

UNITED STATES TARIFF COMMISSION



**ECONOMIC CONTROLS
AND
COMMERCIAL POLICY
IN
PERU**

One of a Series of Reports on
Economic Controls and Commercial Policy
in the American Republics



Washington
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UNITED STATES TARIFF COMMISSION

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FOREWORD

This is one of a series of reports on Economic Controls and Commercial Policies in the Latin American Republics.

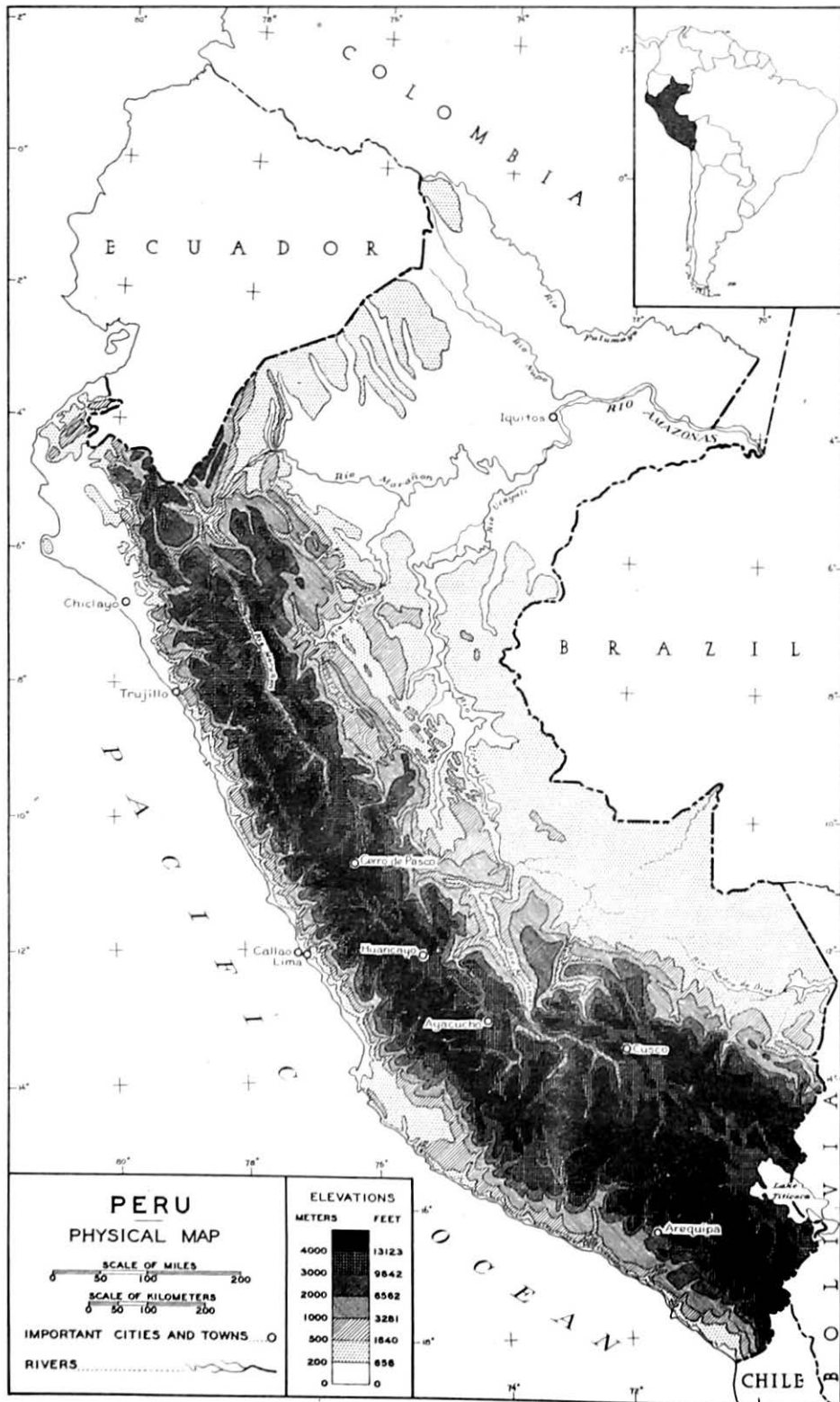
Other work in preparation by the Commission relating to trade problems of the American Republics includes a series of reports under each of the following headings: Mining and Manufacturing Industries; Agricultural, Pastoral, and Forest Industries; and Recent Developments in Foreign Trade.

In the preparation of this report the Commission had the services of David Lynch, Allyn C. Loosley, and other members of its staff.

(23054)

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ECONOMIC CONTROLS AND COMMERCIAL POLICY IN PERU

Introduction

Peru—A summary description.

The Republic of Peru, ^{1/} located on the Pacific coast of South America, has a coast line of approximately 1,400 miles, and extends about 800 miles from east to west at its widest point. It is bordered by Ecuador and Colombia on the north, by Brazil and Bolivia on the east, and by Chile on the south. The fourth largest country on the continent, Peru has an area of 482,258 square miles, approximately equivalent to that of Texas, New Mexico, and Arizona combined.

The Andean system traverses the country from northwest to southeast, dividing it into three regions. The first, the coastal plain, ranges in width from 25 to 100 miles; though predominantly a desert area, irrigation in the river valleys has made it the country's principal agricultural region. The second, the sierra, consisting of mountain chains, plateaus, and valleys, includes the mining centers. The third, known as the montaña, comprises the heavily forested eastern slopes of the Andes and the areas sloping northward to the tropical Amazon Basin.

The climate of Peru is determined chiefly by altitude, the trade winds from the Atlantic, and the cold Humboldt Current which flows along the Pacific Coast. In the coastal plain, which is virtually rainless, the climate is warm and equable. In the sierra it ranges from temperate to frigid, with varying degrees of precipitation, depending largely upon the elevation. The montaña is, in general, hot and humid; rainfall is heavy during the wet season, and floods are frequent.

According to an official estimate, the number of inhabitants in 1943 was 7,395,687, or about 15 persons to the square mile. ^{2/} Nearly three-fourths of the people, however, live in the sierra region, which accounts for about one-third of the total area. Most of the remaining population lives on the coastal plain, which accounts for about one-tenth of the area. Because of its inaccessibility, the montaña is very sparsely settled. The most important Peruvian cities are Lima, the capital, and Callao, the principal port.

About one-half of the inhabitants of Peru are full-blooded Indians; about one-third are largely of Indian blood, and the rest are of European extraction or are mestizos. A few Negroes are in the northern part of the country, and some Chinese and Japanese are in the coastal plain. Immigration has long been small. Spanish is the official language of Peru.

The Peruvian economy. ^{3/}

Peru is primarily an agricultural country; approximately nine-tenths of the population is directly or indirectly dependent on agricultural pursuits. Four million acres, about one-seventh of the total

^{1/} Officially known as República del Perú.

^{2/} The Peruvian census of 1876 showed a population of 2,699,000.

^{3/} This brief description of the Peruvian economy relates principally to the period before the outbreak of the war.

arable area, are estimated to be under cultivation. Irrigation is requisite on the coast and in parts of the sierra; it is estimated that irrigated land accounts for about one-half of the agricultural output of the country.

A wide variety of agricultural products is grown; but, except for cotton, sugar, and coffee, most of these products are consumed within the country. Cotton and sugar, the leading agricultural export commodities, are produced chiefly in the irrigated valleys of the coastal region. Principal crops in the sierra region are wheat, corn, barley, oats, potatoes, and alfalfa; those in the montaña include sugar, tobacco, sweet potatoes, cacao, coffee, bananas, and yucca. Many fruits and vegetables are grown, but commercial production is largely limited to grapes and olives in the southern coastal valleys. Rice is grown in the northern coastal valleys. Tobacco, a State monopoly, may be cultivated only under license.

Closely related to Peruvian agriculture is the important guano industry of the islands off the coast. Guano, rich in nitrogen, is a natural fertilizer deposited by several species of sea birds. It is used extensively on Peruvian farms, particularly in the growing of sugar and cotton. The collection and distribution of guano is a Government monopoly.

Stock raising has been an important industry since the beginning of the Spanish occupation, and the country is virtually self-sufficient in meats. Pastoral activities are carried on principally in the sierra region, up to elevations of 13,000 feet. Sheep raising is by far the most important pastoral activity; the sheep are bred chiefly for wool, a large part of the output being exported. In 1941 it was estimated that there were 13.8 million sheep and 2.3 million cattle in the country. Hog raising, particularly for the production of fats, is important in the coastal valleys. Goats are raised chiefly for their skins. The hair of the alpaca, the llama, and the vicuña (all small cameloid ruminants native to Peru) is exported as well as used for domestic purposes.

Forest products, chiefly found in the montaña region, are rubber, tagua nuts (vegetable ivory), lumber (including mahogany, oak, and cedar), cinchona (the source of quinine), and a wide variety of medicinal plants. At one time rubber and cinchona were among the country's principal exports.

Peru is rich in mineral resources. During the colonial period, mining (chiefly of gold and silver) was the country's leading industry. At present mineral industries rank second to agriculture in economic importance. The most important mineral product is petroleum, produced in the northern coastal regions. About four-fifths of the petroleum is exported, either as crude oil or as refined products. Copper is the second-most-important mineral; Peru ranks third in Latin America as a producer, following Chile and Mexico. Other minerals produced include gold and silver (mined largely in conjunction with copper), lead, zinc, tin, iron, coal, vanadium, antimony, mercury, nickel, manganese, tungsten, bismuth, molybdenum, mica, sulfur, salt, borax, and nitrate. One of the world's largest vanadium deposits is in Peru.

Peruvian manufacturing is on a small scale; the output consists almost entirely of light consumer goods for domestic use. The most important manufacturing industry is that producing textiles. Manufacture of cotton textiles has virtually eliminated foreign competition

in the lower priced goods; Production of woolen and rayon fabrics is also important. In recent years the chemical, leather-goods, and cement industries have developed greatly. Other domestic industries include the processing of foodstuffs, and the manufacture of beverages, paper and paper products, tobacco products, rubber products, furniture, and light metal articles.

Pre-war foreign trade.

In 1938 Peru ranked eighth in foreign trade among the nations of Latin America, and sixth among those of South America. In that year, with exports valued at 342 million soles (76.5 million dollars),^{1/} Peru furnished 4 percent of the value of all Latin American exports, and 5 percent of those from the 10 South American republics. Imports in 1938, amounting to 260 million soles (58.2 million dollars), represented 4 percent of total imports into the 20 Latin American countries, and 5 percent of the imports into the 10 South American nations. Customarily Peruvian exports have exceeded imports. The export balance was 33 million dollars in both 1936 and 1937, but in 1938 it declined to 18 million dollars.

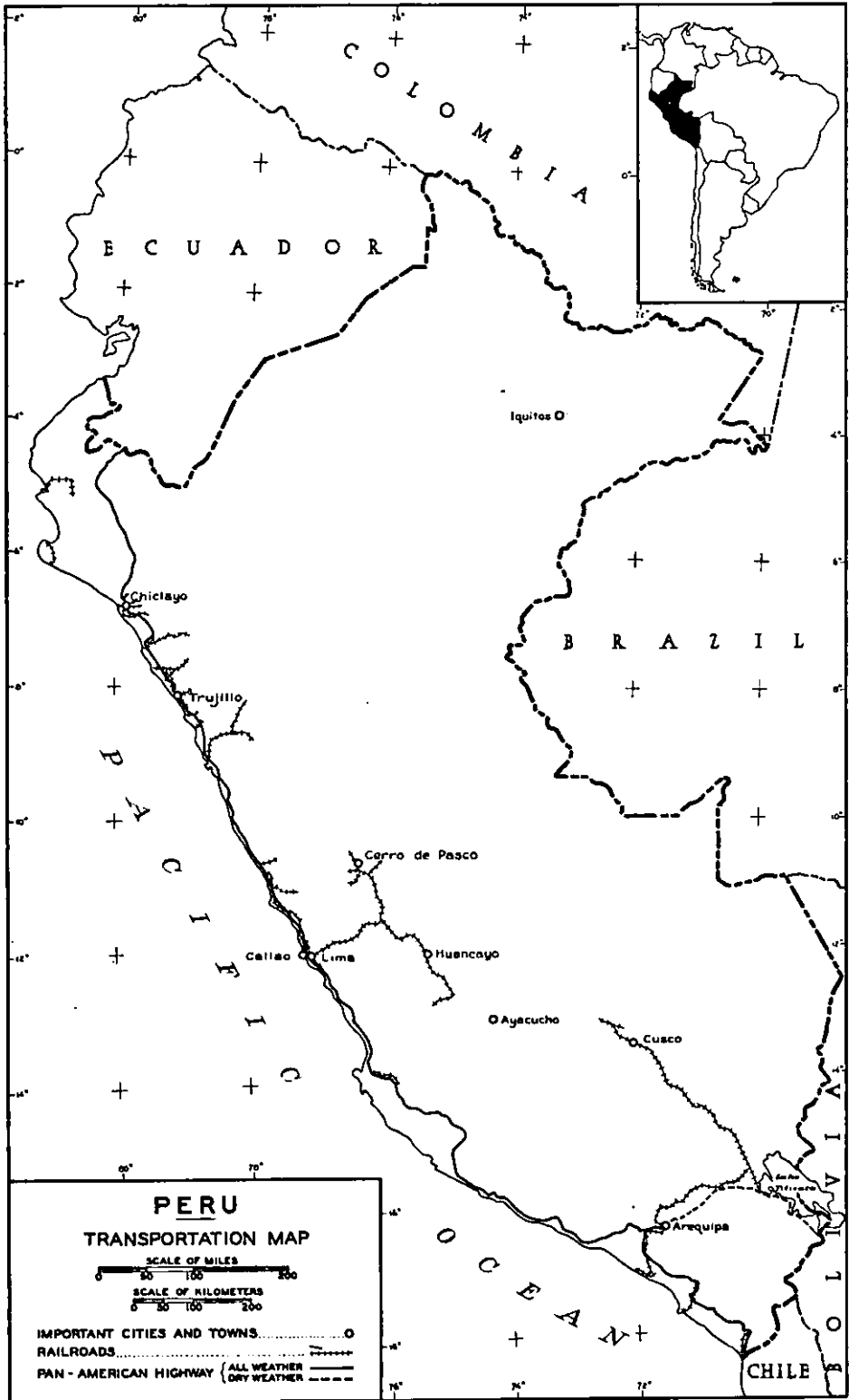
The outstanding characteristics of the export trade before the war were the high ratio of exports to production for leading export commodities, and the dominant position of mineral products, principally petroleum and its derivatives and metals. About four-fifths of the petroleum and nearly all of the copper produced were shipped abroad; approximately nine-tenths of the cotton and wool, and three-fourths of the sugar also were exported. About two-thirds of Peruvian exports ordinarily are of minerals, the production of which is largely controlled by foreign companies. Agricultural products (including pastoral products) ordinarily account for the remaining one-third. The principal markets in 1938 were the United States (27 percent of the total value of exports), the United Kingdom (20 percent), Germany (11 percent), Argentina (8 percent), France (6 percent), and Chile (6 percent).

Significant developments in the import trade in the decade 1929-38 included the increase in the importance of Germany as a supplier, the decline in the importance of the United Kingdom, and the decrease in imports of certain consumer goods as a result of the development of domestic industry. In 1938 the principal sources of imports were the United States (34 percent of the value of all imports), Germany (20 percent), the United Kingdom (10 percent), and Argentina (6 percent).

General Character of Economic Controls and Commercial Policy

Direct supervision by the Government of the economic life of the nation has been less comprehensive in Peru than in most other South American countries. Nevertheless, various controls are operative over both the internal economy and foreign trade. Measures affecting foreign trade have been employed to secure revenue for the National Government, to promote the development of domestic industries, to husband exchange balances, to conserve essential supplies, and to restrict the activities of enemy aliens. Internal controls have been directed toward related objectives, such as the promotion of agriculture, the stabilization of prices, the production of strategic materials, and the rationing of materials essential to industry.

^{1/} The exchange value of the sol in 1938 was \$0.2237 (U. S. currency).



Both imports and exports are subject to customs duties in Peru. The import tariff is the most important single source of national revenue, accounting ordinarily for about 20 percent of the total. Besides its revenue function, the tariff has been employed in recent years as an instrument of protection. Various import taxes are collected in addition to customs duties; the revenue from each usually is allocated for some particular purpose. Export taxes, likewise, contribute a substantial part of the public revenue of Peru; in the decade before World War II they accounted for nearly 10 percent of the total and in 1943, for 20 percent. These taxes fall particularly upon minerals, including copper, silver, lead, tungsten, zinc, antimony, tin, and petroleum. Peru has no formal system of exchange control but has found it desirable at times to employ import restrictions, foreign-exchange-stabilisation operations, and informal agreements with the banks in order to achieve the same purpose. Export prohibitions, usually designed to conserve supplies essential to domestic industry or to check price increases, have been employed more frequently in Peru than in neighboring countries. Commercial agreements with other nations are relatively liberal and uncomplicated, compared with those of neighboring countries. Since the outbreak of the war, important steps have been taken to mobilise the resources of the domestic economy to promote hemispheric solidarity and defense; these measures include control of the exportation and reexportation of strategic materials and the blocking of funds of the Axis nations and their nationals.

Government monopolies yield an important part of the national revenue. The most important of these monopolies is that of the tobacco trade; such control also extends to salt, alcohol, opium, explosives, and matches. Numerous decrees both before and since the outbreak of the war have established price-fixing regulations. Originally these regulations were usually applied to particular commodities; no over-all price control was established until 1941, when the Superintendency of Social Welfare was created with powers to control prices and regulate trade. This agency, however, does not appear to have been very active. Since 1940 it has been necessary to inaugurate programs to conserve and ration particular items vital to domestic industry, including drugs and medicinal preparations, rice, tires, gasoline, and automotive vehicles.

Economic Controls and Commercial Policy Before 1940

The tariff.

The basic law governing the present tariff policy of Peru became effective in 1936. ^{1/} This law, prepared by the Customs Tariff Advisory Board, constituted a complete revision of the tariff. Before 1936 the tariff had been employed principally to raise revenue, although over a period of years increasing emphasis had been given to protection. The new tariff of 1936 was designedly protective, affecting primarily the major industries of the country. In addition to protecting basic domestic industries, the new rates of duty favored the importation of articles of prime necessity, particularly foodstuffs, industrial raw materials, and articles essential to agriculture, mining, and animal husbandry. Hence, the 1936 tariff can be characterized neither as low nor as highly protective. On the whole, increases in duties were moderate, both absolutely and in comparison with the rates effective in other Latin American

^{1/} Law No. 8044, Mar. 11, 1935; see also Nuevo Arancel de Aduanas, edición la, 1936.

countries. The new tariff has been at least a mild stimulus to certain industries, particularly those producing cotton, woolen and rayon textiles. Despite its protective aspect, the tariff has remained the most important single source of governmental revenue. In the 5 years immediately before 1940, import duties accounted for approximately 20 percent of the national revenue compared with nearly 30 percent in 1928.

Peruvian import duties are almost exclusively specific and are generally levied on the basis of weight; only a few commodities are subject to ad valorem duties. The tariff is single-column; concessions have been made, however, principally to Chile and the United Kingdom, without generalization to other countries. The law makes no official provision for penalty duties or for a maximum tariff; it does, however, imply a higher "column" by stating that existing tariff shall be considered the "minimum," and that the rates shall be applicable to products of countries which grant most-favored-nation treatment to Peru. ^{1/} Consequently penalty duties have been enforced, as in the case of imports of Argentine wheat in 1935. At that time the duties on wheat were increased by one-half in retaliation for what was held to be discriminatory treatment of Peruvian petroleum by Argentina.

A law of 1925 ^{2/} created the Customs Tariff Advisory Board (Cuerpo Consultivo de Aranceles de Aduana) to advise the Executive on tariff matters. The Board has no administrative responsibility but acts purely in an advisory capacity. Other advisory responsibilities have been delegated to it from time to time. The law of 1936 establishing the present tariff authorized the Executive to admit products essential to Peruvian industry at reduced tariff rates; in making such reductions he was instructed to call upon the Board for advice. Likewise, questions involving customs classification are referred to the Board for final decision.

Rather broad tariff powers were extended to the Executive by the act of 1935. The Executive was authorized to put the new customs tariff into effect, and to make such modifications in it as he might consider advisable, subject only to a report to the Congress. Under this law, no apparent limit was imposed upon the Executive's power to change import duties. In November 1936 the Congress voted its own dissolution and delegated full legislative powers to the Executive. ^{3/} These powers expired in December 1939, when the new Congress, which convened on December 8, 1939, voted their termination. The Executive still has authority, however, to alter import duties without limit, subject only to a report to the Legislature. ^{4/}

Additional imposts on imports.—Several laws have imposed a variety of surcharges upon imports into Peru; many of these date from before the general tariff revision of 1936. ^{5/} These surcharges usually are levied for some particular purpose, and the revenue derived from them is allocated accordingly. The additional taxes are of four types:

^{1/} Article 67, Law No. 8044, Feb. 1, 1936.

^{2/} Law No. 5189, Aug. 19, 1925.

^{3/} Law No. 8463, Nov. 14, 1936.

^{4/} Law No. 8044, Mar. 11, 1935.

^{5/} One originated as early as 1888.

1. General import surtaxes at all customs ports.--These surtaxes, imposed on all merchandise, are collected at all customs ports. They include a tax of 2 percent ad valorem on all imports except rice, vermicelli, lard, flour, tea, and wheat (to support primary instruction), ^{1/} and a tax of 1 percent ad valorem on all imports (levied for unemployment relief).

2. General import surtaxes at designated customs ports.--These surtaxes are levied on all merchandise, but only at selected customs ports. Seventy percent of all imports pass through the port of Callao; ^{2/} at this port a surcharge of 1 percent ad valorem is imposed on all merchandise to defray the costs of construction and repair of schools in the Lima area. ^{3/} Another law provides for a surcharge to finance the construction of port facilities at Callao. ^{4/} Similar charges are applied at other ports. ^{5/}

3. Special import surtaxes at all customs ports.--These surtaxes apply only to designated articles and are collected at all customs ports. Taxes are imposed on playing cards; cattle; musical instruments; pharmaceutical supplies; liquors, perfumes, and candy; automobiles; lumber and woods; and toilet articles. The revenues from these taxes are allocated for specific purposes more or less related to the nature of the imports themselves; these include projects to promote animal husbandry, to finance the National Academy of Music, to maintain a polyclinic, to improve national defense, to develop navigation services, and to combat tuberculosis.

4. Special import surtaxes at designated customs ports.--These surtaxes are levied only on designated items of merchandise and only at designated ports. Examples include a tax on cement and charcoal to support a national hospital and to provide funds for a national college. An Executive decree in 1935 provided for a similar tax on petroleum products. These three taxes were applicable only to the port of Callao.

When merchandise is shipped to Peru by parcel post, the same surcharges are applicable; the ad valorem surtax for primary instruction, however, is 5 percent instead of 2 percent. Another series of nontariff import charges includes various fees for legalization of the required consular invoices and certificates.

Import quotas and prohibitions.

There has been no systematic application of import quotas in Peru, the general objectives of quotas being achieved by changes in customs duties and by occasional prohibitions of certain types of imports. The depression following 1929 created a rather critical condition in the Peruvian textile industry, the country's principal manufacturing industry.

^{1/} Law No. 5072, Mar. 18, 1925.

^{2/} The port of Lima, which is the distributing center for the entire nation.

^{3/} Law No. 8555, Apr. 22, 1937.

^{4/} Law No. 6050, Feb. 25, 1928.

^{5/} Law No. 9777, Jan. 22, 1943, imposed such a tax at the ports of Salaverry and Puerto Chicama.

This situation was aggravated by the influx of cotton textiles from Japan. In order to preserve the domestic industry in the face of this competition, a global import quota was applied to cotton goods in 1935;^{1/} the restrictions thus initiated were relatively ineffective except on imports from Japan. On January 1, 1936, an Executive decree abrogated the global quotas and imposed new restrictions, applicable only to Japanese textiles.^{2/} Shortly thereafter, following official protests by the Japanese Government that this action was discriminatory, and subsequent to boycotts reported to have been instituted by Japanese merchants, the two Governments negotiated an agreement whereby Peru rescinded its restrictions;^{3/} Japan agreed to replace the official quota by a voluntary limitation of its exports to Peru. This arrangement continued in force throughout the remainder of the period before 1940.

Import prohibitions, utilized to supplement the protective tariff and to foster domestic industry, have been an important factor in Peruvian commercial policy. In 1938 a decree designed to aid the new-car business prohibited the importation of used passenger automobiles. Shortly thereafter, to prevent an excess of productive capacity in the textile industry and to avoid the consequences and disruptions associated with overproduction, the importation of weaving machinery, including looms, warpers, and weavers, was prohibited. Initially limited to a term of 1 year, this prohibition was extended for an additional 2 years in 1939. At about the same time, imports of machinery for making hats were prohibited in order to stabilize the market and reduce overproduction in the hat-manufacturing industry.

Export duties.

Export taxes play a significant role in the Peruvian fiscal system. In the years immediately before 1940 export duties contributed approximately 10 percent of the revenues of the National Government. Before World War I, rubber and guano were the only articles subject to export duties.^{4/} Thereafter, as the need for additional revenue became more urgent, similar taxes were levied upon other export products. The official customs tariff schedules in 1936 listed duties on the following exports: Cottonseed oil, olives, rum, alcohol, cotton, sugar, bismuth, borates, coal, coca (cocaine), copper, hides and skins, gums and resins, soap, wool, lumber, tagua nuts, dry vegetables, metallic ores (including antimony and tin), molybdenum, gold, petroleum, silver, lead, cottonseed, straw hats, tungsten, vanadium, and zinc. To discourage exports, a similar tax was imposed upon scrap iron in 1937. The basic law taxing mineral exports, passed in 1915,^{5/} has since been modified frequently both by law and by decree. Before 1940 export taxes were collected as quasi-profits taxes, since the amount of the duty usually varied in proportion to the excess over what was considered to be the cost price of the commodity. For example, the tax on cotton, the most important export product, was based upon the Liverpool price of "good fair" Tanguis and approximated 10 percent of the returns from cotton exports after subtracting the cost of transportation to Liverpool and the cost of production, as estimated by the Government. Whenever the price fell below the officially estimated cost of production, including freight, no export tax was assessed.

^{1/} Executive Decree, May 10, 1935. This provided for temporary quotas for a period of 6 months; it was extended by a decree of November 30, 1935.

^{2/} Executive Decree, Dec. 30, 1935.

^{3/} Executive Decree, Mar. 28, 1936.

^{4/} U. S. Department of Commerce, Frank R. Rutter, Tariff Systems of South American countries, 1916.

^{5/} Law No. 2187, Nov. 14, 1915.

The same principle was applied in the administration of most of these export taxes; in the case of copper the duty was adjusted in 1926 to \$1.25 (U.S. cy) per 2,000 pounds and 10 percent of the excess over 11 cents per pound. ^{1/} On petroleum, however, the duty was 7 English shillings per ton. This tax was the most productive and usually contributed more than half of the total revenue from export taxes.

Export prohibitions.

Peru has had frequent recourse to export prohibitions. Usually designed to foster domestic industry, they apparently have been used increasingly in recent years. The following cases are illustrative. In 1937 the exportation of pig iron was prohibited; in the same year a law prohibited the exportation of scrap brass in order to preserve this material for domestic industry. Similar restrictions were applied to cottonseed, when, in 1938, the processors of cottonseed oil petitioned for aid because of a shortage created by excessive exports.

Commercial treaties and agreements.

Peruvian commercial policy has remained relatively uncomplicated by bilateral clearing and payments agreements. The favorable exchange position which the country has enjoyed has freed it from the pressures which have forced other raw-material-producing countries to engage in such bargaining. Having had little difficulty with frozen funds in foreign countries, it has not needed to resort to clearing or compensation treaties and, in accordance with the advice of the League of Nations, has avoided them on principle.

The few commercial treaties negotiated by Peru in the decade before 1940 included agreements with France (1934, 1935, and 1937); Chile (1935, 1938, and 1939); the United Kingdom (1936) and Argentina (1937). Reciprocal unconditional most-favored-nation treaties were in force during this period with Bolivia and Spain, ^{2/} as well as a limited most-favored-nation treaty with Chile ^{3/} and a provisional most-favored-nation agreement with Brazil. ^{4/}

The agreement with France, effective for 1 year beginning September 1, 1934, and extended for another year until August 31, 1936, provided for Peruvian concessions on French champagne, cognac, and armagnac in return for minimum tariff treatment of Peruvian coffee. A treaty and a protocol with Chile, came into force on November 27, 1935, to replace the modus vivendi of 1932; ^{5/} it provided for reciprocal duty-free admission into each country or a most-favored-nation classification for substantially all products of peculiar interest to both countries. Chile agreed to remove a number of general restrictions on both imports and exchange as they applied to the products of Peru, and the latter agreed to grant special rebates of import duties for particular Chilean products, mainly wheat. This treaty was replaced in 1939 by an agreement

^{1/} Law No. 5574, Dec. 11, 1926, which annulled laws 2187 and 2727.

^{2/} Terminated; denounced by Peru, March 18, 1938.

^{3/} A conditional most-favored-nation treaty with Japan was denounced by Peru on November 12, 1934, to terminate 12 months later.

^{4/} An exchange of notes with Brazil on July 27, 1936, provides for the continuance of reciprocal most-favored-nation treatment in accordance with a previous agreement signed December 5-8, 1931 pending the conclusion of a definite commercial treaty.

^{5/} U. S. Tariff Commission, Extent of Equal Tariff Treatment in Foreign Countries, 1937, p. 76; also U. S. Tariff Commission, Reference Manual of Latin American Commercial Treaties, 1940, pp. 215-35.

providing for reciprocal concessions and quotas. The commercial treaty with the United Kingdom, signed October 6, 1936, had as its principal purpose the exchange of unconditional most-favored-nation status. Mutual tariff concessions were provided for, as well as agreements to bind the rates of duty on particular items.

The modus vivendi with Argentina, signed February 3, 1937, ended a short period of commercial differences involving retaliatory penalty duties on Argentine wheat and Peruvian petroleum. The agreement provided import quotas for both products and removal of the penalty duties which had been imposed.

An agreement with Colombia, effective November 27, 1938, provided for a customs union in the regions adjacent to the Peruvian-Colombian border along the Putumayo and Amazon Rivers.

Exchange stabilization.

Of the 10 South American Republics, Peru alone has established no official system of exchange control since the crisis of 1931. During the past two decades the country has enjoyed an export trade balance;^{1/} the shortage of exchange with which to purchase essential imports has not been as acute in Peru as elsewhere. In the absence of a more serious problem the objectives of exchange control have been achieved in part by increasing tariff duties and in part by the occasional employment of import prohibitions. The gold standard was abandoned by Peru on May 18, 1932. Before that date the gold value of the sol had been fixed at 0.421264 gram of fine gold (equivalent to \$0.27998).^{2/} By the law of May 18, 1932, a part of the Peruvian gold holdings (38.8 million soles) was valued at the legal parity established in 1931 (0.421264 gram of fine gold to the sol). The remainder was revalued at cost, that is, at 4.66 gold soles to 1 gram in December 1934, and at 4.38 gold soles in December 1935 and 1936. The exchange quotation for the sol, in terms of dollars, declined from \$0.2490 in 1936 to \$0.1876 in 1939.^{3/} Although no official system of exchange control has been inaugurated, measures have been employed to stabilize the rate of exchange.

The Central Reserve Bank (Banco Central de Reserva del Perú) intervened in the foreign-exchange market as early as 1933 in order to stabilize the sol, and is credited with having executed its operations with considerable skill. Later, in 1937,^{4/} the Bank was authorized to deal in gold and foreign exchange for the purpose of establishing a reserve fund to be employed in restricting exchange fluctuations to a minimum. Since that time, however, there has been further depreciation of the sol.

Government monopolies.

Government monopolies contributed nearly 14 percent of all Peruvian Government revenue during the decade ending in 1940. Before 1931 numerous private industrial and commercial monopolies were created. None has been authorized since April 1933, when the new Constitution, promulgated at that time, prohibited all monopolies other than those operated by the

^{1/} This balance is more apparent than real inasmuch as the ownership of mineral and petroleum exports is largely foreign, with the consequence that much of the exchange arising from these products does not become available for the purchase of Peruvian imports.

^{2/} The gold parity was not fixed until April 18, 1931.

^{3/} U. S. Tariff Commission, The Foreign Trade of Latin America, pt. 2, vol. 1, p. 219.

^{4/} Law No. 5531, Apr. 30, 1937.

State. Private monopolies have since gradually disappeared. State monopolies now include tobacco, salt, industrial alcohol, opium, matches, and explosives. The monopoly concession to the Swedish Match Co. was terminated in 1932; since that time the Government has imported matches on its own account and has marketed them through the Government match monopoly (Estanco Nacional de Fosforos). A monopoly of industrial alcohol was created in 1910. Although the importation of explosives is reserved to the Government, mining companies and other industrial consumers are permitted to import these products directly upon the payment of a stipulated monopoly tax.

By far the most important of the Government monopolies is the Peruvian Tobacco Monopoly (Estanco del Tabaco). Approximately two-thirds of total monopoly revenues originate with this agency. Its exclusive control extends from production in the fields to sales over the counter. Producers of leaf tobacco are required to secure licenses before planting, and the prices paid for the product are determined by the Government. The monopoly imports stocks to supplement domestic production, and it operates factories for the manufacture of tobacco products. Profits of this important fiscal agency accrue to the National Government and appear to be increasing from year to year. The net profits of this organization alone constitute about 10 percent of the annual national revenues.

Price control before 1940.

Prices and the cost of living in Peru rose almost continuously during the period 1931-40. The index of wholesale prices (1929 = 100) rose from 92 to 133 and that for the cost of living from 83 (in 1935) to 104. ^{1/} The Government has shown considerable concern over these trends as they affect the welfare of the public in general and, in particular, the laboring classes.

No formal system of general price control has been inaugurated in Peru. Control has been by decree, and regulations have been issued as the occasion has required. At times price-fixing regulations have been established, and at times decrees have set profit margins or prohibited price increases for specified commodities. Maximum wholesale or retail prices for pharmaceutical products, meat, wheat, flour, bread, rice, certain vegetables, and other foods have been fixed in this manner.

Beginning in 1936, ^{2/} control was established over retail prices for pharmaceuticals and medicines, which were declared to be articles of prime necessity. Retail prices were fixed for about 2,400 imported drug products, providing for an average reduction of approximately 30 percent. The Government limited resale margins for wholesalers by requiring that their prices should not exceed cost plus 26 percent, whereas retail prices were not to be more than 20 percent above wholesale. These measures were adopted in response to widespread dissatisfaction and complaint about profiteering and speculation; it was reported that they were directed primarily at products of German and other European manufacture.

In accordance with the State policy of protecting the consuming public, a permanent board was created on January 11, 1937, to determine the prices and qualities of foodstuffs, especially those of primary

^{1/} Statistical Year-Book of the League of Nations, 1940-41.

^{2/} Decrees of July 16, 1936, Nov. 24, 1936, and Jan. 23, 1937.

necessity. Accordingly, retail prices for specified varieties and classes of rice were established in March 1937. Bread and flour were subjected to similar regulation in June of the same year. In furtherance of this policy, the Government, in 1937, established price control for specified meat products, including mutton and pork. Early in 1938 severe penalties were provided for those attempting to monopolize vegetable products, and the exportation of potatoes, vegetables, and livestock was prohibited except under official permit. At the same time maximum retail prices were fixed for additional meat products. Later a comprehensive measure extended price control to all segments of the economy by requiring all concerns supplying either articles or services to the public, regardless of their nature, to secure the permission of the Minister of Public Safety and Health (Ministerio de Salud Pública, Trabajo, y Previsión Social) before making any increases in the price of their products. Additional control of retail prices has been exercised in Lima, where the municipality publishes a comprehensive monthly list fixing maximum prices for foodstuffs and other prime necessities.

Economic Controls and Commercial Policy Since the Outbreak of the War

The war and the economic dislocations which accompanied it have created problems somewhat less serious for Peru than for many other Latin American countries. Nevertheless, customary markets have been lost and supplies of essential industrial materials have been reduced. Since 1940, therefore, additional controls have been applied to both foreign trade and domestic industry. Shortages of exchange have resulted in informal measures of exchange control. Increases in import duties have been designed to preserve exchange balances, to raise additional revenue, and to afford further protection to domestic production. Additional taxation of exports, as well as wartime demand, has increased materially the revenues obtained from export duties. The program adopted by the nations of the Western Hemisphere for economic collaboration, mobilization of strategic resources, and mutual defense has necessitated new export and reexport controls, measures to ration essential materials, and the blocking of funds which might otherwise become available to the Axis Powers.

Modification of the tariff.

Two general upward revisions of customs duties have been made since the outbreak of the war. The first, more limited in its coverage, was designed to conserve exchange balances. The period immediately after the outbreak of the war interrupted the flow of exports to European markets and created a shortage of foreign exchange with which to pay for essential imports. In lieu of official exchange control, tariff rates were modified to effect the desired adjustment. On May 29, 1940, import duties were increased on 61 tariff items which either were considered to be luxuries or could be produced in sufficient quantities by domestic industry; these included cotton products, leather articles, furs, jewelry, watches, automobiles, tires, electrical apparatus, liquors, perfumes, candy, and photographic equipment. The increased duties on many of these commodities involved an incidental measure of protection; although they were designed primarily to direct the allocation of exchange to the more indispensable commodities, a number of these modifications had the further effect of stimulating domestic production. The average rate of increase for the 61 commodities was more than 100 percent; increases ranged from 17 percent (on tires) to 533 percent (on heavy automobiles).

The second general upward revision of the tariff, effective December 22, 1941, ^{1/} provided for an increase of 20 percent on all items of tariff with the exception of specified foodstuffs. The purpose of this increase was to obtain additional revenue rather than to protect domestic industry.

In addition to the general increases just described, numerous measures have changed the rates of duty applying to particular commodities. In most instances, the motive has been to further assist industry, either by increasing the duties on competitive imports, or by lowering them on essential materials. A few increases in duty have been imposed on individual commodities since 1939. Late in that year, to provide funds to promote the tourist industry, the duty on automobiles and tires was increased. In 1940 protective duties were levied on preserved milk and cigarette lighters for the benefit of the domestic milk factories and the Government match monopoly. ^{2/} Other measures increased the duties on alcoholic beverages and toilet articles; ^{3/} revenue from these duties were allocated to national defense and to combat tuberculosis. In response to pleas for protection by the domestic graphic arts industry, a decree of January 30, 1943, increased many of the rates applicable to printed matter and paper manufactures.

Significant rate reductions have also been extended to individual items. Concessions have been made under authority previously delegated to the Executive as well as under new powers delegated since the beginning of the war. A substantial number of protective reductions were made granting exemption from or decreases in the established duties on articles essential to domestic industry. Since the outbreak of the war, exemptions have been extended to radio apparatus, materials essential to the new chin-chilla industry, and to livestock for breeding purposes. Similarly, other items have been assigned new tariff classifications in order to accord them either lower rates of duty or free entry, all designed to stimulate domestic production. Some of the imports affected are industrial borate of sodium, base resins and mineral pigments, tonic salts for cattle, stearate of magnesia, pure urea, bakelite bottle caps, and sodium metaphosphate.

New tariff powers of the Executive.--In January 1940 the Congress authorized the Executive to modify the rates of duty on foodstuffs. As part of a program to combat higher prices, he was empowered to lower such duties whenever extraordinary circumstances of social necessity warranted. ^{4/} This power has been invoked on several occasions; almost immediately after the passage of the 1940 act, reduced duties were ordered for specified grades and quantities of rice in order to alleviate acute shortages of that product. ^{5/} On March 25, 1940, to relieve the then current meat shortage, the Executive suspended the regular import duties on cattle. In 1942 similar exemptions from duty were extended to cattle hides and books in order to check increases in the prices of these commodities. A second extension of the Executive's tariff powers was embodied in an act of June 1940, ^{6/} which authorized the Executive to grant exemptions from import duties in commercial agreements.

^{1/} Law No. 9467, Dec. 18, 1941.

^{2/} Executive Decree, Sept. 21, 1940. The semiannual license fees on the use of cigarette lighters in Peru was abolished at this time; lighters may be imported into Peru only by the Government match monopoly.

^{3/} Law No. 9507, Dec. 31, 1941. This levy involved the use of a special stamp tax and was not, therefore, strictly speaking, a customs duty.

^{4/} Law No. 9047, Jan. 12, 1940.

^{5/} Executive Decree, Jan. 16, 1940, altered on Jan. 18, 1940, and July 31 1940.

^{6/} Law No. 9140, June 14, 1940.

Import prohibitions and restrictions.

Peru continues to employ import prohibitions and restrictions to stimulate domestic production; these controls, however, have not been used extensively. As one of a number of steps taken to aid the producers of rye, a new restriction of this type was placed on imports of rye grain and flour in 1940. ^{1/} The prohibition of imports of second-hand automobiles, imposed in 1938, was removed late in 1941, and another which applied to weaving machinery was extended until June 1942.

Similar measures with substantially the same objectives have restricted the importation of tanning, shoe, and leather machinery; ^{2/} wheat, rice, and corn; ^{3/} and sugarcane-grinding machinery. ^{4/} In each of these instances imports were made subject to prior permits or authorization. In the case of the prohibitions applying to wheat, rice, and corn, imposed shortly after the outbreak of the war, an added purpose was described as that of balancing of imports with available exchange.

New revenues from export duties.

Export taxes contributed about 8 percent of the total national revenues in 1941. In 1942, however, national revenues increased nearly 25 percent, whereas receipts from export duties, which increased more than 340 percent, amounted to 20 percent of the total. This increase is attributable to (1) increased exports, in terms of quantity, of some of the articles subject to the tax (chiefly minerals); (2) increased duties on exports previously subject to the tax; (3) additional duties on commodities not previously taxed; and (4) increased prices of the exports themselves. In some instances (for example, zinc), exports in 1942 exceeded those in 1941, with a resulting increase in revenue. Actual changes in export-tax rates were made both intensively and extensively, to further augment the returns from export duties. Some of these modifications were initiated under authority granted to the Executive in 1940 to determine export duties for the duration of the war; this was done by empowering him to establish rules for assessing export taxes. Finally, the increased prices received for the exported products accounted for a substantial share of the additional returns inasmuch as the tax is usually levied on an ad valorem basis or collected as a percentage of the excess of the prices of the exported goods over specified levels.

A Peruvian decree of July 3, 1941, stipulated that all exports of domestic products, without exception, would thereafter be subject to the extraordinary tax of 1931, known as an unemployment relief tax. ^{5/} This tax of 1 percent ad valorem affected few additional commodities, since it already applied to the principal articles of export. In August 1941 flax fiber was added to the list of items subject to export duties; ^{6/} the tax amounted to 10 percent of the excess when the f.o.b. price exceeds 18 cents (U. S. currency) ^{7/} per pound.

^{1/} Executive Decree, July 9, 1940.

^{2/} Law No. 8956, Sept. 7, 1939, and Executive Decree, June 1, 1942.

^{3/} Executive Decree, May 25, 1940.

^{4/} Executive Decree, Nov. 13, 1940.

^{5/} Law No. 7103, Apr. 10, 1931.

^{6/} Executive Decree, Aug. 20, 1941.

^{7/} Altered to 28 cents by Decree of Dec. 31, 1941.

At the same time that import duties were raised generally in 1941, another law provided for increased export taxes. ^{1/} Exports previously subject to the tax were required to pay an additional 10 percent ad valorem whenever selling prices exceeded by 25 percent the legal base prices already in use for the calculation of the tax. Special price schedules for this purpose were established for exports of cotton, sugar, and wool.

In addition to these changes, other measures provided higher export taxes for particular commodities. The war, and the resultant demand for strategic metals, created a situation which permitted the excedent of drawing additional revenue from these sources. Since most of the export duties apply to the excess of the selling prices above bases designated in the law, these taxes, with the increases in prices that occurred after the outbreak of war, have been the source of substantially increased revenues. Soon after the outbreak of the war, in 1939, the export duty on gold was fixed at 5 percent ad valorem; ^{2/} this action was intended to restore the revenue position of the tax which had formerly been levied on a specific basis. Likewise, the basis for taxing copper was altered to secure more revenue in 1940, ^{3/} and soon thereafter additional levies were made on bismuth. Peru is one of the world's most important sources of bismuth, and several additions have been made since 1939 to the taxes affecting it. The first, in June 1940, ^{4/} imposed an additional charge of 5 percent ad valorem plus 10 percent of any excess of the New York price over \$1 per pound. Bismuth was also included in a list of commodities affected by another law, promulgated shortly thereafter, which levied an additional duty of from 1 to 2 percent ad valorem on exports of copper, lead, zinc, molybdenum, vanadium, tungsten, manganese, tin, antimony, bismuth, and petroleum derivatives. ^{5/} The duty on exports of petroleum derivatives was modified late in 1941 ^{6/} by a law which subjected them to a tax of 33 percent of the current wholesale prices for liquid petroleum products in the United States. The export duty on solid petroleum products, however, remained unchanged. Still another measure of March 1942 ^{7/} added a further surcharge on all mineral exports. This tax was \$1.60 (U.S. currency) per metric ton on all shipments from Callao and 10 cents from the other ports. Late in 1942 ^{8/} an important law altered the export tax system as it affected lead, zinc, and metals containing silver, in order to increase the revenues therefrom. ^{9/}

Commercial agreements extended and concluded.

A significant characteristic of Peruvian commercial policy during the past decade has been the limited number of treaties and agreements which restrict the flow of trade, and of bilateral arrangements which confine and channelize commerce. Agreements have been negotiated since 1939 with the United Kingdom, Chile, Argentina, and the United States. A payments agreement, controlling all payments and financial transactions between Peru and the sterling area, was concluded with the United Kingdom,

^{1/} Law No. 9466, Dec. 18, 1941.

^{2/} Executive Decree, Nov. 30, 1939.

^{3/} Law No. 9107, May 15, 1940.

^{4/} Law No. 9141, June 14, 1940.

^{5/} Law No. 9157, July 24, 1940.

^{6/} Law No. 9485, Dec. 31, 1941.

^{7/} Revised Statute, Mar. 6, 1942.

^{8/} Law No. 5490, Dec. 4, 1942.

^{9/} By the terms of Law No. 9704, Dec. 24, 1942, the export taxes on lead, zinc, bismuth, and silver were thereafter based upon New York, instead of London, price quotations.

effective September 2, 1940. ^{1/} By the terms of this agreement, payments for Peruvian exports were to be deposited in special accounts held by Peruvian banks with their London correspondents, subject to the approval of the British Exchange Control Authority; the exchange balances thus created were available only for purchases within the sterling area.

A most-favored-nation commercial treaty between Chile and Peru, signed October 17, 1941, became effective in February 1943. ^{2/} The treaty provides for reciprocal concessions and assurances regarding customs duties, quotas, and other matters affecting trade between the two countries. Chilean concessions apply principally to Peruvian cotton, guano, sulfur, coal, and fruit. Peru, on its part, accords more liberal treatment to Chilean wheat, preserved milk, nitrates, and other products. This treaty replaces the commercial *modus vivendi* of November 25, 1938.

The new treaty with Argentina, signed on January 10, 1942, provides that each country shall accord the other unconditional and unrestricted most-favored-nation treatment. Exceptions are made of tariff preferences or special treatment granted by either nation to adjacent countries, and of a customs union concluded by one of the contracting powers with other nations.

The trade agreement with the United States, signed on May 7, 1942, was the 24th concluded under the United States reciprocal trade agreements program; it became effective on July 29, 1942. The agreement provides that the United States and Peru shall, in general, accord each other most-favored-nation treatment with respect to customs duties, methods of levying duties and charges, exchange rates and taxes or charges on exchange transactions, the application of rules and formalities, and other matters affecting trade between the two countries. Reciprocal concessions were exchanged in which Peru agreed to lower the import duty on 35 products imported from the United States and to bind the rates on 15 additional items. The United States, in return, granted similar concessions on commodities which constituted 27 percent of the value of imports from Peru in 1940; duties were reduced on 12 products, and 23 were bound on the free list.

Three steps have been taken since the outbreak of the war to facilitate the treaty-making powers of the Executive. The Peruvian Congress in May 1940 ^{3/} authorized the Executive, for the duration of the European conflict, to negotiate commercial treaties and agreements designed to facilitate the marketing of Peruvian products. Shortly thereafter, ^{4/} another act broadened his authority by empowering him to grant concessions of import duties in commercial agreements. The third measure (May 30, 1941) established a permanent committee on foreign economic policy. This agency, a part of the Ministry of Foreign Affairs, represents the Government in the discussion and formulation of projects for commercial treaties and agreements.

^{1/} Including all parts of the British Empire, except Canada, Newfoundland, and Hong Kong; British mandated territories; Egypt; The Anglo-Egyptian Sudan; and Iraq.

^{2/} Ratified by the Peruvian Congress, October 10, 1942, and by the President of Chile, February 10, 1943.

^{3/} Law No. 9080, May 9, 1940.

^{4/} Law No. 9140, June 14, 1940.

Semivoluntary exchange control.

Although Peru continues to operate without a formal system of exchange control, a number of official measures have been adopted to achieve the same purpose. The outbreak of the war in Europe in September 1939 created a shortage of exchange to which adjustments had to be made. The loss of European markets, particularly for cotton, and the blockade seriously reduced Peruvian exports and forced Peruvian importers to seek new sources of supply in the Western Hemisphere. There developed, consequently, a severe shortage of dollar exchange. To further aggravate the situation, it became necessary to import larger quantities of rice, wheat, and cattle to compensate for shortages in domestic production. Furthermore, the Government was committed to make rather large purchases of foreign equipment and materials to complete various public-works projects previously initiated. Another complicating factor was the increased inventories by merchants in anticipation of war shortages and exchange depreciation. These factors depressed the sol until rates as high as 6.60 soles ^{1/} to the United States dollar were paid in November 1939 under the then "free" exchange regime. Dollar exchange frequently became unobtainable through the regular channels, and operations on the "black" market flourished.

Two steps were taken in an attempt to remedy this situation. The first, in May 1940, increased import duties, on a substantial number of luxury items, including automobiles, perfumes, and liquors. The second measure, in June 1940, inaugurated a system of informal exchange control in cooperation with the banks of the country; since that time semi-voluntary control has been in operation. This program was made possible by the legislation of April 30, 1937, which authorized the Central Reserve Bank to conduct buying and selling operations for the purpose of stabilizing exchange rates, a function which it has continued to perform since that time. Peruvian exporters or their banks deliver their foreign exchange to the Bank which in turn allocates it to the various commercial banks in rough proportion to their customary dealings and present requirements. This cooperative program has been quite successful, with the result that the buying rate for dollar exchange to Peruvian importers has remained at 5.60 soles to the dollar since 1940. Although the Central Reserve Bank was extended a credit of 10 million dollars by the United States Export-Import Bank for currency stabilization in December 1940, it has not been necessary to draw upon this fund.

Export and reexport control.

Numerous measures have been employed since 1939 to control the export and reexport trade. The steps taken have been designed to achieve three major purposes: (1) To husband materials essential to the domestic economy, (2) to direct the flow of strategic exports, and (3) to control the reexport traffic.

The policy of applying an embargo to specific exports received wider application after the outbreak of the war. In order to protect the domestic economy from stringencies arising from wartime conditions or domestic shortages, to assure supplies for domestic industries, and to prevent price increases, the exportation of many essential products was temporarily prohibited by a series of Executive decrees. In 1940 the exportation of the following items was prohibited: Scrap iron, wheat, barley, corn, potatoes,

^{1/} Compared to 5.875 soles to the United States dollar in June 1939.

millet, alfalfa seed, live vicuña, chinchilla, guanaco, llamas, alpacas, and metallic mercury. The following year additional embargoes were authorized for scrap copper, frozen fish, aluminum and tin, cottonseed, lard and edible oils, hides and skins, sugar, and "chato" coffee. Prohibitions in 1942 included coffee ^{1/} and glass bottles.

Besides these specific prohibitions, three general measures were promulgated to protect the interests of domestic producers, as well as to achieve other objectives. An important decree of May 1941 ^{2/} listed a number of "basic products" indispensable to the national economy, and prohibited, without "previous permission from the Ministry of Finance," either their export or reexport. Domestically produced commodities thus subjected to control included castor oil, coconut products, flaxseed, kapok, quinine, and cotton linters. This action was confirmed and extended by another measure of August 12, 1941. Finally this control was broadened in November 1942 ^{3/} by a decree which required that permits must be obtained from the Ministry of Finance for the exportation of all natural and manufactured products of Peru not already subject to export restrictions. These permits are not granted for products essential to the national industry or to the consuming public.

The Inter-American Coffee Agreement.—The war severely disrupted the European market for coffee from Latin American countries and resulted in the accumulation of surplus stocks. Because of this situation, Peru and other coffee-producing countries in the Western Hemisphere, together with the United States, appointed a committee to study the problem and to recommend joint action beneficial to the coffee industry. An agreement reached in November 1940 provided for export quotas to control shipments from the producing countries to the United States and to other countries, and for quotas to control imports of coffee into the United States. ^{4/} In the original 1940-41 allocation, Peru's annual quota for exports to the United States was set at 25,000 bags of 60 kilograms each. The Inter-American Coffee Board, charged with establishing the quota from season to season, fixed Peru's export quota at 26,116 bags in 1941-42 and at 31,627 bags for 1942-43. The 1941 crop was excellent, and the quota was filled, but the 1942 crop was materially below average. Consequently, in spite of a decree which prohibited for 1 year the export of second-grade coffee, most of which is ordinarily retained for domestic consumption, ^{5/} the Government deemed it necessary to issue further regulations in order to assure an adequate supply for domestic requirements. Accordingly, in May 1942 ^{6/} all exports of coffee, regardless of their quality, were prohibited and in June all pending export quotas were canceled ^{7/} until December 1, 1942. This restriction was subsequently modified, ^{8/} but it appears that exports will fall short of the 1942-43 quota by 21,000 bags.

^{1/} Executive Decrees, May 26, 1942, and June 12, 1942 (including all grades of coffee).

^{2/} Executive Decree, May 8, 1941.

^{3/} Executive Decree, Nov. 7, 1942.

^{4/} The United States selects one-third of the members of the Inter-American Coffee Board. The consumer in the United States is protected from unwarranted price control by a provision in the agreement that in the event of an "imminent shortage" imports may be increased beyond the established quota by a one-third vote of the Board.

^{5/} Executive Decree, Nov. 7, 1941.

^{6/} Executive Decree, May 26, 1942.

^{7/} Executive Decree, June 12, 1942.

^{8/} Executive Decree, Dec. 1, 1942.

Export control of strategic materials.—Peru is an important source of many strategic minerals. At the meeting of the Foreign Ministers of the American Republics held at Panama in 1939, resolutions were adopted affirming the necessity and purpose of maintaining hemispheric solidarity and of mobilizing economic resources for common defense. Peru was one of the first of the countries to implement this policy; in a series of decrees originating both before and after the attack on Pearl Harbor, measures were adopted prohibiting the flow of vital metals to the aggressor powers and controlling their shipments in accord with national policy. A decree in May 1941, ^{1/} prohibited, without prior authorization, the exportation of nearly 20 vital metals, including copper, lead, manganese, molybdenum, tungsten, vanadium, and zinc. This action, designed to protect the domestic economy from shortages of essential materials and to control the direction of strategic exports, was later modified. ^{2/}

A recent control, initiated to conserve shipping space and allocate it to the more essential exports, prohibited the exportation of all raw materials and manufactured products (exclusive of petroleum and its derivatives) except as authorized by the Ministry of Finance. ^{3/} Exports of rubber were brought under control by other decrees. One decree in 1940 ^{4/} limited exports of rubber to products from privately owned forests; another in 1942, more comprehensive in its scope, prohibited the export of all rubber and its derivatives without permission of the Ministry of Finance.

Reexport control of industrial materials.—Complete realization of the objectives sought by wartime export control was impossible without extending regulation to imported commodities. It was necessary to protect the domestic economy from the loss of many essential commodities and to prevent their reshipment to Axis or Axis-controlled nations. The first important decree establishing reexport control, that of May 1941, prohibited the reexport of all imported merchandise other than packing materials, except under permits from the Ministry of Finance. ^{5/} Shortly thereafter, this regulation was strengthened by prohibiting completely the reexport of a more extensive list of vital materials; the only exceptions permitted were instances in which the necessity of reexporting the commodities to the country of origin could be proved. ^{6/}

An important modification of this policy was made in August 1941; ^{7/} the export and reexport prohibitions just described were to apply only to countries "not considered as forming part of the Americas," and to those which have not established acceptable export restrictions. In November 1942 the scope of both export and reexport controls was amplified and more sharply defined by prohibiting ^{8/} (1) the reexportation of any merchandise imported to meet national requirements; (2) the exportation of manufactured products unless it can be shown that the needs of the domestic economy are not affected; and (3) the exportation of natural products of domestic origin not subject to special restrictions, except under prior authorization.

^{1/} Executive Decree, May 8, 1941; see supra.

^{2/} See the section on reexport control of industrial materials.

^{3/} Executive Decree, May 20, 1943.

^{4/} Executive Decree, Aug. 10, 1940.

^{5/} Executive Decree, May 8, 1941; see supra.

^{6/} Executive Decree, June 18, 1941.

^{7/} Executive Decree, Aug. 12, 1941.

^{8/} Executive Decree, Nov. 7, 1942; see supra.

Mobilization of economic resources.

At the meeting of the Foreign Ministers at Rio de Janeiro, it was recommended that the American Republics formulate plans for the national mobilization of strategic materials. ^{1/} Peru is rich in mineral resources and is a potentially important source of rubber and quinine. Early in 1941 negotiations were completed with the Metals Reserve Co. and other United States agencies to restrict the exports of strategic metals to countries whose national policies are not antagonistic to the political and economic interests of the nations of the Western Hemisphere. The export controls over essential commodities, which have already been described, formed an integral part of this program of industrial mobilization.

The most important step taken toward this end was the conclusion of a contract on September 29, 1941, between the Government of Peru and the Metals Reserve Co. whereby the latter agreed to purchase all exportable surpluses of specified metals (antimony, copper, lead, vanadium and zinc) not absorbed through the usual channels of inter-American trade. This over-all contract was extended for a period of 1 year but has not been since renewed, although negotiations have been in progress. Meanwhile, the purchases have continued quite as though the contract were still in effect. An earlier special contract with the Metals Reserve Co. (May 21, 1941) provided for the purchase of tungsten ores and concentrates.

Among the Latin American countries, Peru is the second largest producer of cinchona bark, usually exporting between 150,000 and 200,000 pounds annually. ^{2/} The Government has initiated a number of measures to facilitate the development of quinine; a permanent Quinine Commission was created to study its growth and production, ^{3/} and all lands on which quinine trees grow were reserved to the Government. ^{4/} A contract concluded on October 19, 1942, with the Defense Supplies Corporation provided for the purchase of all exportable surpluses of Peruvian cinchona bark for a period of 3 years.

Another contract had for its purpose the mobilization of rubber resources. The Peruvian Amazon Corporation was organized to act as an agency of the Government with the exclusive right to purchase and sell rubber and other elastic gums. ^{5/} Owners of rubber were required to register their stocks with the Corporation. The Government negotiated a 5-year contract with the Rubber Reserve Company by which the latter acquired all rubber produced in Peru in excess of domestic requirements.

The Commodity Credit Corporation of the United States has three contracts with Peru, two of which concern essential war materials. Two of these, negotiated May 7, 1942, arranged for the purchase of rotenone and flax fiber. An agreement was also concluded on April 25, 1942, to purchase cotton, which is the main agricultural crop of Peru. This purchase agreement is designed primarily to stabilize the cotton market during the war.

^{1/} Resolution 2, Meeting of the Foreign Ministers of the American Republics, Rio de Janeiro, January 1942.

^{2/} U. S. Tariff Commission, Latin America as a Source of Strategic and Other Essential Materials, 1941.

^{3/} Executive Decree, July 27, 1942.

^{4/} Executive Decree, No. 328, Apr. 30, 1942.

^{5/} Executive Decree, June 19, 1942.

Rationing of scarce materials.

Because of the war, it has become necessary to ration various essential supplies. The shortage of tires, particularly for trucks, became serious early in 1942. A decree in January suspended the sale of all tires and tubes until a priorities system could be established. ^{1/} Meanwhile, a Tires and Accessories Sales Control Commission was created with powers of regulation. Soon thereafter priorities were established extending preferences to the more essential industrial activities. ^{2/} In September this agency was replaced by the Commission for the Control of Tire and Inner Tube Sales, which now controls the distribution and sale of these products. ^{3/} A related measure, intended to promote the conservation of vehicles essential to highway transportation, was set forth in a decree of November 20, 1942. Dealers were required to register all stocks and were forbidden to sell either new or used equipment without authorization by the Ministry of Government. ^{4/}

Both the exportation and the domestic distribution of petroleum products became subject to regulation in August 1942, when the Office of Petroleum and Byproducts Director was created. ^{5/} Except with the consent of the Director, domestic sales of these products were limited to average individual purchases in the 12 months preceding August 1942.

Another Executive resolution established the Commission for the Control of Supplies of Medicinal Products (Comisión de Control de Abastecimientos de Productos Medicinales); ^{6/} this agency was authorized to control the supply, quality, prices, and registration of medicinals and pharmaceutical products. Measures adopted in September 1942 and in May 1943 ^{7/} established control over the use and movement of scrap iron by requiring quarterly stock reports, as well as permits for the sale of these materials.

Late in 1942 the need for assuring adequate food supplies led to the creation of the National Food Production Promotion Board (Junta Nacional de Fomento de Producción Alimenticia) ^{8/} and its subsidiary, the Commission for the Regulation of Food Supplies (Comisión Reguladora de Abastecimiento de Artículos Alimenticios). These agencies were given the power to regulate the distribution of basic foodstuffs. Crop failures early in 1942 had created serious shortages in the domestic supply of wheat, meat, and particularly rice. All exports of rice were, therefore, prohibited after March 17; on June 6 the Government assumed control of the distribution of this product and soon thereafter fixed wholesale and retail prices. Despite these measures, the Commission for the Regulation of Food Supplies found it necessary to import substantial quantities of rice before the close of 1942.

Inasmuch as the United States has established export controls and quotas for important commodities, Peru adopted the Certificate of Necessity

^{1/} Executive Decree, Jan. 21, 1942.

^{2/} Executive Decree, Nov. 24, 1942.

^{3/} A number of traffic and highway regulations also have been adopted to conserve automobile tires and equipment.

^{4/} See also Executive Decree, May 7, 1943.

^{5/} Executive Decree, Aug. 14, 1942.

^{6/} Executive Decree No. 612 Aug. 12, 1942.

^{7/} Executive Resolution No. 382, Sept. 20, 1942, and Resolution of the Minister of Fomento, May 5, 1942.

^{8/} Law No. 9611, Sept. 22, 1942.

system in order to cooperate with that program. Certificates of Necessity and Recommendation must be secured from the Peruvian Minister of Finance by all importers of vital products from the United States, in order to guarantee that they will be put to the most essential use and that the materials imported will not come into the possession of agents of countries whose activities are inimical to Peruvian national policy and welfare.

Wartime financial control.

A resolution adopted at the Rio de Janeiro Conference of the Foreign Ministers of the American Republics in January 1942 recommended measures to block the use, transmission, or transfer of funds, securities, and property within the American Republics held by nations which had committed acts of aggression against the American Continent, and to prevent any financial transaction by these powers which involves exportation. Peru had already acted before this declaration of policy. The first control measure, in December 1941, blocked all accounts and securities belonging to Japanese nationals and required the Superintendent of Banks to establish a registry of Japanese accounts. ^{1/} Another decree of the same date required that licenses must be secured to export or import Japanese merchandise. A number of measures were adopted thereafter to facilitate this program. On January 23, 1942, a new freezing order was issued, followed 3 days later by the rules to govern the administration of Japanese assets.

Extraordinary powers granted to the Executive on March 12, 1942, for the duration of the war, authorized him to take any steps necessary for the defense of the Western Hemisphere or to implement the agreements made at the Third Meeting of the Ministers of Foreign Affairs of the American Republics at Rio de Janeiro. ^{2/} Acting under this authority, the Executive, on April 10, 1942, prohibited ^{3/} all commercial and financial transactions (with certain exceptions) with nations signatory to the Tripartite Pact and territories dominated by them, as well as with citizens and firms of those nations. Another decree established similar controls freezing German funds. In order to administer these regulations, a new agency, the Superintendent of the Economy, was created. To supplement the steps previously taken to restrict the commercial operations of firms on the proclaimed list, a law of June 26, 1942, canceled all existing contracts of such firms and required the transfer of their properties and all other business interests to persons of Peruvian birth. ^{4/}

At about the same time a related measure, designed to augment those already undertaken, was adopted to control the circulation of United States currency. ^{5/} The importation and exportation of such funds was prohibited except by the Central Reserve Bank. All holders of dollar bills were given a limited time in which to deliver them to the Bank.

^{1/} Executive Decree, Dec. 8, 1941.

^{2/} Law No. 9577, Mar. 12, 1942.

^{3/} Law No. 9586, Apr. 10, 1942.

^{4/} Law No. 9592, June 26, 1942; see also Executive Decree, July 4, 1942.

^{5/} Executive Decree, June 6, 1942.

CHECKEDPrice control**2002-64**

Prices and the cost of living have continued to rise since the outbreak of the war. The index of wholesale prices, which stood at 234 in November 1939 (1913 = 100), rose to 254 a year later, to 329 in 1941, and to 414 in March 1943. This represented a rise of nearly 75 percent in the first 3 years of the war. The price-control measures initiated before 1940 have been supplemented by other regulations directed to specific commodities. Maximum prices were fixed in 1940 for lumber, guano, and cottonseed. A law effective February 26, 1941, ^{1/} established rent control for the entire Republic. Regulations governing the prices of automobile tires were promulgated by decrees of December 5, 1941, and June 2, 1942. In order to discourage price increases, speculation, and hoarding the Government, in 1942, ruled that all stocks of rice in the country must be sold to the Agricultural Bank (Banco Agrícola del Perú), ^{2/} at the same time retail prices of rice were fixed. Prices for gasoline, kerosene, and Diesel oil were fixed in January 1943.

The Superintendency of Social Welfare.—In addition to these specific price-control regulations, a Bureau of Social Welfare was created with broad powers over the prices of necessities. On the day the European war began in 1939, two laws, designed to prevent dislocation of the economic life of the nation, were enacted. The first ^{3/} authorized the Government to adopt measures to prevent price increases, to restrict the exportation of prime necessities, and to prohibit the formation of trusts, cartels, combinations, and agreements to increase prices. A number of other provisions affecting the domestic economy were incorporated in this legislation. The companion law ^{4/} established the Superintendency of Social Welfare. This office was charged with the enforcement of the measures described above and was given wide powers over prices, rentals, wages, monopolies, the production of foodstuffs, and the importation and exportation of essential commodities. Although the powers granted were broad, it does not appear that they have been extensively employed or that control of prices has been effective.

Post-War Problems Relating to Controls and Commercial Policy

The commercial policy of Peru places the country in a favorable position to contribute to and participate in the benefits of an expansion of international trade in the post-war world. The absence of rigid bilateral trade agreements which restrict and channelize trade, the fact that tariff rates have been but moderately high, and the relative freedom from exchange control are important components of this favorable position. That Peru is prepared to cooperate in reestablishing world trade seems evident from the nature of its recent commercial agreements, including the reciprocal trade agreement with the United States.

After the war the chief problem confronting Peru will be the securing of adequate markets for its export products; upon its success in finding them will depend its ability to collaborate in the post-war period. Should markets not be forthcoming, the economy will be so disrupted that restrictive controls may not be avoided. Peru, like

^{1/} Law No. 3766, Feb. 26, 1941.
^{2/} Executive Decree, June 10, 1943.
^{3/} Law No. 8951, Sept. 3, 1939.
^{4/} Law No. 8952, Sept. 3, 1939.

other raw-material-producing countries of Latin America, will find itself incapable of maintaining a trade policy in opposition to world trends. If its commercial policy is to serve the broad economic interests of its people and promote a stable and healthy expansion of industrial enterprise, it will be necessary for Peru to have the collaboration of the great industrial trading nations.

The future of export taxes.

Revenues from export taxes have increased substantially in the period since 1940. To the extent that this increase is attributable to the demand for mineral and other materials, it represents an unusual condition which will require readjustment in the post-war period. If revenues from export taxes are reduced, governmental services and expenditures may have to be curtailed or alternate sources of revenue be found.

A more fundamental aspect of the program of export taxation relates to its effect upon the volume of trade and the prosperity of the industries involved. Export taxes in Peru are of two types: (1) Taxes which, in effect, increase the cost of each unit of the commodity exported, and (2) taxes which affect only the excess above a designated base price. To the extent that Peruvian export duties are of the latter type, and to the extent that they operate only as taxes to capture surplus profits, they impose few burdens upon production and trade. When, however, the taxes are imposed uniformly upon all units of a particular export commodity regardless of price or profit, they add to the unit cost of production and place the commodities affected at a disadvantage in world markets. For this reason, a thoroughgoing and objective analysis of the incidence and the effect of the present system of export duties might point the way to changes which would prove to be advantageous to the Peruvian economy.

Industrial readjustments.

The war has stimulated a number of Peruvian industries, particularly those producing metals, rubber, and quinine. The termination of the war may necessitate a distinct curtailment and readjustment of the mining industry; the problems relating to rubber and quinine may be even more acute. Collection of these forest products in Peru has required the expenditure of large sums, the migration of a large number of workers, and the installation of extensive facilities. When the war is over, these newly developed industries will be faced with competition with the products of the southwest Pacific. The Government of Peru is, of course, interested in establishing these industries on a permanent commercial basis. It is too early, however, to judge how successful they will be when the products of the Far East are once more available.

When the contracts with the Rubber Reserve Co. and the Defense Supplies Corporation expire after the close of the war, and when the purchase program of the Metals Reserve Co. comes to an end, serious dislocations of the Peruvian economy may result. If, however, these contracts can be renewed to guarantee continued but gradually diminishing purchases over a specified period of years, after which further purchases would cease, a more orderly adjustment to post-war conditions may be achieved.

