

GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

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CHILE - INTERNAL TAXES ON SPIRITS

Request for Consultations under Article XXIII:1 by the European Economic Community

The following communication, dated 31 October 1989, from the Permanent Delegation of the Commission of the European Communities in Geneva to the GATT Secretariat, is circulated in accordance with paragraph C.3 of the CONTRACTING PARTIES's 1989 Decision on Improvements to the GATT Dispute Settlement Rules and Procedures (L/6489).

The Government of Chile levies an additional sales tax of 70% on imported whisky, compared with the rate of 25% for pisco. In the view of the European Communities this situation constitutes a breach of Chile's obligations under Article III:2 of the General Agreement which does not permit the application of discriminatory taxation so as to offer protection to a domestic industry.

Whisky and pisco, while they may not be "like products", are directly competitive or substitutable products, and in this connection the panel on Japanese customs duties, taxes etc. on alcoholic drinks (L/6216) has made very clear findings and constitutes a precedent applicable in the present instance to Chilean taxation of spirits. The application of considerably lower internal taxes by Chile on pisco than on other directly competitive or substitutable products, has trade-distorting effects affording protection to domestic production of pisco contrary to Article III:1 and 2, second sentence.

The European Communities formally requested consultations with the Government of Chile and these were held in Geneva on 18 July 1989. It has still not proved possible to find a satisfactory solution to this problem and the European Communities have therefore requested further consultations with the Government of Chile under Article XXIII:1 of the General Agreement.