 2881 of 24 May 1957 and in other supplementary circulars. According to these, imports of industrial machinery included in the schedules are allowed if they are financed by instalment payments from abroad. The minimum term is 8 years when the machinery is shipped from the dollar area and 4 years from other countries. The initial payment is up to 20 per cent of the total f.o.b value and the remaining payments are made in equal annual instalments. The first of these subsequent payments may not be made earlier than one year from the time of the initial payment. However, in accordance with circular 3143, if the machinery imported is financed totally or partially by the Export-Import Bank, the periods for which credit is granted and also the times at which amortization payments are made may be freely agreed upon by the parties concerned. Machinery may also be imported as a means of investing foreign capital or of employing funds which the user holds abroad.

Although in most cases imports covered by the free market may be effected without permits or action by the Central Bank, there are various items requiring licences. These are usually issued by the Department of Industry and Mining (in the case of wire, copper cables, newsprint and other types of paper) and in some cases by the Transport Department (_Secretaría de Transportes_), the Aviation Department (_Secretaría de Aeronáutica_) or the Ministry of Social Welfare and Public Health. Certain items require a forwarding permit issued by the Central Bank.

Although somewhat more elastic, the same regulations concerning the country of origin and the persons or bodies authorized to import as were quoted in respect of items imported through the official market are applied to items imported through the free market. Generally speaking, items may be imported from any country of origin or from countries in group 13 (which excludes the dollar area) and, in nearly all cases, only by importers registered with the Customs Department.

/Finally, since

Finally, since 2 January 1958, it has been necessary to make an advance deposit for items imported through the free market equivalent to 100 per cent of the f.o.b. value of the imported merchandise. Exceptions to this rule are imports of industrial machinery listed in circular 2881 and subsequent circulars, i.e., those which can be financed abroad by instalments or as capital investment. Imports from countries bordering on Argentina and those despatched beyond the 42nd parallel are also exempt from deposits. Such deposits are subject to the same conditions as those pertaining to imports effected through the official market.

In order to import via the free market goods originating in countries bordering on Argentina, importers must obtain a forwarding permit from the Central Bank for presentation to the customs. These permits, which are normally not required for similar imports shipped from other countries, are valid for nine months and are issued in respect of the appropriate agreement currency once they have been approved by the price control authorities. (Such control is not required for goods shipped from other sources, unless they are subject to exchange premiums per dollar). The purpose of this rule is to ensure that the total payment for the merchandise is negotiated through the Central Bank and in accordance with the relevant payments agreement. Industrial machinery imports, paid for in instalments in accordance with circular 2881 and its later additions, are exempt from it. In all cases, imports from bordering countries, like imports through the official market, are given the most favourable treatment.

Except in isolated cases, imports monopolies have been abolished in Argentina. Exceptions are imports of pig iron and billets, which may be effected only by the Sociedad Mixta Siderúrgica Argentina (SOMISA), and scrap which may be imported only by the Department of Military Manufactures.

The system outlined above was suspended on 2 May 1958 and for three months for balance-of-payments reasons only imports essential for urgent needs were authorized. On 1 August, the Central Bank, acting on instructions from the Ministry of Economic Affairs, started again to issue exchange permits, under circular 3300, for imports payable through the official market and forwarding permits for items imported via the free market. This arrangement is regarded as provisional and comprises two schedules. Fifty

/per cent

per cent of the value of the goods included in the first schedule is paid through the official market and 50 per cent through the free market. No advance deposits need be made. Items included in the second schedule are paid for in toto through the free market and in all cases imports require a forwarding permit which in practice is equivalent to prior authorization.

3. System and procedure for exports

As in the case of exports, there are two exchange markets for imports, one official and the other free. The items covered by the official market are as indicated in circular 2296 of 28 October 1955 with the additions, deletions and other amendments made in subsequent circulars. The foreign exchange accruing from exports of these items is negotiated at the official exchange rate (18 pesos to the dollar or the equivalent in other currencies), less the percentage charges levied on payments for certain items. All the articles not included in the schedules annexed to the circulars are exported through the free market. The foreign exchange accruing from these exports may be negotiated at the exchange rates and in the currencies agreed upon between buyers and sellers, provided they do not include imported articles or materials worth more than 20 per cent of their selling price abroad. As already pointed out, in 1957, about 80 per cent of exports were effected through the official market and 20 per cent through the free market. The main items shipped via the free market are pork meats and other products and sub-products (skins, lard, etc.), poultry meats, fruits, certain agricultural and mining products, and manufactured products (except manufactures the value of which comprises more than 20 per cent of materials or elements imported through the official market; in this case the surplus value of such materials must be negotiated through the official market).

As in the case of imports, the system of surrender values is applied to items exported through the official market for the purpose of determining the amount of foreign exchange accruing from such exports which must be negotiated through the official market. Most items have surrender values fixed by the Inter-Ministerial Committee on Surrender Values and Exchange Premiums and Rates (Comisión Interministerial de Aforos, Retenciones y Tipos de Cambio). The Committee also gives advice regarding the transfer of items from the official to the free market. Items without surrender

/values are

values are subject to price control by the Pricing Committee (Comisión de Precios) of the Export and Import Section (Dirección de Exportación o Importación) of the Trade Department (Secretaría de Comercio).

In addition, charges, namely percentages discounted from the official exchange rate, fixed by the above-mentioned Inter-Ministerial Committee, are levied on certain items exported through the official market. These charges, which are paid into the Economic Recovery Fund (Fondo de Restablecimiento Económico), were originally introduced as a transitional measure designed to mitigate the devaluation effects accompanying the standardization of exchange rates when the present exchange régime came into force. Subsequent policy has been to diminish or eliminate them gradually and they are now applied, in proportions ranging from 10 to 25 per cent, to only a very few commodities.

Most exports, irrespective of the market through which they are negotiated, require export licences. These are issued by the National Grain Board (Junta Nacional de Granos) in the case of cereals, oil-bearing grains and oils; by the National Meat Board (Junta Nacional de Carnes) in the case of meat, cattle on the hoof, fats, etc.; and by the Export and Import Section of the Trade Department in the case of other items. For certain commodities, such as rice, sunflower-oil, butter, etc., there are also export quotas, fixed seasonally in the main, when there are export surpluses.

Export licences and quotas are designed to safeguard domestic supplies. Licences are issued automatically for most commodities. Occasional restrictions are applied when any shortage on the home market exists or is expected. Licences are normally issued within 48 hours in respect of commodities with surrender values. The delay is somewhat greater when they are subject to the price control system.

Under resolution 1618 of 8 October 1957, the Ministry of Trade and Industry exempted the following items from export licences and/or authorizations: fruit (fresh, dried, processed), medicinal specialities, ready-made clothing, alimentary pastes, beverages, paints, varnishes and enamels, earthenware, porcelain and china manufactures (excluding sanitary fittings and refractory materials), gypsum, glass or crystal, timber, wicker, plastics, hides, metals (excluding iron and steel rolled products, wire rod,

/wire and

wire and bars, pipes, cables, tractors and self-propelled agricultural machinery, etc.).

Exports effected through the free market and destined for countries bordering on Argentina are subject to price control to avoid exchange manipulations.

By virtue of circular 2696, of 23 November 1956, the Central Bank instituted a procedure allowing free-market operations in account currencies agreed upon with bordering countries at parity rates with the free United States dollar and in accordance with agreements being negotiated with those countries on the basis of the Montevideo Standard Agreement. According to this procedure, exporters selling to a bordering country an item covered by the free market receive the same quantity of Argentine pesos for each agreement dollar as they would receive for each free dollar (or its equivalent in other currencies) if the exports in question were paid for in actual currency. This method avoids the higher prices charged by exporters in respect of products covered by the free market who receive agreement dollars for which they could only obtain the official exchange rate.

The procedure established under circular 2696 was not applied to exports to Brazil of fresh, dried and semi-processed fruit and fruit in containers, since, according to circular 2698, such exports are paid for at the single official market rate of exchange. Consequently, in the case of these experts, the problem of the higher prices charged by exporters still existed, since the fruit is exported through the free market. This situation was remedied at the end of August 1958. Argentina and Brazil have agreed upon a new system for trade in fruit whereby payments will be made freely in Argentine pesos or in cruzeiros. The problems described have thus been overcome.

As already stated, circular 2712 of 3 December 1956 regulates exports of manufactured goods. They may be effected through the free market provided that imported materials valued at more than 20 per cent of the sales price abroad have not been used in the composition and/or processing of the item concerned. In this case, the exporter submits form No. 327, together with the other shipping documents, to the Customs Department which returns this form to the Central Bank for verification. When the proportion

/of foreign

of foreign materials exceeds 20 per cent, a distinction must be made between two cases: (a) if the materials were imported through the free market, the value of the processed article may also be negotiated freely, i.e., the item may be exported through the free market; (b) if the materials were imported through the official market, the purchase value of materials thus imported in excess of 20 per cent must be negotiated, when the manufactured goods are exported, in free dollars - or, if this is verifiable, in the currency used for the importation of the materials -, at the official exchange rate and in conformity with the regulations governing this market. In other words, exporters must hand over to the official market foreign currency equivalent to the value of the materials of foreign origin utilized in the item exported, which were imported through the official market and in the amount which exceeds 20 per cent of the value of the item. The remainder, i.e., the difference between the total value of the item exported and the value negotiated through the official market may be paid for through the free market. A similar system is applied to work carried out in the country on behalf of foreign firms with materials imported without charge on a temporary basis. Exports of manufactured goods, in the processing or composition of which imported materials exceeding 20 per cent of the value of the goods have been used, are subject to prior study and authorization in each case by the Central Bank. For this purpose, exporters submit form No. 328 to the Bank.

In order to comply with export formalities, exporters, who must be registered with the Customs Department and with the Export and Import Section of the Trade Department, apply for export licences or shipping permits from the appropriate body. Export licences are normally issued automatically, except if there are quotas or domestic shortages. This usually takes 48 hours if the item has a surrender value, and a little more if it has no surrender value and is subject to price control. Once this authorization has been obtained, and also the Central Bank's authorization in the case of manufactured exports, more than 20 per cent of the value of which is constituted by imported materials, it is presented to the customs, together with the appropriate customs documents. The customs checks to see whether the quantity, quality, specifications and value of the merchandise are as declared in the documents and also whether the letter of credit and the

/relevant payment

relevant payment orders are attached, where these are required before shipment (e.g. in the case of exports of fruit to Brazil). Once these requirements have been complied with and the goods have been shipped, the Customs Exchange Department (Departamento de Cambios de la Aduana) issues a shipping certificate which the exporter presents to the Central Bank so that it may pay for the value of the goods exported, if they were exported through the official market, or in account currency, or merely so that it may record the operation as concluded if the goods were exported through the free market and in actual currency.

The export system has also been modified since 1 May 1958. In general, specific surrender values are beginning to be replaced by percentages to be liquidated through the official and free markets. The new system adjusts automatically to world market fluctuations and prices have to be carefully checked in order to avoid the flight of foreign exchange.

/BOLIVIA

B O L I V I A

At the end of 1956, Bolivia carried out an exchange reform as part of its monetary stabilization plan. This reform abolished the multiple exchange rates and replaced direct foreign trade controls (prior permits, for example) by other indirect controls. By decree of 15 December 1956, a fluctuating free-exchange system was established with a single rate applying to all transactions in foreign currencies. The Central Bank, in the light of foreign exchange supply and demand, fixes the rate at which it buys and sells currency within a system of free transactions, since generally speaking, there are no restrictions on imports or exports.

In addition to this reform, a Stabilization Fund (Fondo de Estabilización), consisting of 25 million dollars from foreign loans, was established. At the same time, certain monetary measures were taken to control the expansion of the internal means of payments and to limit imports indirectly. As a result of the operation of the Stabilization Fund and the internal monetary restrictions, the single free rate of exchange fell, at the end of 1956, to less than 8 000 bolivianos to the dollar. In November 1956, i.e., the month before the inauguration of the new system, the free-market dollar had been quoted at 12 500 bolivianos. The free fluctuating rate of exchange rose slowly and levelled off around 8 850 bolivianos to the dollar in the early months of 1958.

Certain imports - flour, wheat, oil, lard and rice - require a permit which is issued by the Ministry of National Economy (Ministerio de Economía Nacional). Exports are completely free from control: they require neither permits nor Governmental authorization. An export duty known as a "regalía" is payable on most of them.

/BRAZIL

B R A Z I L 1/

The legislation underlying the present Brazilian exchange system is to be found in Act 1807, of 7 January 1953, brought into force by Decree No. 32285, of 19 February 1953, and in Act 2145, of 29 December 1953, made operative by virtue of Decree No. 34893, of 5 January 1954. The so-called Customs Tariff Act (N° 3244 of 14 August 1957), which introduced substantial amendments in the Brazilian tariff régime, contains certain provisions modifying the exchange control system.

The following brief analysis of this system deals mainly with trade in goods. It does not cover the free market where payments for goods transactions 2/ are prohibited and only so-called invisible transactions, of relatively little importance in Brazil's dealings with other Latin American countries, are allowed. For the same reason, foreign investments and financing will also be excluded.

The new exchange provisions contained in the Customs Tariff Act did not involve any basic alteration in the operational part of the system. Their purpose was to extend the appropriate regulations so as to incorporate in a single system all the legislation relating to exchange, foreign trade and foreign capital. Thus Decree No. 42820, of 16 December 1957, which brings into force the part of this Act dealing with exchange regulations, may be looked upon as the legal instrument which integrates in an orderly and systematic form, all the various provisions now governing international payments in Brazil. The incorporation in a single document of the rules, regulations and provisions formerly scattered throughout many acts, regulations, decrees and instructions was a somewhat lengthy process

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1/ This outline was prepared at the beginning of April 1958. Two months after it was completed, certain changes were made in the Brazilian exchange system. The matters affected by these changes are indicated in explanatory footnotes.

2/ Instruction No. 126, of 10 June 1958, issued by the Department of Currency and Credit (Superintêndencia do Moeda e Crédito - SUMOC), however, established a new precedent by allowing exporters to negotiate in the free market foreign exchange accruing from shipments of precious and semi-precious stones (unmounted, in strings) as well as books, reviews and periodicals printed in Brazil.

/and the

and the document consists of 101 articles. Nevertheless, it was felt that this composite document, albeit extensive, would be of assistance to those who have dealings with the Brazilian exchange system: it would give them an over-all picture and avoid the need for laborious research.

The operational machinery is still substantially the same as set forth in Instruction 70, of 9 October 1953. It is based on the centralization of exchange income in the Banco do Brasil. Here, the Exchange Department (Carteira de Cambio) is responsible for carrying out the resolutions of the SUMOC Council. It first sets aside the foreign exchange needed to meet official undertakings and special imports within the amounts allocated in the foreign exchange budget. It then offers the remainder for sale to importers at auctions held in stock exchanges.

1. "Normal" and "specific" auctions

The only real change introduced by the new Act in the import system was the reduction in the number of categories of goods from five to only two: "general" and "special". The "general" category includes raw materials, equipment and other staple consumer goods of which there is a domestic shortage. The "special" category comprises goods not widely consumed and any others, the domestic supply of which is considered satisfactory (Decree 42820, article 48). As may be seen, the classification was made with due regard to the essential nature of imports and the existence of similar goods produced in Brazil under satisfactory conditions.

In addition to these auctions, which might be termed "normal", the new Act provides for "specific" auctions, so named because the exchange bought at them may be used only to import a specific type of goods. These auctions may be held only if the imports in question are in the "special" category or are essential in order to comply with bilateral trade agreements. Auctions of this type are held in respect of fruits, fertilizers and insecticides.

/2. Imports

2. Imports not subject to auctions

The Act provides for certain cases in which auctions are not required. Some of these exceptions depend on the type of goods imported, and others on the importer's legal status. Among the first are the absolutely essential goods specified in Decree 42820, article 6, namely, printing paper and paper for use by publishers or printers of books; fertilizers, insecticides and similar items for exclusive use in agricultural activities, except compound and mixed fertilizers; wheat; petroleum and its derivatives; equipment and spare parts used in petroleum production and prospecting; equipment and accessories for press and periodical enterprises; and equipment considered essential for economic development or national security. As regards this latter type of equipment, the Act stipulates that official bodies, joint public and private companies and public utilities are not required to obtain foreign exchange at auctions.

Imports effected with non-auctioned foreign exchange have certain special features. Firstly, their aggregate value depends on the quotas fixed in the semi-annual foreign exchange budgets approved by the SUMOC Council. Secondly, in spite of not having to bid for exchange, importers do not enjoy the same exchange treatment. The goods mentioned above, considered as essential, enjoy a preferential rate not lower than the average premium paid to exporters and are imported at a rate known as "exchange cost". 3/ As regards the cases where exemption is granted because of the

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3/ The "exchange cost" rate, which is the most favourable in the Brazilian exchange system, is made up of the official selling rate (18.82 cruzeiros to the dollar) plus the weighted average of the premiums paid to exporters. Since the system was established, in accordance with Instruction 70 of 9 October 1953, this preferential rate rose as follows: from 43.82 cruzeiros (18.82 + 25.00) to 51.32 cruzeiros (18.82 + 32.50) in September 1957 and to 58.82 cruzeiros (18.82 + 40.00) in June 1958.

After this document was completed, SUMOC decided, by virtue of Instruction 158, annex of 10 June 1958, inter alia to establish a new preferential rate consisting of the official selling rate (18.82) plus an agio intermediate between the weighted average of the premiums paid to exporters and the average weighted agio of the general category. This intermediate agio was fixed at 51.18 cruzeiros. In effect, a new rate of 70.00 cruzeiros to the dollar was thus created.

Essential goods were divided into two groups. The first, which continues to benefit from the "exchange cost" rate, was reduced to the following goods: printing paper for publishers or printers of books; maps, books, periodicals and reviews; wheat, petroleum and its derivatives. The second group comprises goods which previously were imported at "exchange cost" and which now are imported at the "intermediate rate", namely fertilizers, insecticides and similar items; equipment and accessories produced abroad for petroleum prospecting and crude production; equipment and accessories for press and publishing enterprises.

/status of

status of the importing agent, official bodies, while not required to attend the auctions, are still subject to the same conditions as private enterprises once their imports have been paid for at an agio not less than the average weighted agio of the category to which the goods in question belong.

Thus, Brazilian exchange legislation, while discriminating between types of merchandise, makes no distinction as regards the legal status of the importing agent, and treats official bodies in the same way as private individuals. For administrative reasons, only official imports are exempt from the obligation to bid for currency on the exchange.

Imports to which preferential rates, the minimum level of which is fixed by law, apply, must also comply with certain publicity requirements (article 6, paragraph 2). They may only be effected after the relevant authorization has been published in the Diario Oficial together with the following particulars: nature of the transaction, name of the beneficiary, value of the transaction in foreign exchange, exchange rate authorized, difference between the value of the transaction at the preferential rate of exchange and at the "general" category or free-market rate, as the case may be, the value in foreign exchange of the national product and the amount of the premium in cruzeiros. 4/

3. Prior permits

Import licences are not required for imports classified in the "general" category since the foreign currency needed to cover them has to be bought on the exchange market (article 53). Thus many Brazilian imports are free from direct control. Nevertheless, in order to obtain the consular visa and withdraw the merchandise from customs, the so-called "certificate of exchange cover" was instituted. This is issued by the Exchange Department of the Banco do Brasil with due regard to the amount of foreign currency marked down to the importer at the foreign exchange auctions (article 53, sole paragraph). Practically the same particulars have to be provided for this certificate as for the old licences. But its effectiveness as an

4/ Table 4.6 of the statistical series in the SUMOC Boletím gives a monthly summary of these special authorizations.

/instrument for

instrument for the selective control of imports is nil. It only serves to check the prices, quantities and source of goods but not as a means of preventing imports, since the certificate may not be withheld from an importer who has legally obtained a pledge of foreign currency on the exchange market.

With the exception of coffee, which is governed by a special system, exports require a licence which may only be refused in the following special circumstances provided for in the Act (article 59): when considerations of national security so require; when payment has been agreed upon in non-arbitrary currency, the acceptance of which is considered undesirable; when it is advisable to constitute stocks to safeguard the domestic market; when it is necessary in order to meet obligations arising from international agreements; and when the application contains a false or inaccurate statement. Otherwise licences may not be refused.

4. Premiums paid to exporters

Exports are divided into the four categories specified in Instruction 131, of 17 May 1956. The purpose of this classification is the assignment of premiums.

In addition, there is a bonus for exports of fine coffees and a special premium for fabric exports. In order to stimulate exports to areas with convertible or semi-convertible currencies, premiums in respect of these areas are 4 per cent higher than those granted for agreement currencies. Among the latter, only the clearing-account dollar, which is used in transactions with Argentina, enjoys the same treatment as convertible currencies. The actual rates in force for exports are as follows: 5/

5/ The relevant current regulations are contained in Instruction 157, of 10 July 1958. This abolishes the special premium granted to fabric exports and the 4 per cent differential formerly imposed on non-convertible currencies, including agreement currencies. Following these amendments, the rates in force applicable to all currencies, are as follows:

First category	37.06
Second "	43.06
Third "	70.00
Fourth "	92.00

/ACTUAL EXPORT

ACTUAL EXPORT RATES

(Cruzeiros per dollar)

Category	Convertible currencies	Semi-convertible currencies and Argentina-Brazil agreement dollar	Non-convertible currencies (including those of inter-Latin American clearing-accounts)
First a/	37.06	37.06	35.55
Second	43.06	43.06	41.31
Third	55.00	55.00	52.77
Fourth	67.00	67.00	64.28
Fabrics	103.00	103.00	100.28

Source: Department of Currency and Credit (Superintêndencia do Moeda e Crédito).

a/ As an incentive to the production and export of high-grade coffee, a fluctuating subsidy is granted to this commodity when the price exceeds 42 dollars per 60-kilogramme bag.

5. System of minimum fixed agios

The system of auctioning foreign currency on the exchange market, introduced in October 1953 by virtue of Instruction 70, was accompanied by the establishment of minimum agios, which set the lowest level at which bids at currency auctions have to start.

At the outset, the minimum agio was set at 10.00 cruzeiros to the dollar. However, from November onwards (Instruction 74 of 30 October 1953), the following rates entered into effect:

	Cruzeiros per dollar
First category	10.00
Second category	12.00
Third category	15.00
Fourth category	20.00
Fifth category	50.00

/After various

After various amendments, the following minimum agios were adopted in April 1955:

	Cruzeiros per dollar
First category	25.00
Second category	30.00
Third category	35.00
Fourth category	40.00
Fifth category	100.00

These minimum levels were applied to all currencies. But, from February 1957 onwards, a system of minimum variable agios was adopted for non-convertible currencies. With the promulgation of the new tariff Act, the following system was established for convertible or semi-convertible currencies (Decree 42820, article 51):

<u>In the general category</u>, bids must be made at a level not less than the weighted average of premiums paid to exporters, and,

<u>In the special category</u>, on the basis of the weighted average of the higher rates applied to previous bids within the general category.

The system of minimum fixed agios was thus abolished.

6. System of minimum variable agios

Because of the smaller demand for non-convertible currencies, prices offered for them at exchange auctions are always lower than bids for convertible currencies.

The low cost of non-transferable currencies, including Latin American agreement currencies, provided an artificial incentive to imports from these zones.

The abolition of the cross-rate led to the practice of over-pricing and encouraged swing operations which assumed very serious proportions and even threatened the position of Brazil's primary commodities on foreign markets.

In order to offset such drawbacks, the authorities decided to close the gap between the cost of clearing-account currencies and that of freely convertible ones. This adjustment was carried out by establishing a minimum variable agio (circular letter GECAM/FIBAN No. 753, of 19 February 1957).

/In accordance

In accordance with these provisions, a minimum variable agio was applied to non-convertible currencies in February 1957. Minimum bids for such currencies were fixed initially at levels equivalent to 80 per cent of the weighted average agio attained in bids for totally or partially transferable currencies. They were as follows:

	Cruzeiros per dollar
First category	29.00
Second category	47.00
Third category	73.00
Fourth category	107.00
Fifth category	231.00

However, these initial levels were not put into effect as they should have been. As a result, in July a marked difference again appeared in the price of non-convertible currencies, as may be seen from the following table:

	Cruzeiros per dollar	
	United States dollar	Non-convertible currencies
First category	47.40	30.38
Second category	62.83	47.49
Third category	91.01	73.98
Fourth category	150.58	111.48
Fifth category	274.82	238.50

After the tariff Act was adopted, the application of minimum variable agios was made compulsory by law. Article 52 of Decree 42820 provides as follows:

"The Exchange Department of the Banco do Brasil shall fix minimum agios for non-convertible currencies which shall be based on the percentages established by the Council of the Department of Currency and Credit with reference to the total average cost, in the respective categories, of convertible or semi-convertible currencies.

"Sole paragraph. In the case of specific auctions, the minimum agios referred to in this article shall be calculated on the basis of the total average cost in the general category of convertible or semi-convertible currencies, without prejudice to the provisions of the sole paragraph of the foregoing article."

/In implementation

In implementation of this regulation, the exchange authorities proceeded to fix week by week the minimum variable agios for non-convertible currencies, including agreement currencies. The initial rate was 90 per cent of the total average cost of convertible or semi-convertible currencies. This level lasted until mid-October. From that date, the SUMOC Council allowed percentages to fluctuate between 80 and 90, depending on the recommendation of the Exchange Department.

The minimum agios for non-convertible currencies in recent auctions held each month were as follows:

	Cruzeiros per dollar	
	Normal category	Special category
1957: September	67.00	67.00
October	56.00	151.00
November	51.00	161.00
December	55.00	175.00
1958: January	77.00	182.00
February	87.00	206.00
March	94.00	219.00

7. Minimum agios and final quotations

The minimum variable agio system, which is an attempt to equalize quotations for non-convertible currencies with that of actual dollars does not distinguish between the different clearing-account currencies but applies the same treatment to all of them. In other words, when the Exchange Department decides in a given week that the minimum agio for non-convertible currencies is to be calculated at 85 per cent of the average cost of the United States dollar and of the semi-convertible dollar, the decision applies indiscriminately to all units of account used in Latin American or any agreements to which Brazil is a party.

When the minimum agio is being calculated, no account is taken of disparities in currency demand arising from the competitive position of the vendor countries' economies. All currencies are auctioned from the same starting level.

The differences appear at a later stage of the auctions held in the country's security markets, since the units of account that are most in demand reach higher agios than the others.

/Thus, under

Thus, under the present exchange system, it would be virtually impossible to equalize final quotations since these are governed by a factor outside the authorities' sphere of action, i.e., the agio resulting from the bidding which varies according to the demand for each currency. In these circumstances, Latin American clearing-account currencies, like agreement currencies in general, do not reach such high agios in exchange auctions as the United States and semi-convertible dollar.

8. Use of revenue from agios

The uses to which revenue accruing from import agios is to be put are laid down in the relevant Act (article 10) in the following order of priority:

Payment of premiums to exporters;

Regulation of exchange operations undertaken before the system of foreign exchange auctions was instituted;

Road-surfacing (up to 30 per cent of agios from imports of petroleum and its derivatives);

Subsidizing domestic production of newsprint, printing paper, fertilizers, insecticides and related products;

Modernization of farming techniques and development of agriculture, including the purchase of agricultural commodities, seeds, insecticides, machinery and tools.

In addition to agios and customs duties, a 5 per cent customs clearance tax is also levied on imports (Act 3244, article 66) to provide resources for the Merchant Marine Fund, the Social Security Fund, the Naval Fund, the Aviation Fund, the Federal Electrification Fund, port concessions and the Re-equipment Fund for Customs Offices. The customs clearance tax was created to replace the tax on the transfer of funds and import duties.

9. Trend towards the liberalization of foreign trade

The salient feature of the reform of August 1957 is its marked trend towards the gradual liberalization of Brazil's foreign trade. The spirit of the law seems to favour the progressive reduction of direct controls, while at the same time, stress is laid on the so-called indirect controls: the customs tariff and the balanced exchange rate resulting from the free play of economic forces.

/Nevertheless, incidental

Nevertheless, incidental disequilibria make it difficult to attain the desired objective and a period of transition is required. The chronic shortage of convertible foreign exchange, on the one hand, and economic development requirements, on the other, made it necessary to grant preferential treatment to certain basic imports and essential financial services.

In this preferential sector as well, the competence of the authorities is clearly defined by law. The relative values of basic imports are established beforehand, in accordance with available resources, in the semi-annual foreign exchange budgets approved by the SUMOC Council (articles 82-84); the rates and their respective agios are laid down in the Act, together with all the relevant details and conditions - among which one of the most important is publicity - designed to facilitate the over-all control of special authorizations. The authorities' activities are therefore confined almost entirely to distributing the total among the different items according to exchange possibilities.

The trend towards the gradual liberalization of trade is most clearly evident from the fact that the dual import list provided for in the Act is a temporary measure. In fact, the classification of imports into two groups - general and special - is only permitted "when it is essential to supplement the customs tariff by exchange controls so that imports may be selected in the light of Brazil's economic development requirements" (article 48). Since there is no reason for supposing that this division into two groups will be abolished in the relatively near future, it should be realized that the classification of imports into two groups does not mean that direct controls will be imposed on them, since importers will always be able to decide where they will buy in accordance with commercial quality and price criteria. Apart from imports which enjoy a preferential exchange rate (wheat, petroleum and derivatives, printing paper, fertilizers and certain kinds of industrial equipment), other items are not liable to be excluded from the flow of trade by restrictive measures.

/(a) Greater

(a) Greater freedom of action in the export sector

Export premiums have been granted which vary according to productivity and the type of currency used for payment. 6/ Their immediate objectives are to facilitate the international sale of commodities with limited competitive possibilities on the world market - some of great importance to the economies of the producer countries - and to increase exports purchased with in convertible or semi-convertible currencies, in order to have enough hard currency to import industrial raw materials, machinery and equipment, and to cover trade and financial services consisting of heavy amortization and interest payment on particularly important loans registered with the Department of Currency and Credit. 7/

In this sector the authorities have greater freedom of action. Because of the nature of Brazil's economic structure which, in spite of recent advances, is still dependent upon the sale of a few commodities abroad and is therefore highly vulnerable to price fluctuations in consumer centres, the authorities are given relative freedom to encourage commodity trade, especially when prices are affected by external factors such as speculation, recessions, slumps, wars, etc. They may also apply preferential exchange rates when help is needed in finding an export market for items, the production costs of which are high. 8/

6/ Variations caused by the different currencies used were removed on 10 June 1958 by Instruction No. 157 which provided for identical premiums to be paid in all currencies. This eliminated the exchange loss (agio) of 4 per cent hitherto suffered by agreement accounts.

7/ Ordinary financial agreements, including the remittance of profits and dividends, are negotiated through the free exchange market.

8/ Instruction 157, alluded to there, is particularly important because it abolished the preferential exchange rates for exports granted through so-called "symbolic buying and selling operations", as well as the special premium on textile exports, and - what is highly significant for the present study - because it established integral parity between units of account and actual dollars. It led to the introduction of four categories of premiums and limited the action of the authorities in the export sector, to such an extent that the only way in which they now can promote specific exports is by placing them in a higher premium category. Nevertheless, since, by virtue of the parity principle, premiums are applied to all currencies, it is impossible in practice to channel exports towards a specific country or monetary area.

/(b) Machinery

(b) Machinery for ensuring equilibrium in the balance of payments

Another outstanding feature of the Brazilian exchange system set up by the reform of August 1957 - a feature which, indeed, constituted one of its most important objectives - was the establishment of machinery to maintain a relative degree of equilibrium in the balance of payments. Export earnings are Brazil's main source of foreign exchange with which to meet its financial obligations and retain a balance for the purchase of essential current consumer goods and the capital goods essential for economic development. However, requirements nearly always surpass the capacity to import. Owing to these factors, which are characteristic of an economy in process of expansion, the shortage of foreign exchange is a chronic problem.

The system thus appears to have been conceived with a view to solving the problem of international payments by concentrating all Brazil's foreign exchange earnings in the official exchange market and distributing them among importers after deducting the proportion required to meet the Government's commitments or pledges and essential imports. Equilibrium would thus become automatic, since it would theoretically be impossible to distribute more than the balance of foreign exchange earnings and the volume of such exchange for auction would thus be determined by exchange possibilities. According to foreign exchange availabilities, the system would ensure prompt payment of imports and thereby avoid the formation of new trade back-logs.

Shortly after the system entered into force, it became obvious that equilibrium could not be maintained in convertible currency operations. The volume of trade and financial commitments accepted in such currency, and the scale of essential dollar imports, swelled the earnings set aside for such commitments to unusual proportions and the amount of convertible dollars for auction proved to be insufficient. In addition, owing to the inflexibility of the exchange auctions, the system deprived Brazilian importers of the private trade credit which had previously been at their disposal.

/Under the

Under the pressure of these circumstances, measures were taken to perfect the machinery designed to preserve equilibrium; foreign exchange began to be auctioned for delivery in instalments, and was sold in amounts exceeding availabilities by means of credits obtained from foreign bankers.

These measures were applied to the auctioning of convertible currencies. Equilibrium in bilateral transactions involving non-convertible currencies was abandoned and supply became equal to availabilities plus swing credits granted by the contracting States.

CHILE

The exchange system at present in force in Chile was set up in April 1956 by virtue of Decree No. 357 of 3 April 1956. The Decree was supplemented by Agreement No. 668 of the National Council on Foreign Trade (Consejo Nacional de Comercio Exterior) and Circular No. 1 of the Council and Central Bank, both of the same month, which laid down the regulations governing future import, export and international exchange operations. Later, Act No. 12084, and Decree No. 6973 of the Ministry of Finance, which were enacted on 18 August and 1 September respectively, introduced a revised text combining the provisions of the above-mentioned Act, and of Act No. 9839 on international exchange and, more specifically, on the International Exchange Commission (Comisión de Cambios Internacionales) 1/, as well as those of other decrees and circulars modifying the schedule of authorized imports, the percentages of advance deposits on such imports, etc.

The salient features of the foreign trade system set up under these provisions are: (a) the application of a single variable exchange rate to all foreign trade transactions; (b) the existence of a schedule of items which may be imported without quantitative restriction, as well as of bans or quotas on imports of specific items; and (c) advance deposits for authorized imports consisting of varying percentages of the import value. Advance deposits and the exclusion of certain goods from the schedule of authorized imports are the non-tariff measures with which the Government can influence the composition of imports.

The institution of this system meant the liberalization of exchange controls, since the previous system of multiple and over-valued exchange rates, import quotas and advance deposits was abolished in accordance with the programme for stabilizing the economy which was put into effect to check inflation.

1/ The International Exchange Commission replaced the former Council on Foreign Trade as the agency responsible for applying the new exchange system. The Commission, which is autonomous, is competent to modify the advance deposit percentages on imports when conditions in the bank market make this advisable, and to lay down general regulations governing exports, imports and international exchange operations.

Under the new system there are two exchange markets operating at the bank and free rates respectively. The first covers all operations relating to imports, exports and freight, transactions carried out by the Government and semi-official bodies - movements of capital held by State enterprises, consisting in part of State contributions or guaranteed by the Development Corporation (<u>Corporación de Fomento</u>) - and others set forth in Decree N° 357, article 5. Foreign exchange transactions not negotiated through the free bank market are negotiated through the free or brokers' market. In both cases, the exchange rate fluctuates according to supply and demand. But only banks that are authorized to do so may operate through the bank market.

When the new exchange system was initiated in April 1956, the bank rate rose from 300 to 493 pesos to the dollar. The former was the basic rate quoted by commercial banks, while the latter was used by the Central Bank to buy and sell on the bank market.[2/]

The brokers' rate, on the other hand, which had risen as high as 830 pesos to the dollar in August 1955, dropped to approximately 500 pesos in April 1956. From that time on, both rates increased slowly at the outset and thereafter more rapidly, particularly the brokers' rate. By mid-July 1958, the free bank rate was 800 pesos to the dollar, and the brokers' rate slightly over 1 000 pesos.

Decree No. 357 of 3 April 1956 (article 2) included a schedule of articles authorized for import. Items not included on the list were prohibited. Some changes (mainly additions) were later made in the schedule, especially by Decree No. 859 of 17 August 1956. An item was included in the schedule of authorized imports if it was essential but not if domestic production was sufficient to cover national consumption.

In order to determine the percentage of advance deposits for imports, the following five categories were originally established: A, requiring

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2/ In order to ensure the stability of the exchange market and to prevent the draining of foreign exchange following the abolition of direct controls on imports, an Exchange Control Fund (<u>Fondo de Regulación de Cambios</u>) was set up with assets amounting to 75 million dollars, consisting of credits from the International Monetary Fund (35 million), the United States Treasury (10 million) and the United States commercial banks (30 million).

a deposit of 5 per cent; B, 50 per cent; C, 100 per cent; D, 150 per cent and E, 200 per cent. The first classification of items into categories was undertaken by the International Exchange Commission in mid-April 1958. Category A included petroleum and its derivatives, certain foodstuffs, electrification equipment, railway equipment, etc.; category B covered most of the raw materials for industry and other foodstuffs; category C, drugs, chemical products, lorry chassis, machinery, utensils, tools, spare parts in general and some manufactured goods; category D, yarns, certain fabrics, some types of paper, books, printed matter and other manufactured goods; and category E, the remaining manufactures, lorries, station-wagons and their respective chassis. Four other categories were later added (F, requiring an advance deposit of 400 per cent; G, 600 per cent; H, 1 000 per cent and I, with 1 500 per cent), and the classification of a large number of goods was changed. Finally, in June 1958, a tenth category (J) was added, which required an advance deposit of 5 000 per cent, and the deposit percentages on a great many reclassified items were raised again.

Advance deposits are calculated on the basis of the total value of the foreign currency to be paid for c.i.f. and f.o.b. imports, converted to Chilean currency at the bank market quotations (established weekly by the International Exchange Commission which is also authorized to modify the deposit percentages). The deposit must be placed by the importer in the Central Bank through a commercial bank before the goods are shipped; the Central Bank then issues a certificate of deposit, a copy of which is handed over to the consul concerned for visa purposes. The deposit is retained for a minimum period of 90 days (except for goods in categories A and B and some in C, for which the minimum period is 30 days); in each case, the deposit is returned only when the goods have reached a Chilean port, which is presumed to take place within 30 days after their shipment. In other words, the advance deposit is returned to the importer 30 days after the goods have been shipped, provided that least 90 days have passed since the deposit was first made.

Imports from countries trading with Chile in units of account and with which Chile holds a favourable balance are virtually exempted from

/advance deposits.

advance deposits. The importer can then buy foreign exchange immediately after making the deposit - instead of waiting as in other cases until the goods have arrived at a Chilean port - and the entire deposit is returned to him. This so-called "immediate cover" system is applied to imports from Argentina, Brazil, Ecuador and some European countries (Spain, France, Yugoslavia and Greece). It was extended to all these countries, except Ecuador by Agreement No. 230, under which only a nominal advance deposit need be made: the commercial bank makes the deposit in compliance with the law but requests its immediate cancellation so that foreign exchange may be purchased without delay. In these cases, the deposit is merely a book-keeping formality and imports from the countries specified are actually exempt from the deposit.

Advance deposits are not required for imports by the big mining companies or official institutions, always provided that such imports are for their own use; this is also true of imports made in accordance with agreements for the purchase of United States agricultural surpluses or through credits granted by international organizations, such as the Export-Import Bank and the International Bank. Imports effected by the National Trade Institute (Instituto Nacional de Comercio, INACO) are not excluded from the regular system.

Apart from advance deposits and the registration of imports with the Central Bank, no other direct restriction is applied to authorized imports, but a special licence (certificado de necesidad) must be obtained from the Ministry of Economy and submitted before certain items can be imported (a large assortment of equipment and machinery for industry, varnishes and enamels, raw tobacco and some textile fibres).

The cover or actual purchase of foreign exchange for the payment of imports is carried out after the goods have arrived at a Chilean port - which is legally assumed to be within 30 days of their shipment - i.e., immediately after the advance deposit has been returned.

However, as already seen, this time-limit does not apply to imports negotiated in units of account of which Chile holds a favourable balance.

Imports against deferred payment and financed with foreign credits

/in the

in the case of machinery, industrial and other capital goods included in the schedule of authorized imports are permitted when they are useful for the purpose of earning or saving foreign exchange, contribute to the processing of domestic raw materials or to the mechanization of agriculture, consist of the purchase of cargo boats or commercial aircraft or improve public transport. In the case of such imports, an advance deposit of 100 per cent of each amortization payment must be made 30 days before the payment falls due.

The foreign exchange earnings from exports must be sold to authorized commercial banks at the free bank rate. In the case of exports on credit, before the goods are shipped the exporter must undertake to sell to one of these banks the foreign exchange accruing from the exports. For this purpose he must provide the Customs with a copy of the relevant contract countersigned by the local branch of the International Exchange Commission. Moreover, the Ministry of Finance is authorized to prohibit totally or partially - in the latter case establishing quotas - for a fixed period, usually of six months, the export of specific items, if the needs of industry or domestic consumption so required. Prohibited exports include oil from oil-seed, liquid fuels (except crude petroleum), cotton and combed wool yarns, tyres and inner tubes, dairy produce in general, tallow, fats and lard, textiles from synthetic fibres, many chemical and pharmaceutical products and others; quotas are imposed on coking coal, cement and specific chemical and pharmaceutical products.

Exports of copper, nitrates, iodine and iron by the big mining companies are governed by special provisions; thus exports of copper have to be authorized by the Copper Department (Departamento del Cobre); those of nitrates and iodine by the Sales Corporation (Corporación de Ventas), and iron exports by the International Exchange Commission.

/PARAGUAY

PARAGUAY

A free exchange system has been in force in Paraguay since 12 August 1957. It was established by resolution 2 of the Central Bank on 9 August, with the prior authorization of the National Council for Economic Co-ordination (Consejo Nacional de Coordinación Económica) and in compliance with the Economic and Financial Stabilization Programme adopted by the Council.

When this system was introduced, Paraguay abolished the multiple exchange rates and quantitative restrictions, import licences, quotas and surrender values that had hitherto been applied to exports, although it had been greatly simplified since the beginning of 1956. The only direct control that remains is the advance deposit in national currency calculated on the f.o.b. value of the item in question, in accordance with percentages established by the Central Bank. The percentages were fixed by the Bank in the resolution of 9 August 1957, and range from 5 to 400 per cent, depending on the essential nature of the item. Government imports, wheat, wheat flour and fuel derivatives from petroleum are exempt. The deposit has to be made before the goods are shipped from the country of origin, and the f.o.b. value is converted at the free-market exchange rate in force at the time of deposit. The latter is returned when the respective documents for customs clearance are delivered, i.e., at the time of clearance.

Banks authorized to receive advance deposits have to maintain in the Central Bank, in the form of a demand deposit, cash holdings equal to 100 per cent of the total deposits. The Government has also imposed tighter credit with a view to limiting imports. Furthermore, to uphold the new exchange system and to prevent violent fluctuations in the exchange rates, the International Monetary Fund and the United States Treasury have jointly granted Paraguay a loan of 11 million dollars. 1/

1/ Under the exchange system in force up to August 1957, the basic exchange rate for imports was 60 guaranies to the dollar and an additional 25 guaranies for non-essential imports. When the single free-exchange market came into effect, the free rate (now applicable to all transactions) was stabilized at 111.30 guaranies to the dollar as from November 1957, and has remained at that level ever since.

/Imports against

Imports against credit are permissible, provided that the term applying to the latter is no more than 90 days from the date of delivery of the customs clearing documents by the bank concerned unless the Central Bank has authorized otherwise.

Apart from those indicated, there are no other restrictions on imports except of course any implicit in the customs tariff. However, it should be pointed out that imports of wheat and wheat flour may be effected only through the Council for the Distribution of Wheat and Wheat Flour (Consejo de Distribución del Trigo y de la Harina de Trigo (a subsidiary body of the Ministry of Industry and Trade (Ministerio de Industria y Comercio)), which concludes sales agreements annually for this purpose with the National Grain Board of Argentina (Junta Nacional de Granos) and thereafter allocates the amount of wheat contracted for among the different flour mills which are directly responsible for importing it. The Council also controls flour prices by fixing the sales price for domestic consumption.

/URUGUAY

URUGUAY

The present exchange system in Uruguay was established by the Decree of 3 August 1956, its supplementary provisions and the partial amendments introduced by the Decree of 11 November 1957 and subsequent legislation. By virtue of the latter amendments, an emergency period was established during which imports were limited to those that were absolutely essential for meeting supply requirements; a large reduction was also made in the number of goods imported at the basic or preferential exchange rate and better exchange treatment was granted to exports. When the emergency period is over an exchange system may be adopted which differs considerably from that in force in August 1956.

Under the present system, all imports and exports (at c.i.f. and f.o.b. values respectively) are negotiated through two exchange markets: the controlled or official market with a basic exchange rate of 2.10 pesos to the dollar for imports and 1.519 for exports, and a free market with an exchange rate of 4.11 pesos to the dollar. Exporters hand over their foreign exchange earnings to the Banco de la República, some at the basic exchange rate of 1.519 pesos to the dollar and the remainder at the free commercial rate, in proportions or percentages that vary according to the group in which the export item is classified. Foreign exchange acquired by the Bank at the controlled rate is sold at 2.10 pesos to pay for certain staple or essential imports (some raw materials, fuels, certain medicaments and vital foodstuffs). For the percentages corresponding to the free rate, the Bank should theoretically give the exporter a "free-exchange certificate", which is negotiable and valid for eight days and may be used only to pay for imports; the exporter would then sell this certificate to the importer who has to pay for goods included in the free commercial market. In this way, the commercial rate would be determined by the free play of supply and demand for exchange certificates on that market. In practice, however, the Banco de la República began to buy and sell free commercial market foreign exchange certificates at the rates of 4.1025 and 4.11 pesos to the dollar respectively, thereby covering all the demand for imports at the rate of 4.11 pesos to the dollar, and has continued to do so ever since. As importers' negotiations are therefore facilitated, they are not

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interested in the certificates offered by exporters. As a result, the latter sell their export earnings directly to the Banco de la República on the free market, so that, in actual fact, both the controlled and free markets are supervised or administered by that Bank. 1/

The latest quota fixed in December 1956 for authorized imports in the second and third categories - which will be dealt with in subsequent pages - levied exchange premiums of 50 centesimos per dollar on lorry chassis of less than two tons, 1.50 pesos per dollar on the remaining items in the second category, and 2 pesos per dollar on those in the third category.

These premiums do not apply to industrial items imported under licence (certificado de necesidad).

Transactions in foreign exchange not involving imports or exports are negotiated, without the intervention of the Banco de la República, through the so-called "free financial market", which is actually the free exchange market. Dollar quotations on this market fluctuated between 4.40 and 4.60 pesos at the end of 1957 and began to shoot up at the start of 1958, reaching 6.45 pesos in April.

Goods imported up to 11 November 1957 at the controlled rate of 2.10 pesos, in accordance with articles 5 and 6 of the Decree of 3 August 1956, consisted of raw materials, when purchased by industrialists on the basis of their half-yearly requirements for domestic processing, fuels, anti-plague products for crops and livestock, lumber and building materials and vital foodstuffs. In a Decree of 10 August 1956, the Government drew up the schedule of items included in each of the five preceding groups. A few minor changes were afterwards made in this schedule. The rate of 2.10 was also applied to imports of drugs, chemical and pharmaceutical products (section 93 of the Merchandise Code (Código de Mercaderías))

1/ The Decree of 3 August 1956 also fixed a special exchange rate of 3 pesos to the dollar for imports of agricultural machinery and spare parts, antibiotics, cortisone, insulin and fertilizers, which was abolished by the Decree of 11 November 1957. For some time, up to the beginning of September 1957, the same rate applied to imports effected through the free commercial market from Paraguay, Brazil, Yugoslavia and Switzerland, with a view to stabilizing the balance of payments with those countries which was then very favourable to Uruguay.

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films and X-ray plates - when imported by the Ministry of Public Health or the Polyclinic and Military Hospital (Hospital de Clínicas y Sanidad Militar), bananas (fixed quotas), seeds essential for domestic production, and refined sugar, authorized for import by the Government.

The Decree of 11 November 1957 reduced this schedule to the following: fuels, maté, anti-plague products for crops and livestock, principal raw materials required for manufacturing fertilizers authorized by the Government, pinewood (section 84-63), some raw materials for processing according to industrial half-yearly requirements (raw cotton, vulcanized rubber, pulps included in sections 91-104, - 106, - 108 and - 110, iron sheet and ingots and rayon fibre), drugs, chemical and pharmaceutical products, X-ray films and plates imported by the Ministry of Public Health and by the Polyclinic and Military Hospital, vital foodstuffs up to an annual amount of 2 million dollars imported by the National Council of Staple Commodities and Price Controller (Consejo Nacional de Subsistencias y Contralor de Precios), when so authorized by the Government, essential seeds for domestic production, drugs and raw materials for laboratories (subject to Government control) and books within the terms of the Decrees of 22 June 1955 and 27 December 1956.

Items not included in this schedule are imported through the free market (at the exchange rate of 4.11) and are in principle financed by means of export "certificates" negotiated through this market; the Banco de la República may, however, use foreign exchange not earned by exports to pay for these purchases.

It has already been pointed out that, under the provisional system set up in November 1957, imports have been limited for the emergency period to items that are essential for Uruguay's requirements. The Decree of 28 November 1957 specifies these items and their order of priority, as will be seen later.

The system established in August 1956 maintained the classification of imports into three categories, according to their importance to the national economy, in order to fix priorities in the allocation of foreign exchange for imports. The first category includes raw materials, equipment and machinery, staple foodstuffs, medicaments, fuels and lubricants and

/other items

other items considered essential. The second category includes articles which are desirable though not essential (textiles of all kinds of fibre, domestic appliances, motor vehicles - except motor-cars - and accessories, etc.). The third category comprises non-essential luxury goods already produced in Uruguay or for which national substitutes exist. Classification into the different categories is based on the Merchandise Code of the Export and Import Control Board (Contralor de Exportaciones e Importaciones), drawn up by the Ministry of Finance with the assistance of the Banco de la República, the Ministry of Industry and Labour and the Control Board. 2/ Industrialists requiring protection for their industries have to request the Ministry of Finance to change the classification of the new domestic manufactures. The code is being revised by a special commission, in compliance with the decree of 11 November 1957.

Goods in the first category are imported against an affidavit in which the importer describes the type, value and origin of the imports, certifies that the preliminary contract has been concluded between him and the foreign exporter and affirms that the goods are available immediately. Such imports may be negotiated through the official market - at the controlled or basic exchange rate of 2.10 pesos to the dollar in the case of goods specified in articles 5 and 6 of the Decree of 3 August 1956, amended by that of 11 November 1957 - or through the free commercial market at the rate of 4.11 pesos for the remaining items.

Originally there was no quantitative restriction on items in the first category, and the Export and Import Control Board automatically

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2/ The Export and Import Control Board is a decentralized service subsidiary to the Ministry of Finance. It consists of an honorary commission composed of delegates from public and private bodies (Ministries of Finance and of Industry and Labour, Banco de la República, Chambers of Importers, of Commerce, of Industry, etc.).

This Board and the Banco de la República are responsible for applying most of the exchange controls and measures. Thus, the Control Board has to approve the affidavit which must be submitted in order to import items in the first category, allocate quotas for items in the second and third categories among the various sections and importers, check, in conjunction with the Customs, the goods to be exported, grant export licences and check by means of inspectors the validity of industrialists' declarations on the essential nature of their raw material requirements.

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authorized their entry upon submission of an affidavit. This system of free entry led to a considerable increase in the volume of goods brought into the country, owing to psychological factors - the fear of a change in the system and the consequent desire to accumulate stocks, especially of raw materials -, the existence of a preferential and over-valued exchange rate for imports negotiated through the official market and the possibilities of using this rate to make a profit by smuggling goods into neighbouring countries, particularly imports that are prohibited or restricted in those countries, thereby simultaneously increasing imports of certain items in the other categories. All these circumstances, together with the contraction in exports, produced serious disequilibria in the balance of payments and made it necessary to place certain restrictions on imports in the first category. Since the beginning of 1957 industrialists wishing to import raw materials and some other items to which the exchange rate of 2.10 pesos is applied, have to submit an affidavit of semi-annual requirements within 90 days of the six-month period in question, for checking by inspectors of the Control Board. Once actual necessities have been established, the Control Board grants licences gradually, for instance, starting with a licence authorizing imports of only 50 per cent of total requirements. There are separate import quotas for goods in the second and third categories. The Banco de la República periodically informs the Export and Import Control Board of the amount of foreign exchange available for imports in those two categories, which the Board, in agreement with the Bank, thereafter distributes among the groups of merchandise, sometimes establishing quotas for specific imports from certain countries or in certain currencies, and, within each group or item, it distributes the total quota among the individual importers registered, according to a coefficient estimated by each one on the basis of his imports in previous years, seniority, capital, etc. Once the quota for each importer has been fixed, he may use it as he wishes for the items that it covers.

These imports are all negotiated through the free commercial market, and premiums are charged on them which are fixed each time an import quota is established in these categories. In the case of the latest quota, set in December 1956, premiums of 1.50 pesos to the dollar were applied to all goods in the second category - except lorry chassis of less than two tons, for which they were 50 cents - and of 2 pesos to those in the third category. This premium is not, however, applied when goods are imported under licence for industry, which enables the Control Board to authorize the entry, without imposing quotas and premiums, of items in the second or third categories that consist of accessories or appliances required by industry for the manufacture of end goods, such as precision or control instruments, thermostats, etc. Authorization is granted according to the requirements of the industry in question on the basis of its consumption in previous years. As a result, all imports needed by domestic industries may be negotiated at the exchange rates of 2.10 or 4.11 pesos, according to the nature of the item, but without premiums and quotas even in the case of goods in categories two and three.

Unless quotas on imports from a specific country or in a given currency are involved, the importer may choose where to buy irrespective of the category of the goods.

Approximately 85 per cent of imports in the first ten months of 1957 were in the first category and 15 per cent in the other two.

With few exceptions, an advance deposit has to be made on imports. The percentage of the deposit is fixed by the Banco de la República on the basis of the c.i.f. value, which varies according to the nature of the item and the currency to be used. The deposit is placed in the Bank in Uruguayan pesos. Up to December 1957 advance deposits were not required on goods imported by Government bodies,3/ by publishing houses for their printers, or by meat-packing export companies, or on purchases of bananas, sugar and potatoes for consumption or on freight in Uruguayan carriers. From 15 December 1957, all imports in the first category, whether negotiated through the controlled or free markets, are exempt from such deposits, provided that the importer submits to the Bank the relevant affidavit, together

3/ Imports by Government bodies include fuels, drugs and chemical and pharmaceutical products imported by the Ministry of Public Health and the Polyclinic and Military Hospital.

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with a certificate from the Control Board to the effect that the imports in question are essential, in accordance with the Decree of 28 November 1957. Under the emergency system established in November 1957, imports are authorized for essential requirements only so that no advance deposits are required at present.

Before the emergency system was introduced, the advance deposit varied from 30 to 100 per cent for imports through the controlled market (i.e., at the rate of 2.10). In nearly every case an extra 50 per cent of the c.i.f. value had to be deposited on imports paid for in free dollars as compared with imports paid for in other currencies. Thus, imports of raw materials for industry, recognized as essential, and vital foodstuffs required an advance deposit of 80 per cent, if payment was to be made in free dollars, and 30 per cent in the case of other currencies. Imports negotiated through the free market required a deposit of 50 per cent, irrespective of the currency used.

The deposit had to be made as soon as the importer had submitted to the Banco de la República an affidavit in respect of the imports he wished to bring in, and the Bank had informed him of the deposit percentage. These formalities had to be completed before a documentary credit could be opened, or before the goods could be shipped, when payment was to be made by collection repayable by the importer, or when the bills of lading were to be sent directly from the exporter to the importer. In the case of imports negotiated through the controlled market, the deposit was reimbursed once the goods had been cleared through the customs. In the case of imports negotiated through the free market, the deposit was returned when the documentary credit was opened or the goods were shipped, if payment was to take place by direct despatch of the bill of lading from the exporter to the importer, or by collection.

Actual import formalities begin with the submission (denuncia) of an application to the Banco de la República for documentary credit, describing the goods to be imported, their value and country of origin. In the case of items in the second and third categories, the Control Board will naturally have had to allocate the corresponding quota to the importer

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beforehand, and the application for credit will have to relate only to goods that are covered by the quota and do not exceed its total value. After the application has been submitted, the Bank informs the importer of the foreign exchange that will be put at his disposal for payment of the goods and of the advance deposit. Once the latter has been made, the importer may submit the relevant affidavit to the Export and Import Control Board. In addition to specifying the type, value and origin of the imports, the importer testifies in the affidavit that he has signed a preliminary contract with the foreign supplier and that the goods are available for immediate despatch. Approval of the affidavit by the Control Board is equivalent to an import permit and consists of a certificate upon presentation of which the corresponding credit may be opened at a commercial bank. Documentary credit for imports is valid for no more than 120 days, whereas in the case of imports against collection or bills of lading sent directly by the exporter to the importer, the goods must be embarked within 90 days.

As regards imports negotiated through the controlled market, the importer does not have to contract and pay for the foreign exchange required to cover the value of the goods until the corresponding bill of lading has arrived at Montevideo, but in the case of imports negotiated through the free commercial market, the importer must have bought and paid for the foreign exchange when the documentary credit is opened. In all cases, however, the Banco de la República supplies the foreign exchange or covers in order that the payment may be made only after the goods have been cleared through the customs. For this purpose, the customs issue a voucher which must be certified by the Control Board and submitted by the commercial bank together with the original of the approved affidavit to the Banco de la República when the foreign exchange is applied for.

It has already been pointed out that part of the foreign exchange earnings of exports must be negotiated in the Banco de la República through the controlled market at the basic rate of 1 519 pesos to the dollar, and the remainder through the free market at the rate of 4.11, in varying proportions according to the group in which the export item is classified.

/The Decree

The Decree of 3 August 1956 established 11 such groups, the first for goods whose foreign exchange earnings may be negotiated entirely at the free rate, and the last for those whose earnings must be exchanged at the basic rate. The schedule of articles in the different groups was set forth in the Decree of 7 August 1956. After some changes had been made in the treatment given to certain exports, the number of groups was later reduced from 11 to 6 by the Decree of 8 April 1958.

Exports of manufactured goods with a foreign raw material content exceeding 20 per cent of their total value have to be paid for at the exchange rate corresponding to the raw material content, and in the same currency or in any other specified by the Banco de la República. Those interested in exporting manufactured goods must submit to the Bank an affidavit containing, among other data, detailed information on the raw materials used in their manufacture, so that the Bank may decide on the appropriate exchange treatment.

As to the proportion of foreign exchange that the exporter has to deliver to the Bank at the free rate, it was originally decided that the Bank should supply "free-exchange certificates" which the exporter could then sell at a variable free rate to importers. These certificates had to be payable in the same currency as that of the export earnings, so that, in the case of units of account, the certificates could only be used to pay for merchandise from countries where such currency was valid. It has already been pointed out, however, that in practice the Bank buys and sells foreign exchange on the free market at a fixed rate, thereby preserving trade equilibrium with different monetary areas and ensuring compliance with commitments under bilateral agreements by means of import and export quotas.

Before exports can be cleared through the customs, authorization must be obtained from the Export and Import Control Board. This is granted after the Board has been informed by the Banco de la República that it has received, from a commercial bank authorized to operate on the exchange market, confirmation that foreign exchange corresponding to the value of the exports has been transferred to the Board.

/The Control

The Control Board makes a preliminary check of the goods for export in order to verify that they are the same as those declared. Occasionally it also makes a final check before shipment.

Exports of foodstuffs, certain raw materials required for domestic industry and manufactured goods require the authorization of the respective Ministry or, more frequently, are limited by annual or semi-annual quotas, in order to guarantee adequate domestic supplies and, when required, to ensure compliance with bilateral agreements.4/ These quotas are distributed among traditional exporters by the Export and Import Control Board.

Surrender values are placed on some commodities such as wool. These are official values or prices used to determine the amount of foreign exchange which the exporter must hand over to the Banco de la República. The export prices of other commodities must be approved in advance by the Control Board, except for that of meat, which is controlled by the Ministry of Livestock and Agriculture (Ministerio de Ganadería y Agricultura).

Uruguay's exchange situation deteriorated seriously in the second half of 1957, partly because of the considerable increase in first-category imports under the new system but primarily because of the drop in exports, particularly wool - the staple Uruguayan export. An exchange rate of 1.90 pesos to the dollar (85 per cent at the controlled rate and 15 per cent at the free rate) was applied to greasy wool, and 2.03 pesos to the dollar (80 per cent controlled and 20 per cent free) to washed wool.

By October 1957, some of the previous wool crop still remained to be sold, whereas in other years the whole wool crop had been placed by that time, and negotiations had begun for the new wool crop.

In view of the marked disequilibrium in the balance of payments, the Banco de la República decided to close the exchange market for imports on 17 October, thereby totally suspending the distribution of foreign exchange

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4/ Thus, by the Decree of 26 December 1957, the Ministries of Finance, of Industry and Labour, and of Foreign Affairs drew up the schedule of manufactured goods which could be exported in 1958 and specified the annual quota for each item (see La Aduana Uruguaya, Nº 592, January 1958).

/for imports.

for imports. The market was reopened almost a month later by the Decree of 11 November, but only partially, and it operated under an emergency system in which the Banco de la República was responsible, so far as foreign exchange availabilities allowed, for carrying out certain transactions authorized before the market was closed. Provision was also made under this system for Uruguay's essential requirements to be met. These were listed in order of priority in the Decree of 28 November 1957 as follows: raw materials for the processing of essential foodstuffs; essential foodstuffs already processed; materials and commodities required for public health; indispensable equipment for the operation of public services and the press, and to combat crop and livestock plagues; tools, machinery and equipment for crop farming and animal husbandry; and raw materials, machinery, accessories, spare parts, fuels and lubricants for industry, transport and other uses.5/ The Control Board considers import applications in respect such items, taking into account Uruguay's supply position, affidavits of requirements and stocks, and affidavits of purchases and unused purchase balances, and allocates authorized imports among buyers, in accordance with industrial requirements in the case of raw materials, and in the case of other goods, in the light of affidavits in respect of purchases authorized from 3 August 1956 to 16 October 1957, and of stocks, without prejudice to whatever checks may be deemed necessary.

At the same time, import applications were sorted into three groups, by country of origin or method of financing: the first comprised Bulgaria, Czechoslovakia, France, German Democratic Republic, Greece, Hungary, Poland, Spain, Switzerland (in agreement Swiss francs), and Yugoslavia (in agreement dollars), to which Paraguay, Finland and Romania were later added; the second, imports from countries not included in the first group, payable in other currencies to be determined upon the submission of each permit, and with financing facilities for a minimum period of 180 days from the date of shipment (in which case the Banco de la República guarantees the exchange rate); and the third, imports not classified in either of the two preceding

5/ A Decree of the Ministry of Finance promulgated on 26 December 1957 authorized the inclusion in the emergency system of raw materials, and commodities considered as such in categories two and three.

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groups (i.e., payable in convertible currency without financing). Preference was given to imports in the first group (against units of account). Imports authorized in the second group (deferred payment in convertible currencies) concern only those items which are proved to be unobtainable from the countries listed in the first group. Imports in the third group (payable in cash in convertible currencies) are not authorized, unless foreign exchange availabilities so allow.

The emergency system was intended to remain in force until 31 January 1958, for shipments effected up to 28 February, but it was first extended until 30 June and then to 30 September 1958. At present, while the system is still in effect, the Control Board issues permits to import essential goods in order to keep up the pace of domestic industry and meet indispensable consumption requirements.

At the same time, the exchange rate for wool was adjusted in order to encourage exports; 25 per cent of the export earnings from greasy wool being changed at the free and 75 per cent at the controlled rate (as against the previous rates of 15 and 85 per cent respectively), and 35 per cent of those from washed wool at the free and 65 per cent at the controlled rate (replacing the previous proportions of 20 and 80 per cent). Moreover, a decree promulgated at the beginning of June 1958 set up a system for the internal compensation of exporter industries by means of a subsidy paid to enterprises manufacturing goods the export of which is of economic importance, but for which the prices obtainable are clearly not remunerative at the free rate.